

ISIS FOCUS



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INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA
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ABOUT ISIS MALAYSIA

The Institute of Strategic and International Studies (ISIS) Malaysia was established on 8 April 1983, in realization of a decision made by the Malaysian Government to set up an autonomous, not-for-profit research organization that would act as the nation's think-tank. ISIS Malaysia was envisioned to contribute towards sound public policy formulation and discourse.

The research mandate of ISIS therefore spans a wide area. It includes economics, foreign policy and security studies, social policy, and technology, innovation, environment and sustainability.

ISIS Malaysia today fosters dialogue and promotes the exchange of views and opinions at both national and international levels. It undertakes research in collaboration with national and international organizations, in important areas such as national development and international affairs.

ISIS Malaysia also engages actively in Track Two diplomacy, fostering high-level dialogues at national, bilateral and regional levels, through discussions with influential policymakers and thought leaders.

RESEARCH

Economics

Research in this area is generally aimed at promoting rapid and sustained economic growth and equitable development in the nation. We study specific (rather than generic) issues that concern the nation's competitiveness, productivity, growth and income. Areas of research include macroeconomic policy, trade and investment, banking and finance, industrial and infrastructure development and human capital and labour market development. The objective of all our research is to develop actionable policies and to spur institutional change.

Foreign Policy and Security Studies

The primary aim of this programme is to provide relevant policy analyses on matters pertaining to Malaysia's strategic interests as well as regional and international issues, with a focus on the Asia-Pacific Region. These include security studies, foreign policy, Southeast Asian politics and military affairs.

Social policy

Demographic and socio-cultural trends are changing Malaysian society and the social policy programme was established to respond to these developments. Research in this area is concerned with effective nation building, and fostering greater national unity. In particular, we look at issues involving the youth, women and underprivileged communities. In conducting its research, ISIS Malaysia networks with non-governmental organizations and civil society groups.

Technology, Innovation, Environment & Sustainability (TIES)

The TIES programme provides strategic foresight, collaborative research and policy advice to the public sector, businesses and policy audiences, on technology, innovation, environment and sustainable development. Its focus includes green growth as well as energy, water and food security. Towards this end, TIES has been active in organizing dialogues, forums, policy briefs and consultancies.

HIGHLIGHTS

ISIS Malaysia has, among others, researched and provided concrete policy recommendations for:

- Greater empowerment and revitalization of a national investment promotion agency;
- A strategic plan of action to capitalize on the rapid growth and development of a vibrant Southeast Asian emerging economy;
- A Master Plan to move the Malaysian economy towards knowledge-based sources of output growth;
- The conceptualization of a national vision statement;
- Effective management and right-sizing of the public sector; and
- Strengthening of ASEAN institutions and co-operation processes.

ISIS Malaysia has organized the highly regarded Asia-Pacific Roundtable, an annual conference of high-level security policymakers, implementers and thinkers, since 1986.

INTERNATIONAL NETWORKING

As a member of the Track Two community, ISIS Malaysia participates in the following networks:

- ASEAN-ISIS network of policy research institutes;
- Council for Security and Cooperation in Asia and the Pacific (CSCAP);
- Network of East Asian Think Tanks (NEAT); and
- Pacific Economic Cooperation Council (PECC).

It is also a partner institute of the World Economic Forum (WEF).

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Malaysia's Niche in Rubber

Tan Siok Choo

Visiting Fellow, ISIS Malaysia

Thanks to the number of cars manufactured in the country, Thailand is now known as the 'Detroit of the East.' With nearly every global tyre company also located in the kingdom, Thailand looks set to gain another sobriquet – East Asian hub for tyre manufacturing – again, by default.

Although Malaysia's output of cars exceeded that of Thailand from 1980 to 1985, two rounds of liberalizing imports of cars and components – after the 1985 Plaza Accord and after the 1998 Asian Financial Crisis – enabled Thailand's auto production to surpass that of Malaysia decisively.

A repeat performance now appears likely in tyre manufacturing. Global tyre manufacturers located in Thailand include Japan's Bridgestone, France's Michelin and US-based Goodyear Tire & Rubber Company.

