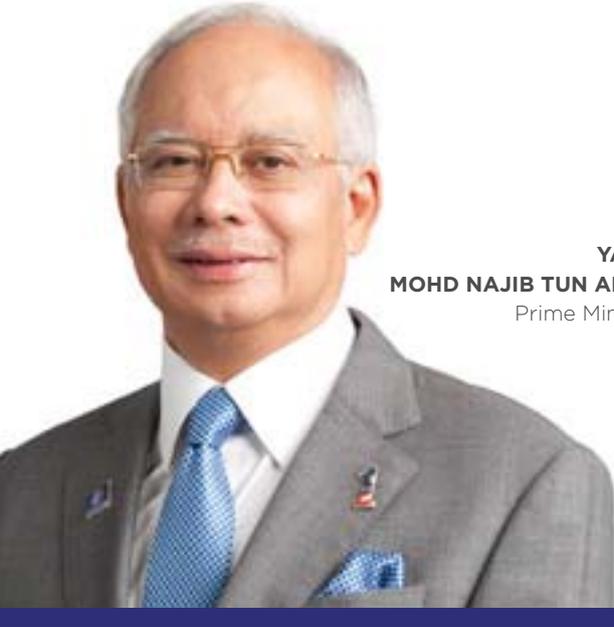


**A NOTE FROM THE PRIME MINISTER****TRANSFORMATION TAKES EFFECT**

**YAB DATO' SRI  
MOHD NAJIB TUN ABDUL RAZAK**  
Prime Minister Malaysia

In 2010, shortly after assuming the Prime Minister's Office, I announced the launch of the National Transformation Programme (NTP) – an initiative aimed at taking Malaysia out of the middle-income trap and towards becoming a high-income economy by 2020. After seven years of implementation, I am pleased to say that the NTP has delivered positive outcomes which have been seen and felt throughout the nation. Many milestones have been achieved along this ongoing journey but, most importantly, our promises to the rakyat are being met.

I am particularly proud that we have decisively moved away from the middle-income trap and are getting ever closer to becoming a high-income nation. This is demonstrated by the narrowing gap between our Gross National Income (GNI) per capita and the World Bank's high-income threshold from 33% in 2010 to 20% in 2017.

It has been a challenging period for many countries, but in Malaysia, our Gross Domestic Product (GDP) expanded by 5.9% in 2017. This was the fastest pace of growth in three years and outpaced our regional neighbours such as Singapore, Indonesia, South Korea and Taiwan. Our economy's bright prospects have been validated by global institutions such as the World Bank, the International Monetary Fund and the Asian Development Bank, which raised their forecasts for

our economic growth twice during the year. Additionally, all the major credit ratings agencies have reaffirmed Malaysia's ratings within the "A" band with a stable outlook.

At times, the Government has had to take tough but necessary actions to drive this progress. This has included the rationalisation of non-targeted, blanket subsidies and the implementation of the Goods and Services Tax (GST) to make revenue collection more efficient. We did so in the face of severe opposition and criticism, but remained steadfast knowing that these were the right decisions, and the progress we have made is there for all to see – with our fiscal deficit being reduced from 6.7% in 2009 to 3.0% as at 2017.

On top of these improvements in public finance policy, Malaysia is one of the few countries in the world to put a statutory limit on government debt, further demonstrating the Government's tenacity and discipline to institutionalise reform. Indeed, Government debt amounted to 51% of GDP in 2017, safely below its self-imposed debt ceiling of 55% of GDP. These actions have improved the Government's capacity to invest in social development, allowing us to focus on the rakyat's needs and channel aid to those who need it the most.

In addition to fiscal reforms, the Government has also targeted economic diversification, as well as the rejuvenation of private sector investment. Prior to the NTP, our economy had become too reliant on the oil and gas industry, which is subject to significant volatility in oil prices, and public investments. For instance, in 2009, oil and gas revenue contributed to 41% of government income whereas private investment was below 55% of total investments, posing a considerable economic risk.

