

A Critique of the ETP: Part 3 (ii) - Execution (ii) - *The hothouse labs probably killed innovation*

The ETP resulted from 12 'labs'. Each lab comprised 30-50 experts who had 8 weeks to research best practices and innovations, distill them in intense brainstorming sessions and support them with detailed analysis. The result was 131 Entry Point Projects (EPPs) across 12 National Key Economic Areas (NKEAs) that would maximise gross national income with minimal public-funding support. Such is the PEMANDU narration.

Truly transformative ideas may have had no chance. Much was made of the private sector participation. But large companies would naturally dominate. Start-up companies, even if invited, cannot afford to release staff for 8 weeks. Consider this example: Ten years ago, Microsoft, IBM and HP would have dominated any lab to transform the IT industry. Google was a cash-strapped start-up, Apple was in disarray and Facebook did not even exist. The incumbents would have been free to promote pet projects and stifle their competition.

Hothouse environment favoured incumbents with existing business plans. The tight time frame incentivised lab participants to select EPPs for which research was ready, rather than pursue alternatives. In addition, private sector participants would be expected to lobby heavily for their pet projects. Their duty is to maximise profits, not embark on public service ventures. Unless properly steered, the labs would be inclined to select heavily-promoted projects rather than the most transformative.

We see at least two 'dud' multi-billion ringgit projects. Their viability is questionable, their developers financially weak and taxpayer funding is required. Their selection as EPPs suggests serious weaknesses at the labs. More soon!

☛ Much is made of the private sector participation in the labs that selected the Entry Point Projects (EPPs).

☛ But the 'hothouse' environment was inhospitable to genuinely transformative ideas.

☛ The intense pressure would have incentivised lab participants to select projects for which groundwork was already laid, rather than explore alternatives.

☛ Also, the private sector experts would be oriented towards profit rather than national transformation. Note the glaring absence of autos as a National Key Economic Area (NKEA).

Fundamental defects in the lab process

PEMANDU¹ makes much of the 12 NKEA ‘labs’ that brought together 500 experts from the private and public sectors to define and detail the ETP². These labs, in 8 short weeks, detailed and defined the 131 EPPs (Entry Point Projects) across the 12 NKEAs (National Key Economic areas) that make up the ETP.

This week, in Part (ii) of our focus on Execution - the E’ in the DEEDS framework with which we are evaluating the ETP, we highlight two core defects of the lab process:

- Unless properly guided by an independent, experienced and knowledgeable chairman, each lab would end up promoting the interests of the most vocal of the private sector participants, which might not necessarily be the most transformative projects.

Private sector participants in the lab would be expected to lobby intensively for their pet projects. In fact, they would be guilty of mismanagement if they did not. Private sector managers are expected to maximise profits for their shareholders, not embark on social service ventures;

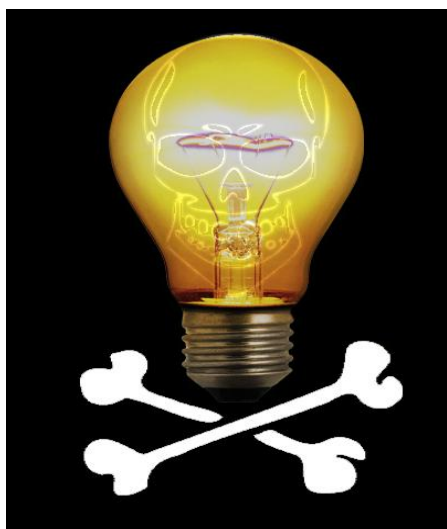
- The projects ultimately selected as EPPs and promoted by PEMANDU may kill genuinely transformative ideas being pursued by small companies outside.

The labs would favour the status quo and existing large companies rather than start-ups. Cash-strapped start-ups cannot afford to release staff for two months to attend labs. Large companies can send widely experienced lobbyists.