More recent entrants to the northern kingdom are Japan's Sumitomo Rubber (Thailand) which plans to produce radial agricultural tyres at a US\$126 million plant expected to begin operations in May 2014, and Hangzhou Zhongce, one of China's largest tyre manufacturers and ranked 10th largest worldwide.

Although Malaysia was once home to Dunlop tyres, the country's involvement in manufacturing this product appears to have diminished dramatically.

A search on Google suggests there are currently only four tyre manufacturers in Malaysia – Silverstone (now owned by Japan's Toyo Tire & Rubber Company), Goodyear Malaysia, Ngai Seng Rubber Industries and Continental Tyre Malaysia.



Tapping rubber

Previously known as Continental Sime Tyre Sdn Bhd, Continental Tyre is now wholly-owned by US parent, Continental Corporation, after Sime Darby sold its 30 per cent stake in April 2012..

Although Malaysia may have conceded a walkover to Thailand in the manufacturing of cars, it is now focusing on becoming a regional hub for the output of clean auto technology, including hybrid and electrical cars.

Similarly, Malaysia can corner one segment in the rubber products sector – aviation tyres. Additionally, it should also focus on deepening its research and development (R&D) in rubber.

One noteworthy fact is 70 per cent of Malaysian rubber is used to manufacture tyres.

Manufacturing aviation tyres offers several advantages for Malaysia. First, because of its tear strength and resistance to heat, natural rubber is superior to synthetic rubber. For these reasons, a higher proportion of natural rubber is

used in the making of aviation tyres than car or motorcycle tyres.

Second, continuing political uncertainty in the Middle East coupled with oil extraction in deeper waters offshore highlights the fact that the era of cheap oil is over. If prices of Brent oil remain at current triple digit levels or higher, it will enable natural rubber to maintain its price competitiveness against its synthetic alternative.

Third, forecasts by the International Air Transport Association (IATA) predict that by 2016, three of the five largest markets for domestic passengers will be Asian: China (415 million), India (107.2 million) and Japan (93.2 million).

From 2012 to 2016, China is expected to account for 193 million of the 831 million new passengers worldwide. Of this number, 159 million will travel domestically and 34 million internationally.

During the same period, IATA expects India will experience a compound annual growth rate (CAGR) of 13.1 per cent, the second-highest worldwide, and higher than China's CAGR of 10.1 per cent.

IATA's forecasts indicate Asia will also see a corresponding jump in aircraft sales while demand for aviation tyres could witness a similar upward trajectory.

Moreover, Malaysia has yet another advantage – one of Asia's rapidly expanding budget airlines is AirAsia, a Malaysian-owned



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outfit that is well-positioned to capitalise on the expected take-off in regional air travel.

Recently, AirAsia signed a deal to purchase 100 Airbus A320 with a total list price of US\$9.3 billion, a purchase order that makes the low-cost airline the biggest customer for single-aisle A320 planes in the world, Airbus said in a statement.

One potential stumbling block in tyre manufacturing is that Malaysia's output of rubber has fallen from one million tonnes in 2000 to 911,000 tonnes ten years later, as data by the International Rubber Study Group (IRSG) shows.

During the same decade, Thailand's output of rubber grew from 2.4 million tonnes to nearly 3 million tonnes while that from Indonesia has jumped from 1.8 million tonnes to 2.7 million tonnes. The IRSG predicts that by 2020, Indonesia's production of rubber would surpass that from Thailand.

To offset Malaysia's declining output of natural rubber, the country should intensify its R&D in rubber.

In Malaysia, the average maturity period of the rubber tree *Hevea Brasiliensis* is five years. However, an extract of an academic paper titled 'Reduced immaturity period of *Hevea Brasiliensis*,

IATA's forecasts indicate Asia will also see a corresponding jump in aircraft sales while demand for aviation tyres could witness a similar upward trajectory

from the Rubber Research Information System (RIOS) website, suggests the possibility of shortening rubber's maturity period – particularly that of RRIM 600 rubber clones – to within three-and-a-half years.

