

A Critique of the ETP (Part 2) - *We won't really be twice as rich in 2020*

RM48,000 in 2020 is not real income. The ETP promises to double gross national income (GNI) per capita to RM48,000 by 2020 from RM23,700 in 2009. However, RM48,000 in 2020 will be worth a lot less than RM48,000 today, just like RM100 today buys a lot less than RM100 eight years ago, thanks to ever-rising prices. If Malaysians are really to be twice better off, nominal income must be RM64,000 by then, to compensate for the 2.8% per year inflation that PEMANDU expects.

Nothing transformational in the RM48,000 target. This target is for *nominal* income, which includes inflation, and not *real* income, which strips out inflation. Because of inflation, *nominal* GNI per capita growth averaged 8.2% from 2001-2010, whereas *real* GNI grew only 3.2%. At the historical average 8.2% per year growth rate, nominal incomes will exceed RM48,000 by 2018 anyway, with or without the ETP or PEMANDU.

PEMANDU and its expensive consultants cannot even get basic mathematics correct. If the income target is RM48,000, PEMANDU's 6% real GNI growth rate and 2.8% inflation forecasts are wrong. If its growth and inflation forecasts are right, then the RM48,000 target is wrong - it should be RM54,145 in 2020, not RM48,000. Furthermore, key metrics of some EPPs - the investment value, GNI contribution and jobs created - are unavailable.

Grade 'D' for data transparency. In this series, we evaluate the ETP on its own terms based on the goals and plans outlined in the ETP Roadmap. PEMANDU scores a 'D' for data transparency. Like us, Malaysia's top research house finds it impossible to get the numbers to add up.

☛ In this series, we evaluate the ETP on its own terms and targets.

☛ PEMANDU scores 'D' for data transparency.

☛ PEMANDU and its expensive consultants get even the basic maths wrong - the RM48,000 GNI target does not tally with its growth and inflation assumptions.

☛ Its headline numbers showing progress do not tally with the totals of the individual projects.

RM48,000 GNI by 2020? Not Really!

The most prominent headline target of the Economic Transformation Programme (ETP) is to double gross national income (GNI) per capita to RM48,000 by 2020 from just RM23,700 in 2009¹. That will be the indicator that Malaysia has arrived as a developed nation, according to PEMANDU², the government agency charged with driving the ETP.

What PEMANDU has been less than transparent in communicating is that the RM48,000 target is for nominal income per capita, not real income³. The difference is all-important. Nominal income includes the effects of inflation. For example, your nominal income may grow by 10% next year. But if inflation is also 10%, then your real income growth is zero!

Here is an example that Malaysians will be all too familiar with. RM100 today buys a lot less than RM100 last year, and much less than RM100 eight years ago. That is due to inflation. As PEMANDU is quoting the RM48,000 in *nominal* terms, then Malaysians might be poorer in *real* terms in 2020 than they are today, if inflation turns out to be exceptionally high. This is the essence of Opposition Leader Datuk Seri Anwar Ibrahim's recent criticisms⁴ of the ETP.

However, rather than using the opportunity to clarify that the RM48,000 target is indeed nominal, PEMANDU engaged in further intellectual obfuscation. In an apparent response to Anwar's comprehensive critique, PEMANDU skirted the issue and said:

"The 6% average annual growth projected by the ETP ... is real growth and excludes the inflation factor. This means that we are able to adapt to the inflation rate, whatever it may be at⁵."

PEMANDU avoided addressing the contentious point that if inflation is high, then the nominal income target of RM48,000 will also have to be raised. Indeed, based on PEMANDU's own inflation forecast, the nominal income target should be RM54,145, not RM48,000! We shall cover this in greater detail later.

¹ Exhibit 1, page 8, ETP Roadmap Report.

² The acronym that the Performance Management and Delivery Unit within the prime minister's department is better known by.

³ This was confirmed in our interview with an ETP Director from the Minister's office.