Consider this: Three of the biggest new developments in IT are Google, Facebook and Apple’s renewed success. Yet, they would have been poorly represented in any lab set up ten years ago to transform the IT industry. That lab would have been dominated by experts from the likes of IBM, Microsoft and HP (Hewlett-Packard) doing their best to cement their respective companies leadership. They certainly would not be nurturing potential competitors or transformative ideas.

¹ The acronym that the Performance Management and Delivery Unit within the prime minister’s department is better known by. PEMANDU is the government agency that created and is now steering the ETP.

² The ETP calls for 131 entry point projects (EPPs) within 12 National Key Economic Areas (NKEAs), which will pour RM1.4 trillion worth of investment into the economy and create 3.3 million new jobs by 2020.



Hothouse environment would have stifled innovation

The problem is exacerbated by the tight time frame in which the labs operated. Each lab had just *eight* weeks to deliver transformative projects. In this short period, 30 to 50 experts in each lab had to:

- Fact-find and research best practices, success stories and innovations;
- Distill these through ‘intense collaborative sessions of brainstorming’³; and
- Syndicate them in more than 640 meetings with major stakeholders such as ministers and key government agencies⁴.

In this type of hot-house environment, it is the loudest and most persuasive voice that tends to be heard, which is not necessarily the most rational one.

Also, good ideas which require more intensive research and analysis are likely to be jettisoned in favour of projects for which groundwork is already in place. For example, let us consider the lab for the Tourism NKEA which yielded the Karamabunai Integrated Resort (Karambunai IR) as one of its EPPs.

- Participants from Karambunai Corp Bhd would have a clear interest in promoting the idea of an integrated resort, since they already had plans drawn up prior to the ETP lab;
- The time constraints and pressure to deliver would incentivise the PEMANDU staff and consultants to turn Karambunai’s plans into an EPP. Indeed, this is what seems to have happened. Karambunai Corp Bhd, in an announcement to Bursa Malaysia, said PEMANDU chose to use ‘drawings from Karambunai which has copyrights source and status’⁵;
- It would also not be surprising if PEMANDU took the project at face value without scrutinising the investment, incremental gross national income (GNI) and jobs created numbers, given the intense time-pressure.

³ Quote from ETP Roadmap Report. Page 16.

⁴ More than 40 with the lead Ministers and Prime Minister and more than 600 with key government agencies such as Bank Negara. Source: ETP Roadmap Report. Page 16.

⁵ Karambunai Corp Bhd responded as such on 24 Sept 2010 to a query from Bursa Malaysia. Available at <http://www.karambunaicorp.com/Announcement/Announcement20100924.pdf>. Retrieved on 18 Jan 2012.

Why isn't the auto sector one of the 12 NKEAs?

Our concern about private sector interests trumping genuinely transformative ideas is not academic. There is a glaring omission from the 12 NKEAs (National Key Economic Areas) prioritised by the government under the ETP⁶.

The 12 NKEAs are Agriculture; Business Services; Education, Electronics and Electrical; Financial Services; Healthcare; Greater KL/Klang Valley; Oil, Gas and Energy; Palm Oil; Communications, Content and Infrastructure; Tourism; and Wholesale and Retail.

Where is the automotive sector?

Malaysian taxpayers and Petronas have supported Proton, our national car company, for 25 years. Proton cars are actually 53% cheaper in Saudi Arabia than they are at home here in Malaysia⁷.

'We have to protect our national car industry' is the justification given for the heavy tariffs and other obstacles placed on foreign cars in Malaysia. That being the case, why is the auto sector not classified as an NKEA?

On the other hand, if the government no longer deems the automotive sector as a priority sector, then tariffs and other forms of protection should be completely removed. The sector should be liberalised and open competition allowed, which will lead to cheaper cars for all Malaysians.

The exclusion of the auto industry puzzles industry experts such as Yamin Wong of the New Straits Times:

"It (Proton) is the only independent car company in South East Asia that has the full competency to build a car and with the management capability to absorb foreign car technology ... It is a strategic asset that should be allowed to work for the country, i.e. be another regional car hub."⁸

⁶ Selection of the NKEAs pre-dated the NKEA labs that selected the EPPs, of course. But the NKEA selection process was similar. Much was made of the private sector participation in the process of selecting the NKEAs.