Currently, oil palm enjoys two advantages over rubber – it has a shorter maturity period of four years, and it is also less labour-intensive. If Malaysian R&D can overcome these two handicaps, the profitability of growing rubber can be enhanced. And Malaysia will benefit by

reducing its dependence on a single agricultural commodity – oil palm – while boosting the prospects for rubber.

... Malaysia's output of rubber has fallen from one million tonnes in 2000 to 911,000 tonnes ten years later

Ramping up Standards in Basic Education to be World Best *

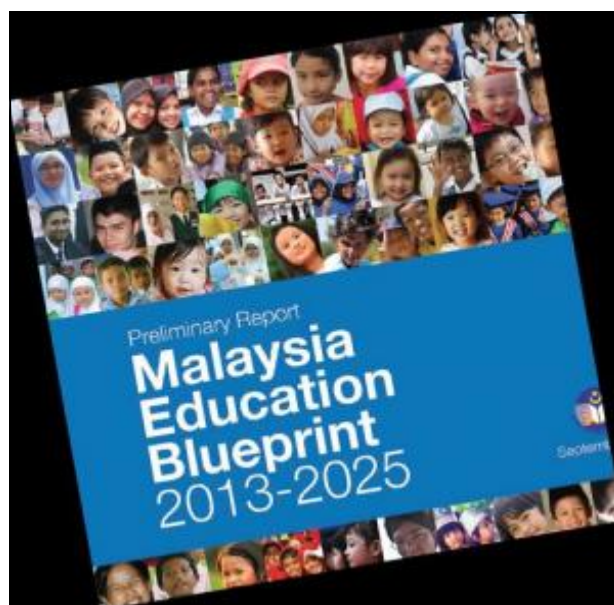
Dato' Dr Siti Zaleha binti Abdullah Sani
Senior Fellow, ISIS Malaysia

Malaysia's investment in education since independence in 1957 has been recognised as having enabled the country to progress socially, politically, and economically, at a pace far greater than that of its neighbours. According to the *Preliminary Report Malaysia Education Blueprint 2013–2025*, in the 1950s, 60 per cent of children were not enrolled in school. But by 2011, 96 per cent of children were enrolled at primary schools, 91 per cent at lower secondary schools and 82 per cent at upper secondary schools. In addition, adult literacy now stands at 92 per cent.

The phenomenal success of the national education system is rooted in the Federal Constitution Article 21 that recognises the right of every Malaysian child to have equal access to education regardless of socio-economic status and location of the child. The commitment of the government is reinforced in the Education Act 1996 with the provision of free basic education to every school aged child for eleven years.

With this provision, 75 per cent of children are now reported to have completed at least secondary level education before moving into employment or tertiary education. In addition, with the New Key Result Area (NKRA) for education, basic education has now been redefined to include preschool, thus bringing 77 per cent of five year olds into schools, bumping up further the total number of children in school population.

** An abridged version of this article titled, 'Ramping up Standards in Basic Education,' was published in the New Straits Times, 15 January 2013.*



Malaysia Education Blueprint 2013-2025

Investment in education has been consistently high, at 3.8 per cent of the GDP, which is higher than that of the OECD (Organisation for Economic Co-Operation and Development) countries' 3.4 per cent, and twice as high as other Asean countries, including South Korea, Singapore, Japan and Hong Kong.

The Preliminary Education Blueprint 2013-2025 also reckons that Malaysia spends US\$ 1,800 per student annually, slightly higher than other countries with a similar GDP per capita. Heavy investments in education have yielded high returns in terms of human capital development for Malaysia. Malaysians are known for being well educated everywhere, in every field, and generally respected for their knowledge in their chosen fields. In addition, since the 1950s, Malaysia has continued the tradition of sponsoring the best students to universities overseas, where the best education in targeted fields is available.



Students at a computer education class

As countries move up the economic scale, the more imperative is the need for a knowledge-based economy, in order to stay ahead of the pack. In view of the crucial role that education plays in the economic development of Malaysia, there is, therefore, a need for concern over the poor showing in science and mathematics of 15-year old students in international tests, such as Trends in International Mathematics and Science Study (TIMMS), in which Malaysia has participated since 1999, and the Programme for International Student Assessment (PISA), since 2009.