Our forward-thinking on this and the diversification efforts we put in place proved to be prudent amid the downward spiral of global oil prices in 2014, and helped to strengthen our economy's resilience, as well as shield it from recession. With the identified 12 National Key Economic Areas (NKEAs), the share of Government revenue from oil and gas was drastically reduced to 15% in 2017. The NTP has also catalysed private investment, whereby private sector investment as a proportion of total investment has surged from 55% in 2010 to 68% in 2017.

The 12 NKEAs contributed to 75% of GNI as at the end of 2017 current prices. This, in turn, has contributed to the addition of 2.68 million employed persons to the nation since 2010 based on CSDU's calculation and methodology, using data from the Labour Force Survey. (For further details on progress of the 12 sectors, please refer to the 2017 Year in Review and NTP chapters within this Annual Report.)

The reforms we have introduced since 2010 have also resulted in growing foreign investor confidence in Malaysia. This is evident with the entrance of various



new investors into the country over the past few years. In 2017, the Saudi Arabian state-owned oil and gas company, Saudi Aramco committed a US\$7 billion investment in the Refinery and Petrochemical Integrated Development (RAPID) project in Pengerang Integrated Petroleum Complex (PIPC), and another US\$900 million for a 50% stake in Petronas Chemicals Group Bhd's polymers business. Huawei, a major networking and telecommunications equipment and services company, has chosen Malaysia as its global operations headquarters, data hosting centre and global training centre. The company invested RM2.2 billion to set up its operations in this country, creating more than 2,370 job opportunities for our home-grown talent.

Another remarkable hallmark for Malaysia is the launch of the Digital Free Trade Zone (DFTZ) in March 2017 with Jack Ma, founder and Executive Chairman of Alibaba Group. The zone will provide 24,700 acres of physical and virtual platforms at Sepang KLIA Aeropolis to help small- and medium-sized enterprises (SMEs) capitalise on the expanding internet economy and cross-border e-commerce activities. The DFTZ is positioned to be the next regional hub for internet-based innovation and is expected to double SMEs' goods export growth rate to US\$38 billion, create 60,000 jobs and facilitate US\$65 billion worth of traded goods by 2025.

These companies are coming to Malaysia because the policies we have set in place have made the country an attractive destination for those seeking to grow their businesses. These efforts have been recognised by the World Economic Forum, with its Global Competitiveness Report 2017-2018 ranking Malaysia the 23<sup>rd</sup> most competitive country in the world, behind only Singapore in the ranks of ASEAN countries.

When we first laid out our plans for the NTP, we knew that for the transformation to be complete, its outcomes must be inclusive and sustainable. This will ensure no Malaysian is left behind as we become a high-income nation, and that our societal well-being can endure for the long term. To this end, we have seen our Gini Coefficient, which measures income disparity, decline to 0.399 in 2016 from 0.441 in 2009. We are currently on the right track in narrowing income disparity, and in the longer term, to improve the purchasing power of the rakyat and ensure better living standards for all Malaysians.

Furthermore, we have recorded a stunning reduction in our poverty rate since the start of the NTP. As a result of targeted programmes such as 1AZAM, the national poverty rate has dropped to 0.4% as at 2016, against 3.8% in 2010, with the mean monthly income of the Bottom 40% (B40) households increasing to RM2,848 as at 2016 from RM1,440 in 2009. To help the rakyat manage the cost of living, RM6.31 billion has been distributed via BRIM in 2017 alone to 7.22 million eligible individuals and families. Cumulatively, the Government has disbursed RM25.62 billion via BRIM since 2012.

Meanwhile, development in the rural areas continues to ensure the rural community equally enjoys the fruits of our

transformation. To date, 6.8 million rural households have benefited from the NTP's strategic initiatives, including gaining access to treated water, 24-hour electricity and better road connectivity.

Moreover, we successfully delivered the country's first Mass Rapid Transit (MRT) with the launch of the Sungai Buloh-Kajang (SBK) Line in 2017. The completed MRT SBK Line serves as a testament that Malaysia has taken a formidable stride in improving public transportation while demonstrating that excellent management and operationalisation of the project have led to its timely delivery below the allocated budget.