⁴ Debunking ETP: Widening Income Gap. Available at <http://anwaribrahimblog.com/2011/12/16/debunking-etp-widening-income-gap/>. Accessed on 12 Jan 2012.

⁵ DEBUNKED! Myths created about the ETP. PEMANDU, 23 Dec 2011. Available at <http://etpblog.pemandu.gov.my/posts/2011/12/23/debunked-myths-created-about-the-etp/>. Accessed on 12 Jan 2012.

Nothing transformational in the RM48,000 *nominal* GNI target

Nominal GNI per capita grew by 8.2% per year between 2001 and 2010⁶, a period during which PEMANDU for the large part did not exist. Assuming this 8.2% growth rate is sustainable, nominal GNI per capita would exceed RM48,000 by 2018⁷. In light of this, PEMANDU's much vaunted, ambitious RM48,000 income target by 2020 is not all that difficult to achieve, really. In fact, it is extremely easy and will be surpassed by 2018 based on historical growth rates achieved without PEMANDU.

At this juncture, we digress into an explanation of the intricacies of *nominal* and *real* incomes for the less technically-minded readers.

Aside: What's *real* and what's *nominal* income anyway?

We shall illustrate with another example that Malaysians are familiar with: increases in our take-home income do not necessarily lead to higher purchasing power. In fact, we are worse off in some cases. A cup of 'kopi' in my neighbourhood coffee shop now costs RM1.40, a 27% increase from RM1.10 two years ago. My pay has gone up, but certainly by nowhere close to 27%, so I must now drink less 'kopi' than I did two years ago.

At the national level, this is reflected in the GNI per capita growth rates. *Nominal* GNI per capita grew by 8.2% per year on average from 2001-10. However, because of inflation, *real* GNI per capita grew by just 3.2% per year. Going back to our 'kopi' example:

- Let's say in the year 2001, the coffee shop sold 100 cups of coffee at RM1 per cup. Total income would be RM100.
- In 2002, the coffee shop sold 103 cups - real growth of 3%. But the coffee shop also raised the price to RM1.05 per cup.
- So, nominal income for 2002 = 103 cups x RM1.05 = RM108.20 = 8.2% nominal growth compared to 2001.
- It appears as if we are 8.2% better off if we just measure *nominal* ringgit. We have RM108.20 compared to RM100. But really, we are only 3% better off - we sold 103 cups instead of 100.

⁶ Derived from data published in Bank Negara's Monthly Statistical Bulletins. 2010 nominal GNI per capita was RM26,175. 2001 was RM12,859. 8.2% is the compound average growth rate (CAGR) calculated.

⁷ Applying an 8.2% nominal growth rate to the RM26,175 nominal GNI per capita in 2010, we will hit RM49,171 nominal GNI per capita by 2018.

Economists routinely use the concept of *constant prices* and *real* income to more accurately reflect how much better off the economy really is. Continuing with our example above:

- 2002 GNI would be quoted in 2001 constant prices, to reflect only real growth. So while *nominal* 2002 GNI would be RM108.20, in *constant* 2001 prices, *real* 2002 GNI would be RM103.
- The economy is of course much more complex. The *GDP deflator* is the official estimate of average inflation across the economy. The GDP deflator is then applied to the nominal numbers, to deflate them down to an estimate of the *real* numbers.

The ETP Roadmap, on the other hand, in another glaring case of obfuscation, slips in a footnote stating that the RM48,000 income target is in constant 2020 prices, which would be equivalent to nominal 2020 prices.

The whole notion of constant 2020 prices is bizarre. Elementary economic convention is that constant prices are based on a historical year, not a year well into the future.