... these figuresshow that students in the same age group in other countries are three years ahead of Malaysian students in their knowledge and understanding of mathematics, science and reading

TIMMS placed 18 per cent of Malaysian students in the limited mastery category in both basic mathematical concepts, and 20 per cent in the scientific concepts. This performance is reinforced in PISA where 60 per cent of Malaysian students failed to meet the minimum proficiency level for mathematics, 43 per cent for science and 44 per cent for reading. When these figures are calibrated against those of 74 other participating countries, they show that students in the same age group in other countries are three years ahead of Malaysian students in their knowledge and understanding of mathematics, science and reading.

While education is more complex than simply measuring up to world standards, the worry for Malaysia's education system is that of tackling the issue highlighted by the less than complimentary comparison made in the Preliminary report against the definition and the setting of standards of the national examination taken by all students at the end of secondary five. The variance of locally defined standards with

International assessments and standards are yardsticks by which all Malaysian students will be judged for entry into institutions of higher education, whether locally or overseas

international standards needs to be realigned to ensure that scores obtained in Malaysia's high stakes examinations such as the SPM are as close as possible to acceptable international standards. Descriptions of competencies used in international assessment standards should provide an insightful source in determining the conceptual framework for teaching, and learning, and in assessment indicators for an improved quality in basic education.

International standards such as TIMMS and PISA illustrate how globalization in education is now part of the education landscape, even as criticisms have been levelled at the complications in, for example, sampling, and curriculum design of the subjects in participating countries. For Malaysia to be a strong player in the world, the approach to education needs to be developed with world education standards in mind. International assessments and standards are yardsticks by which all Malaysian students will be judged for entry into institutions of higher education, whether locally or overseas. The globalizing of education, although never clearly defined, has seen the decline in the importance of regional and cultural borders. The implication of

this is that education in one country is now inextricably linked to that in other countries. Greater interconnectedness of education through extensive global networks of universities and institutions of higher learning is forcing countries to adopt internationally recognised standards in education in order to remain competitive.

Malaysia has had a good run in providing basic education to nearly all her citizens, as promised in the Federal Constitution. But that is in the past. It now needs to ramp up the standards of basic education to a level where Malaysian school leavers with Malaysian certificates of learning will once again be assured of entry into prestigious higher institutions of learning, without having to rely on costly international examinations and certifications, and without having to succumb to international education imperialism. In achieving this, Malaysia will be in a stronger position as a competitive player on the world economic stage. That is the crux of the matter in the transformation of the national education system.

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Malaysia at the Heart of the Asian Century*

Justin Lim

Research Associate, ISIS Malaysia

At the start of 2012, the global economy hung in the balance, as the pace of recovery weakened and a great deal of uncertainty prevailed. The 17 Euro zone countries were a major cause of this, along with patchy US economic growth and stubbornly high unemployment rates.

Only Asian and large emerging economies performed credibly, effectively preventing the world from sinking into recession. Towards the latter part of the year, the additional threat of the US 'fiscal cliff' — basically a combination of revenue and automatic expenditure cuts — added to the risks.

In contrast, 2013 has started on a relatively firmer footing. The fiscal cliff has been averted for the time being, and Euro zone economies, although still languishing, have not collapsed. To make matters even better, various US economic indicators in the last quarter have also starting pointing upwards, raising confidence levels about recovery. There are now glimmers of hope, whereas before there were none.

To be sure, the world economy is not out of the woods. A vicious spiral of public debt, unemployment and reduced incomes continues to plague high-income economies. China, which has been the major contributor to the post-Lehman global growth, is moderating.

Against a backdrop of countries struggling for every percentage of economic growth,

** This is an expanded version of an article that was published in the New Straits Times, 14 January 2013.*



Malaysia's 5.1 per cent economic growth in 2012 was a respectable figure

Malaysia's 5.1 per cent in 2012 was a respectable figure, and the expectation for 2013 is that the economy will grow by a further five per cent.