The 51-km line now serves a population of over 1.2 million living along the Sungai Buloh-Kajang corridor, offering significant benefits to the public by reducing household spending on transportation, commuting times and vehicle traffic congestion at the rail catchment areas. Surrounding businesses and properties along the line have also blossomed from the spill-over effect of this mega "infra-rakyat" project.

We are also developing the East Coast Rail Link (ECRL) that will connect Greater Kuala Lumpur/Klang Valley to the east coast of peninsular Malaysia. The project is expected to create 80,000 additional jobs and serve 5.4 million passengers annually by 2030.

Achievements such as the MRT and ECRL projects could only be made a reality through our sustainable economic growth, socio-economic stability and good fiscal governance, as well as the close collaboration and partnership between our civil servants, private sector and the rakyat in supporting the initiatives under the NTP from its onset.

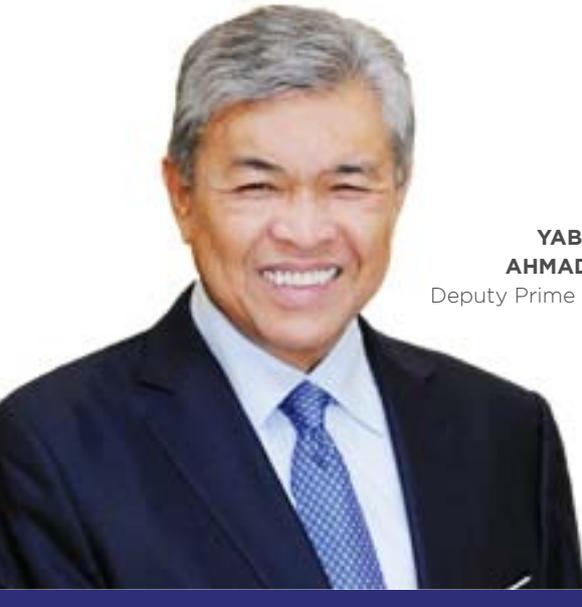
Our civil servants have played a crucial role in helping to ensure the successful and sustained delivery of the NTP. This is why, in March 2017, we established the Civil Service Delivery Unit (CSDU) to take over the role of Performance Management and Delivery Unit (PEMANDU) in facilitating the programme. This move allows the civil service to take full ownership in the last mile of Malaysia's transformation, as well as realises our intent to forge a more competitive and result-oriented system within the Government. To this end, we have witnessed more and more members of our talented civil service taking proactive measures to deliver and lead game-changing initiatives.

With the significant progress we have achieved thus far, I am confident that we will attain our target of becoming a high-income nation by 2020. And that is not all: we have already begun mapping our next phase of transformation under Transformasi Nasional 2050 (TN50). Once we realise our vision of Malaysia becoming a developed nation, we will then move forward with our plans to become one of the top countries in the world in economic development, citizen well-being and innovation by 2050.



## A NOTE FROM THE DEPUTY PRIME MINISTER

# PUTTING OUR PEOPLE FIRST



**YAB DATO' SERI DR.  
AHMAD ZAHID HAMIDI**  
Deputy Prime Minister Malaysia

When the Government first embarked on the NTP in 2010, we were clear that in order for Malaysia to become a high-income nation, the Government itself must transform its delivery of public services to support the socio-economic reforms we aimed to achieve. To this end, we rounded up all the Ministries to undertake a broad agenda of change which prioritised the needs of the rakyat.

Now seven years into our transformation, I am pleased to report that the Government continues to address the areas which the rakyat most want and need. Chief among these is the rising cost of living, which is not a phenomenon unique to Malaysia. In fact, the Economic Intelligence Unit's Worldwide Cost of Living 2017 report ranked Kuala Lumpur just 96<sup>th</sup> out of the 133 cities surveyed, with Singapore, Hong Kong and Zurich identified as the world's most expensive cities to live in. According to the report, the global cost of living in 2017 is at 74% (taking an average of the indices for all cities surveyed using New York as the base city), mainly driven by external factors, such as currency movements. This is also compounded by inflation in the prices of goods and services, which occurs naturally over time in healthy economies.