⁷ Relevant Number: Protons are 53% cheaper in Saudi Arabia. Available at <http://refsa.org/relevant-number/protons-price-is-53-cheaper-in-saudi-arabia/>.

⁸ Yamin Wong is editor of the Cars, Bikes, Trucks (CBT) supplement of the New Sunday Times. Do read his excellent editorial *Mystery of the missing auto sector*. First published on 26 Sept 2010. Now available online at <http://cbt.com.my/100924/mystery-missing-auto-sector>. Retrieved on 31 Jan 2011.

Malaysia is the largest passenger car market in ASEAN. But the foreign automakers are investing heavily in Thailand instead, where the rules are clearer and environment more liberal.

Yamin points out that Proton has a state-of-the-art car manufacturing plant running significantly below capacity in Tanjung Malim. Foreign brands seeking preferential tariffs and entry into the ASEAN auto market should be encouraged to utilise the excess capacity. This would also create a whole network of supporting industries and thousands of jobs.

Why did this not happen? Why was the massive auto sector left out of the ETP? Yamin's sources suggest private sector interests trumped national considerations. As REFSA points out, the primary loyalty of the private sector experts is to themselves and their bosses.

REFSA is not censuring these private sector participants. They acted perfectly rationally - they have their families and businesses to look after. Rather, it is the ETP process that was fatally flawed. The leaders of the ETP fell for these ideas that promoted the status quo instead of guiding the process towards really transformative and value-adding economic activities.

Potential 'dud' projects

There is an even more serious problem than the acceptance of EPPs that preserve the status quo. At least these projects are viable and will generate some investment and create some jobs. Even worse are potential 'dud' projects - projects with little chance for success if they are pursued as presently planned.

We see at least two projects of questionable viability, with financially weak private sector partners and which require taxpayer support. And no, the widely disparaged 1Malaysia email ETP for which financially-distressed Tricubes Berhad⁹ is the private sector partner is not one of them.

Tricubes is small potatoes relative to these two projects. These two projects run into billions of ringgit and are seeking hundreds of millions of ringgit of taxpayer funding. Their selection as EPPs suggests serious weaknesses at the labs and with the due diligence process at PEMANDU. More soon!

⁹ Tricubes CEO Khairun Zainal had admitted that the project was a 'financial lifeline' for the company. This company had also made 'typo errors' in its 2011 annual report. The 'typos' showed the company lost just RM7.3 million in the financial year ended 31 Mar 2011, whereas the actual loss was RM17.2 million. Source: Tricubes says losses higher last year, blames typos. Yow Hong Chieh, Malaysian Insider, 29 Dec 2011.

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.

The story so far

Part 1, [Let's evaluate PEMANDU on its DEEDS](#), introduced our evaluation framework.

Part 2, [We won't really be twice as rich in 2020](#), found us declaring "It does not compute!" PEMANDU's target is to double nominal income per capita to RM48,000 by 2020. But using its forecasts for income and population growth, and inflation, the target should be RM54,145, not RM48,000. Can this 'roadmap to transformation' be trusted when the highly-paid PEMANDU team and its costly consultants cannot even get the basic math right?

Part 3(i), [PEMANDU strengthens the 'know-who' cancer](#), focuses on the practice of taking credit for pre-existing projects and PEMANDU's role in cutting red tape. PEMANDU is institutionalising the role of middleman if it cuts red tape only for EPPs. If long-term policy changes are not made, Malaysian innovation, creativity and productivity will continue to lag. It does not matter *how* good your product or idea is, or how efficiently you can make it, it depends on *who* you know to get it through the system.

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.

About the authors

Visiting contributor Dr Ong Kian Ming holds a PhD in Political Science from Duke University and Economics degrees from the University of Cambridge and the London School of Economics. He is attached to UCSI University, which has been named as the project owner of two Entry Point Projects (EPPs). To avoid any potential conflict of interest, he will not make references to or analyse these two EPPs. He can be reached at im.ok.man@gmail.com.

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