It is no wonder that the International Monetary Fund's top official, Christine Lagarde, hailed Malaysia as one of Asia's most dynamic and innovative centres during her recent visit to Malaysia.

She also lauded Bank Negara Governor Tan Sri Dr Zeti Akhtar Aziz as 'one of the best central bankers in the world,' noting that the financial system had matured under her watch and that Malaysia has been relatively unaffected by the disruptive influences of hot money.

Lagarde acknowledged that while capital inflows bring great benefits they can also overwhelm countries with their volatility. However, she conceded that Malaysia was 'ahead of the curve' in the use of capital controls, which she said could be useful in certain circumstances.

This was in stark contrast to the methods IMF prescribed during the Asian financial crisis: forbidding capital controls at any cost along with harsh austerity plans. The use of selective controls and the pegging of the Ringgit were highly controversial; Malaysian authorities were heavily criticised by the IMF and other international communities for these measures.



(From left) Zeti Aziz and Christine Lagarde

However, Dr Lagarde's visit heralds a new era in the relationship between the IMF and Asia – focusing on renewing cooperation and 'modernizing' the IMF in order to stay relevant.

For former Prime Minister Tun Dr Mahathir Mohammad and his team, it was another vindication of his controversial policies, if he needed one.

But Lagarde also urged Malaysia to overhaul its tax and subsidy regimes to achieve inclusive growth. She noted that Malaysia's public finances were among the weakest in the region, due to the country's high level of indebtedness and dependence on commodity-linked revenue for financing, where prices are highly volatile.

More worrying is the absence of reduction in income inequality after the 1980s, although great improvements were made in earlier days. Above all, spending on healthcare, education and social welfare programmes must be increased to promote inclusive growth.

Her remarks were in no way new, of course, as the current government has a plan to initiate a goods and services tax (GST), which will diversify and stabilize the revenue base, and has also begun to rationalize subsidies, while maintaining support for low-income households.

The need to lower the federal budget deficit is explicit in Budget 2013. At a time when excessive public debt is widely debated, international credit rating agencies such as Fitch, Moody and S&P have repeatedly warned of the consequences of not adhering to greater budget discipline.

It is believed, not without reason, that these efforts may have been delayed owing to the forthcoming 13th General Elections. But as the Malaysian economy is still largely consumption-driven, care has had to be taken to ensure that it is not derailed by these measures. This is especially true since net exports have not contributed as much as in the past.

Lagarde acknowledged that while capital inflows bring great benefits they can also overwhelm countries with their volatility

At a time when excessive public debt is widely debated, international credit rating agencies such as Fitch, Moody and S&P have repeatedly warned of the consequences of not adhering to greater budget discipline

Moreover, if the current momentum of investment continues, primarily in infrastructure, oil and gas and property — reaching levels not seen since the pre-Asian financial crisis years — the government will have further scope to diversify the tax base and lower the budget deficit without impacting growth. Likewise increases in civil servants' pay and cash hand-outs for low income groups will also help prop up growth.

Other globally renowned assessments such as the World Bank's Doing Business report, the International Management Development Centre's World Competitiveness Yearbook and AT Kearney's Foreign Direct Investment Confidence rankings all show Malaysia to have made vast improvements.

The World Bank's Doing Business report saw Malaysia making giant strides in improving its business environment. In 2012, Malaysia was the 12th most competitive economy globally, leaping 11 positions in a short span of two years.

Malaysia's performance in the AT Kearney Foreign Direct Investment Confidence Index

chalked up an even better position — clinching tenth position in 2011.