In view of these realities, we have utilised the Bantuan Rakyat 1Malaysia (BR1M) scheme since 2012 to help cushion the public from the impact of rising living costs. Over seven million individuals and households have benefited from this assistance through RM25.62 billion in direct aid, of which RM6.31 billion was distributed in 2017.

While BR1M represents a critical measure by the Government to provide immediate relief, we have also sought to formulate long-term strategies to address living costs through the Cabinet Committee on Addressing the Rakyat's Cost of Living. The Committee studies the entire supply chain to identify solutions to help minimise the impact of rising costs felt most by the rakyat, such as in the areas of food, housing and transportation.

In 2017, the Committee focused on urban poverty due to the higher living costs in urban areas. As a result, initiatives such as the My Farm Outlet (MFO), Q'Fish Programme, National Food Warehouse, SiswaSave programme and Kad Diskaun Siswa 1Malaysia for university students were implemented accordingly. Allow me to highlight that most of these initiatives are targeted at the Bottom 40% (B40) households, which remain a priority group. Under our administration, Malaysians in the B40 group have been gradually lifted out of poverty, as evidenced by our virtual eradication of poverty to just 0.4% as at 2016. Additionally, various income-generating opportunities provided through programmes such as 1AZAM under the NTP have contributed to a growth in median monthly income of the B40 group to RM3,000 in 2016 from RM2,629 in 2014 and an increase in mean monthly income to RM2,848 from RM2,537 during the same period.

As at 2017, 1AZAM has benefitted 100,420 Malaysians, raising the overall income of participants by at least RM300. We have also formulated a follow-up programme called Beyond 1AZAM, with hopes that successful 1AZAM participants will grow to become job creators through further training, entrepreneurship support and continued access to micro and small business financing. The programme has touched the lives of 5,674 participants as at 2017 after starting with 1,511 participants in 2015.

The Government has also aided the B40 category to leverage on the digital economy to propel themselves out of poverty and harness opportunities of the technological age. To this end, the e-Rezeki and e-USahawan programmes were introduced to raise the average income of participants through talent-



matching and crowdsourcing via online platforms. E-Rezeki aims to produce 500 people who will successfully generate extra income through this platform via crowdsourcing and has currently enlisted a total of 5,898 participants to date, while e-Usahawan has attracted 12,300 participants. E-Usahawan participants have managed to generate income of RM24.3 million from various business ventures through digital means.

Additionally, we have continued to improve the quality of life for rural communities. Since 2010, our rural development efforts have resulted in the construction and upgrading of 6,868 km of rural roads, provided 354,400 households with access to clean water, connected 161,931 households to stable electricity supply, and built and restored 103,033 houses for the rural poor.

Even with low-income households and rural communities representing the Government's priority groups, we have also paid attention to the needs of urbanites to ensure balanced socio-economic development. In this regard, our efforts to upgrade the urban public transportation network lead the way in providing a world-class public service delivery system.

This has not only been achieved through the construction of the Mass Rapid Transit (MRT), of which the first rail line was completed in 2017, but also with improvements in bus and taxi services. Guided by the vision of our YAB Prime Minister to provide affordable, accessible, reliable and safe public transport services that meet international standards, we are systematically transforming all areas of the urban commute, from enabling travellers to plan their daily trips through to the last-mile journey which takes commuters to their final destinations. Through infrastructure upgrades, capacity building and provision of new public transport modes, we have successfully doubled public transport modal share from just 10% in 2010 to 20% in 2015, while average daily ridership continues to increase to 1.21 million passengers in the same year.

Looking ahead to our future generations, we have also put in place education reforms to ensure our youth are globally competitive, starting from the pre-school years. Hence, in 2017 the Government has focused on instilling awareness among parents on the importance of pre-school education to encourage universal enrolment in Malaysia. The national pre-school enrolment rate rose to 84.26% in 2017, which represents 884,983 children aged 4+ and 5+.