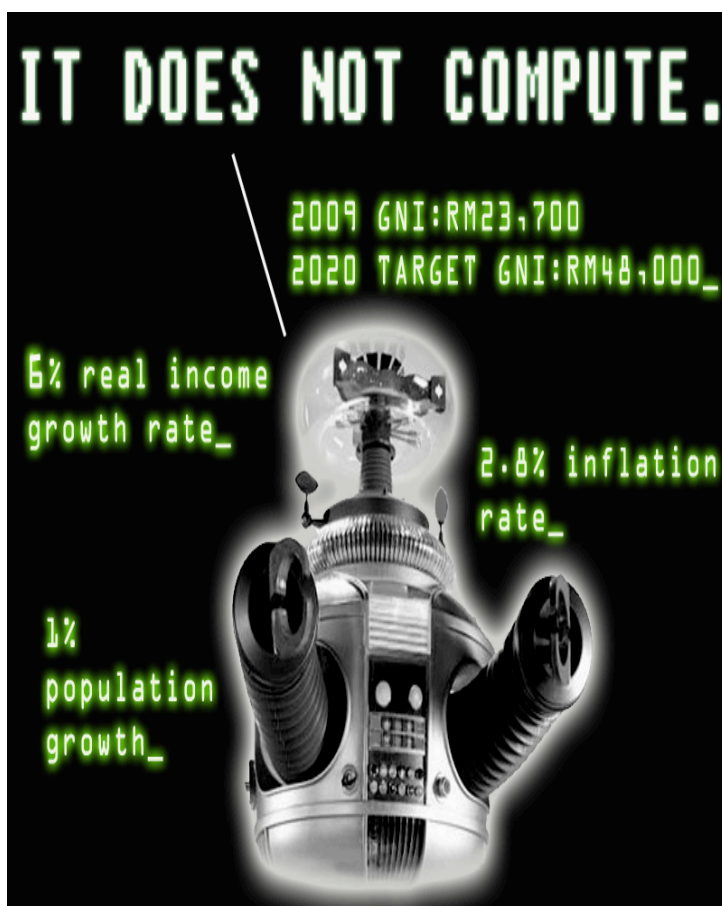
- It does not make any sense to compare GNI per capita in 2009 at 2009 prices with GNI per capita in 2020 at 2020 constant prices. That is akin to comparing oranges and apples;
- Neither is it logical to express GNI per capita in both 2009 and 2020 at 2020 constant prices. We do not know with certainty what prices in 2020 will be, and even if we can project prices in 2020, the 2009 GNI per capita figure expressed in 2020 constant prices should be much higher than RM23,700 due to inflation.

Even the basic math is wrong

PEMANDU's targets of RM48,000 nominal GNI per capita by 2020 and 6% per year real income growth are incoherent. Before we delve into this in more detail, we have to clarify another example of PEMANDU obfuscation:

- PEMANDU's 6% real income growth target is for *total* income. Because the population is also growing, this growth must now be shared by more people, which means that *per capita* income growth will be slower. Based on PEMANDU's 1% population growth forecast⁸, the target for real income growth *per capita* will be 5% and not 6%.

Here's how it all does not compute:



- To grow from RM23,700 to RM48,000, nominal GNI per capita requires a real per capita growth rate of just 3.8% per year, based on PEMANDU's inflation estimate⁹;
- Using PEMANDU's 6.0%, 2.8% and 1.0% forecasts for total income growth, inflation and population growth respectively, and starting from RM23,700, nominal income must be RM54,145 by 2020.

So which is correct?

- The RM48,000 target? In which case PEMANDU's 6% real growth target and 2.8% inflation forecast must be wrong; or
- PEMANDU's 6% real growth target and 2.8% inflation forecast? In which case the RM48,000 target is wrong.

It does not compute! - Lost in Space tv series, 1965-68

⁸ An ETP Director from the Minister's office told us that the population growth projection was 1.3%, to be more precise. But we decided to use the 1% growth projection cited in the official ETP Roadmap Report as this is the number that is publicly known.

⁹ 6.6% per year nominal growth will be required. Taking off 2.8% for inflation as PEMANDU forecasts results in 3.8% as the real growth rate required i.e. $2.8 + 3.8 = 6.6\%$.