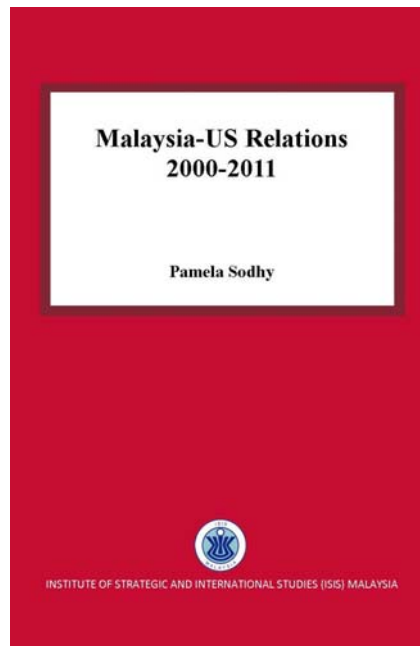
Under the International Management Development Centre's World Competitiveness Yearbook, an improvement from the 16th position to the 14th was seen. Nevertheless, it was the business efficiency subsector which outperformed, leaping eight places in 2012 to attain the current seventh position.

Trade integration via the Asean Economic Community (AEC) and the Trans-Pacific Partnership (TPP) will be instrumental in propelling the nation forward. Also, with China increasingly becoming domestic-driven, Malaysia and the rest of Asean are well placed to benefit from its large and enticing market, via these channels.

In her closing remarks, Christine Lagarde said that she was certain that Asia was destined to provide strength and leadership to the global economy of the 21st century and that Malaysia was poised to contribute and share even more in Asia's prosperity.

The 21st century is indeed the Asian century and Malaysia will be at the heart of it.

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Malaysia-US Relations 2000-2011

By Pamela Sodhy

Kuala Lumpur: ISIS Malaysia, 2012

126 pages E-book

This monograph looks at the present relationship between Malaysia and the United States during a decade-long period, covering the main political, economic, and socio-cultural relations during the prime ministerships in Malaysia, of Dr Mahathir Mohamad, Abdullah Ahmad Badawi, and Najib Tun Razak and the presidencies in the United States, of George Bush and Barack H Obama.

Download : [http://www.isis.org.my/attachments/e-books/
Pamela_Sodhy_Malaysia-US_Relations_Oct_2012.pdf](http://www.isis.org.my/attachments/e-books/Pamela_Sodhy_Malaysia-US_Relations_Oct_2012.pdf)



Towards a Green Economy: In Search of Sustainable Energy Policies for the Future

Edited by Adnan A Hezri and Wilhelm Hofmeister

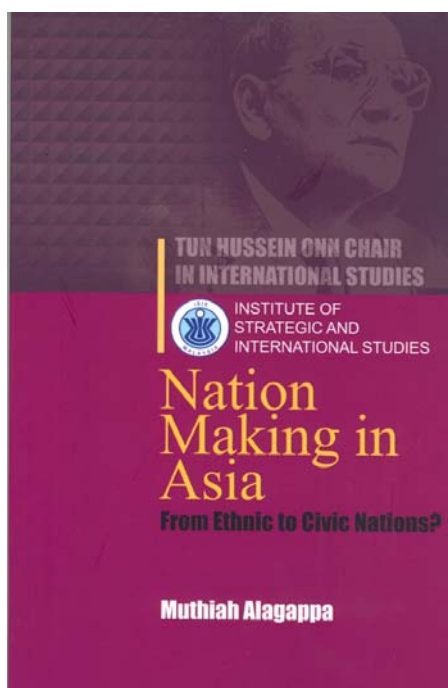
Published in Singapore by Konrad Adenauer Stiftung
and ISIS Malaysia

175 pages (2012) RM 40.00

ISBN 978-981-07-1799-5

[Available from ISIS Malaysia]

In thirteen chapters, this book documents the vagaries of problem framing and policy responses by nine countries, all of which are guided by recurrent themes of energy transition, policy choices and green economy. The book's analytical scope goes well beyond the commonly addressed structural issue in energy policy to encompass innovation in processes, institutions and new policy instruments for sustainable energy systems. The subtitle of the book—in search of sustainable energy policies for the future — reflects the tentative nature of policy experiments undertaken so far.



Nation Making in Asia: From Ethnic to Civic Nations?

By Muthiah Alagappa

Kuala Lumpur: ISIS Malaysia

36 pages (2012)

ISBN 978-967-947-310-0

The text of the Inaugural Lecture delivered during the Launch of the Tun Hussein Onn Chair in International Studies, 28 March 2012, Kuala Lumpur.

NOTES



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