At the primary and secondary levels, our focus has been on enhancing the command of the English language among students to raise their global competitiveness. To this end, we have carried out the Dual Language Programme (DLP) and Highly Immersive Programme (HIP) which will cultivate students who are proficient in the English language, enabling them to thrive in the highly competitive realm of employment. In 2017 alone, the DLP was implemented in 1,214 schools, a tremendous increase from 378 schools in the previous year, whereas the HIP was expanded to 5,526 primary and secondary schools nationwide, giving over 2.54 million students greater exposure to the global lingua franca. All these initiatives are to enhance the English language proficiency without sacrificing the National Language.

In further addressing the rakyat's main concerns, the Government continues to ensure the safety and security of the rakyat through combating crime. This is demonstrated by our shift in adopting a more service-oriented approach via the Modern Policing Programme, which engages the public directly to alleviate their fears on crime. As a result of targeted efforts to tackle crime, we have recorded a remarkable improvement of index crime from 352.07 per 100,000 population in 2016 to 306.15 per 100,000 population in 2017, equivalent to a 13% decrease.

Concurrently, we have also intensified our efforts towards curbing corruption through prevention, enforcement and education. I would like to take this opportunity to highlight that we will remain committed in our determination to eliminate corruption within the public and private sectors, but will require mutual understanding and alignment from all parties to reject unethical practices and embrace integrity at all levels.

At this juncture, I would like to record my gratitude to the civil service and all Malaysians for their support and cooperation for our transformation. I am confident that together, we can continue to push boundaries in the delivery of Government services and realise not only our goal of becoming a high-income economy, but also a nation which puts the needs and interests of its citizens above all else.

**2017 YEAR IN REVIEW**

**YB DATUK SERI PANGLIMA  
ABDUL RAHMAN DAHLAN**  
Minister in the Prime Minister's  
Department, Economic Planning Unit



**YBHG TAN SRI DR. ALI HAMSA**  
Chief Secretary to the Government

The National Transformation Programme (NTP) reached a new milestone in 2017, with the baton of transformation passed on to the Civil Service Delivery Unit (CSDU) under the Prime Minister's Department. This transition enables the Government to seamlessly institutionalise best practices and a performance-driven culture in our civil service. Anchored by good governance, socio-economic inclusiveness and sustainability at the same time, we have inched closer to our ambitious and coveted goal year-on-year – to propel Malaysia towards becoming a high-income nation.

The NTP's momentum has allowed Malaysia to escape the middle-income trap, with our GNI per capita reaching US\$9,660 in 2017 against the World Bank's current high-income threshold of US\$12,087<sup>1</sup>, thus narrowing the gap between our GNI per capita and the World Bank's high-income threshold to 20% in 2017, a commendable reduction from 33% at the start of NTP in 2010.

The steady GNI growth is an outcome of the solid economic foundation built upon by the NTP's 12 National Key Economic Areas (NKEAs), where the vibrant momentum for growth across diverse economic sectors shielded one another against volatile market turbulence after the 2008 global financial crisis. Moreover, we have strengthened key policy frameworks via the Strategic Reform Initiatives (SRIs) to spur business competitiveness,