Is the target RM48,000 nominal income, or 6% real total income growth? They can't both be right

Exhibit 1: If the target is RM48,000 nominal income by 2020, just 4.8% real total income growth is achieved, not 6%

2009 nominal GNI per capita	RM23,700
2020 nominal GNI per capita target	RM48,000
Nominal <i>per capita</i> growth rate required	6.6%
PEMANDU's population growth forecast	1.0%
Nominal <i>total</i> income growth rate implied	7.6%
PEMANDU's inflation forecast	2.8%
Implied real total income growth rate	4.8%

Sources: Data is as per sources quoted in this report. Note that PEMANDU's 2.8% inflation forecast is well below the 5.0% average from 2001-09, as measured by the GDP deflator.

Exhibit 2: If the target is 6% real total income growth, then the target must be RM54,145 nominal income, not RM48,000

PEMANDU's <i>real total</i> GNI growth target	6.0%
PEMANDU's population growth forecast	1.0%
Real GNI <i>per capita</i> growth target implied	5.0%
PEMANDU's inflation forecast	2.8%
<i>Nominal</i> GNI per capita growth implied	7.8%
2020 nominal income based on this	RM54,145

Sources: Data is as per sources quoted in this report

Doubtful data afflicts the ETP

The murkiness surrounding the RM48,000 GNI per capita target is not the only example of doubtful data. The 4 key figures pertaining to the ETP are also shrouded in a haze:

- 1) The number of EPPs, for a start;
- 2) The projects and value of each investment;
- 3) Their GNI contribution; and
- 4) The number of jobs created;

Adding up the EPPs announced at each of the 8 ETP updates so far¹⁰, a total of 113 EPPs¹¹ have been announced as of 10 Nov 2011. However, this figure includes 3 Strategic Reform Initiatives (SRIs). Excluding the 3 SRIs, the total number of EPPS would be 110. In this series of Focus Papers, as we shall be engaging PEMANDU on its own terms, we shall use the higher number (113 EPPs) headlined by PEMANDU¹².

¹⁰ The updates are available at http://etp.pemandu.gov.my/Progress_Update-@-Progress_Update.aspx. Retrieved on 29 Dec 2011.

¹¹ 9+9+19+23+12+15+13+13=113.

¹² Three programs (TERAS, MyProCert and the National Talent Enhancement Program or NTEP) were categorised as programs under the Strategic Reform Initiatives (SRIs). I included them as EPPs since it was not clear to me that these SRIs were substantially different from some of the 'enabler' programs announced in earlier updates such as TalentCorp and the Malaysian Petroleum Resources Corporation (MPRC)

The confusion over something as basic as the total number of EPPs is just the start.

Moving on to individual EPPs, figures are not always given during the ETP updates. For example, the Kuala Lumpur International Financial District (KLIFD), a project undertaken by 1MDB, is a significant development project in a prime location in the heart of Kuala Lumpur, yet no figures have been given for the expected investments, GNI contribution or jobs created.

These omissions raise the question of how the total expected investments, GNI contribution and job creation headlines at each ETP updates, of which there have been eight so far, are calculated.

PEMANDU did not clarify if the headline figures given were calculated based on estimates of some of these missing figures or whether they took a more conservative approach of not including any figures for some EPPs because of the difficulty of estimation. These missing figures mean that it is very difficult, if not impossible, to accurately quantify not just the impact of individual EPPs, but also the public-private breakdown of investment and economic activity under the ETP - all key metrics under the ETP.

These problems in reconciling the investment, GNI and jobs contribution of each of the ETP updates are also shared by other analysts. For example, a report by leading bank CIMB which sums up the EPP investment figures finds 'discrepancies with the sums of the NKEAs due to some undisclosed investment values and rounding errors'¹³.

¹³ Navigating Malaysia. Terence Wong, CIMB Investment Research 9 Dec 2011. Figure 17.

Grade “D” for Data Transparency

PEMANDU gets top marks for public relations. Its website is flashy, and presentations by its head, Datuk Seri Idris Jala, are famously velvety. Idris Jala is perhaps the most media-friendly government minister, giving numerous public presentations and appearing on radio talk shows to explain the ETP and the alphabet soup that accompanies it.