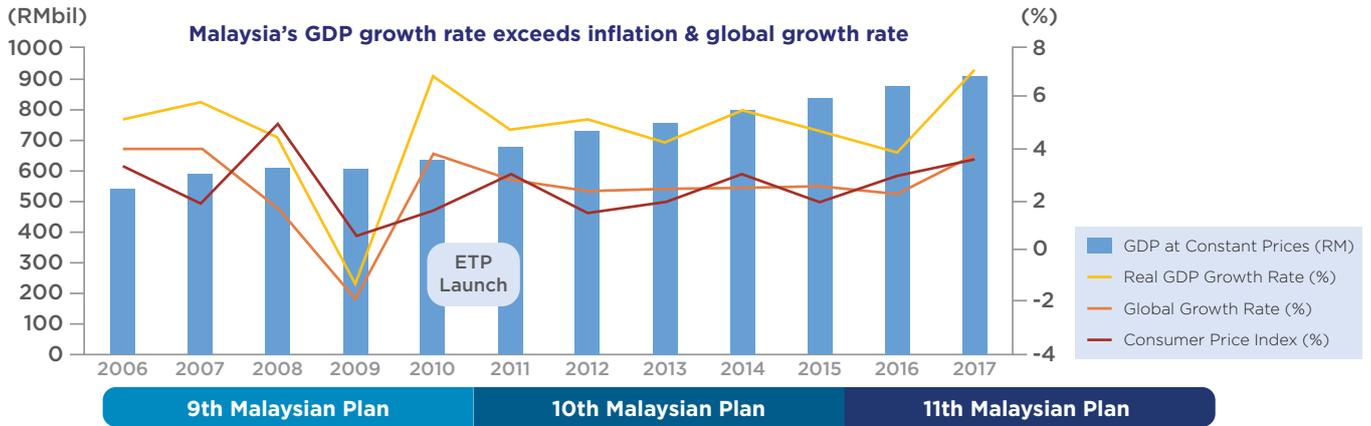
liberalisation, talent management, equal opportunities and entrepreneurship.

Moreover, putting the rakyat as a priority, the Government is persistently striving to deliver our promises of raising livelihoods and addressing key public concerns. These aspirations are made possible through the National Key Results Area (NKRAs), in line with the Public Services Delivery Transformation framework and the National Blue Ocean Strategy (NBOS).

This year, we are proud to announce the launch of the Problem Solving Talent Management (PSTM) Programme that capitalises on the existing pool of talents within the civil service to improve the Government delivery process while complementing the NTP mechanism. PSTM is currently managed by CSDU and it has produced notable recommendations to mitigate critical challenges, such as the setting up of a special task force to improve Malaysia's competitiveness ranking.

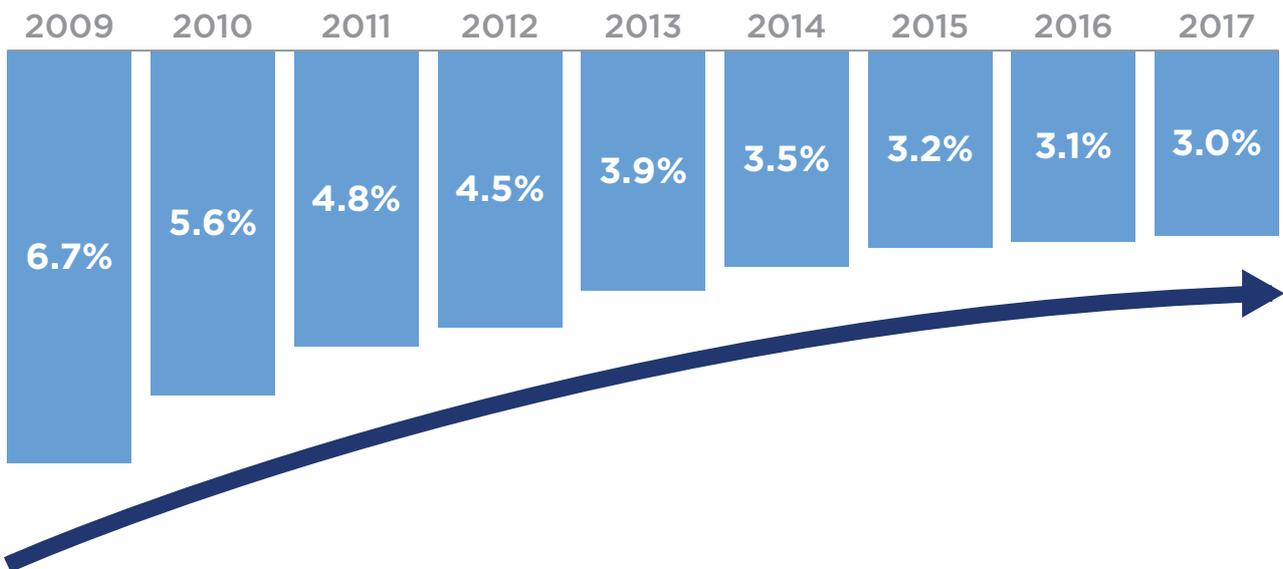
The civil service continues to be ardent and proactive in spearheading transformative initiatives and commit to achieving the set targets under the NTP. This underlines the pivotal role of the civil service, together with the private sector and the rakyat, in ensuring successful implementation of national strategic initiatives towards greater prosperity and shared growth for all Malaysians in years to come.