Sadly, the substance comes nowhere close to the style paraded. PEMANDU deserves an ‘A+’ for public relations, but it gets an ‘E’ for data integrity. There must be a problem when even the head of research of the country’s No. 1 research house is forced to include ‘undisclosed investment values and rounding errors’ when attempting to make the numbers add up¹⁴. This leads us to give an overall rating of ‘D’.

Rectifying this discrepancy is easy enough:

1. Publicly acknowledge that the RM48,000 GNI per capita target is a nominal income target;
2. Correct the math:
 - a. If RM48,000 is the target, then the 6% real growth rate, 1% population growth and 2.8% inflation forecasts must be changed;
 - b. If, in fact, the target is 6% per year real growth, then the nominal GNI per capita target must be changed to RM54,145 from RM48,000, to reflect the population and inflation growth forecasts of 1% and 2.8% per year respectively;
3. Disseminate a simple table in excel format, detailing each EPP and the key parameters which include:
 - a. The investment associated with that particular project;
 - b. The category which that project falls under - whether public, GLC or private investment or a mixture. If a mixture, then the proportions must be spelled out - investment contribution split between public, GLC and private for that project;
 - c. The expected total public investment required, including indirect government aid or help in any form or fashion, such as the building of public infrastructure to support the project;
 - d. Its GNI contribution; and

¹⁴ CIMB was ranked Malaysia’s top equity investment research house in the 2011 Asiamoney rankings. Head of Research Terence Wong, in a report entitled “Navigating Malaysia” dated 9 Dec 2011 found that the EPP investment figures differ from the sums of the NKEAs due to some ‘undisclosed investment values and rounding errors’. (Figure 17 of the report).

- e. The number of jobs created.

Of course, one would expect the sum of the individual projects to add up to the headline numbers, without ‘undisclosed values and rounding errors’

These data gaps can be easily filled or clarified by PEMANDU in the interest of full disclosure and transparency.

We shall delve further into these numbers, particularly the investment figures, in forthcoming parts of this series of Focus Papers evaluating the ETP.

About this series

Critics of PEMANDU and the ETP thus far have tended to focus on the expensive costs incurred by PEMANDU and its consultants, accusations of style prevailing over substance, the execution of specific projects (such as the MRT and 1 Malaysia email) and its apparently lofty, unrealistic targets.

We think these issues can be further debated, but these questions ultimately boil down to PEMANDU’s *raison d’être*. PEMANDU is already a *fait accompli*. Debating its existence serves no useful purpose at this point.

Instead, we evaluate PEMANDU and the ETP on its own terms by looking at the goals, plans and targets outlined in the ETP Roadmap document. Doing so facilitates constructive debate as it uses the same framework which PEMANDU has chosen to work within.

In that vein, and in keeping with the spirit of the alphabet soup of NKEAs, NKRA, SRIs, EPPs, GNI surrounding the entire GTP, we evaluate PEMANDU and the ETP on its DEEDS:

1. Data transparency - the ease with which an independent analyst can evaluate the figures relevant to the ETP and its targets;
2. Execution - the progress, or lack thereof, of announced EPPs (Entry Point Projects);
3. Enterprise - whether the target of stimulating private investment is being achieved. The ETP aims for a 92:8 split between private and public investments;
4. Distribution - the distribution of EPPs across the NKEAs (National Key Economic Areas), which shows whether a healthy balance of projects is being maintained; and
5. Socio-economic impact - an evaluation of the main beneficiaries of the economic activities generated by the EPPs.

Note on PEMANDU's response

Upon hearing that we were writing an evaluation of the ETP, the communications team at PEMANDU kindly arranged interviews with a Director from the Minister's Office who is also the Director of the Oil, Gas and Energy & Financial Services NKEAs, the Director of the Wholesale and Retail (W&R) NKEA and the Assistant Director of the Tourism NKEA. We are grateful for these interviews and will include clarification points from these interviews in our evaluation. These interviews were recorded by the ETP communications team and we hope that they would be made available online for public access.

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