<sup>1</sup>Estimate based on World Bank's GNI per capita calculation (Atlas Method).



Based on World Bank's GNI per capita calculation (Atlas Method), Constant 2005 Prices.

**Malaysia maintaining its target towards fiscal balance**



## IMPROVING OUR EFFICIENCY AS THE GOVERNMENT

The NTP Roadmaps detailed the Government's socio-economic transformation agenda, focused firstly on enhancing public service delivery and ensuring that we address the rakyat's top priorities. Apart from the economic stimuli required to reach high-income status, we were equally cognisant of the need for the Government to adopt effective policies in this fast growing, globalised market.

In our pursuit of greater efficiency and better outcomes, it takes creativity and innovation to maximise resources. Malaysia has successfully adopted the National Blue Ocean Strategy (NBOS) – a pivotal platform for its National Transformation. With “low cost, high impact and rapid execution” as our mantra, NBOS has successfully fostered closer coordination between Government agencies by reducing overlaps or duplication of work, and breaking down the existing “silo mentality” among the various parts of the Government.

To date, over 100 NBOS initiatives have been successfully implemented to tackle an extensive list of economic and social issues. One of the

best examples is the award-winning Urban Transformation Centres (UTCs) and Rural Transformation Centres (RTCs), which serve as one-stop centres in providing a wide range of integrated government services under one location. Recognised by the World Bank as one of the best public service models in the world in 2016, these centres have helped saved up to RM2 billion in government spending, ensured our resources are fully and rightly utilised, and, above all, allowed us to better serve the public.

Aware of communities that have less access to formal services, the Government has also established the Mobile Community Transformation Centre (Mobile CTC) since 2013. This Mobile CTC initiative shortens travel time and logistical barriers for communities in remote and isolated areas to access key services that are otherwise only available in UTCs, RTCs or other Government premises.

Another worthy mention is the 1Malaysia Training Centres (1MTCs) programmes. Acting as a centralised platform for existing government training facilities, 1MTCs reduce the need for Government agencies and Ministries to rent expensive third-party facilities. 1MTCs have also been made available to the general public, the private sector and NGOs for their capacity-building objectives.

These NBOS-led services have been fortified by the Public Service Delivery Transformation (PSDT) programme, introduced in 2013 based on principles encompassing strategic collaboration, cooperation and interdependence among agencies to shape a high-performing, dynamic, people-centric civil service with high integrity. This effort was translated into 1,432 transformation initiatives, of which 216 are classified as high impact. The initiatives have therefore increased the public's convenience in accessing various public services such as healthcare, raising Government revenue and productivity, as well as broadening delivery channels through the participation of NGOs and the community.

The PSDT programme has been undertaken in tandem with the NTP, which identified seven of the rakyat's priority areas, or National Key Results Areas (NKRAs), to be improved upon by the Government through public sector reform.

## Highlights of the National Key Results Areas (NKRAs)

### Addressing the Rising Cost of Living

Bantuan Rakyat 1Malaysia (BR1M) remains an immediate relief to help manage the rakyat's cost of living. Since 2012, seven million Malaysians have benefited from BR1M by way of easing their payments of expenses such as monthly bills, school fees and medical costs through RM25.62 billion in direct aid. Additionally, through the Special Committee on Addressing the Rakyat's Cost of Living chaired by the YAB Deputy Prime Minister, the Government seeks to formulate long-term strategies to address living costs such as by managing the production cost of food products through the utilisation of programmes under NBOS.

### Fighting Corruption

The Government aims to table the Corporate Liability Provision under the Malaysian Anti-Corruption Commission (MACC) Act in Parliament by 2018. The new provision will make companies directly liable for acts of bribery or corruption, unless they can prove definitively that they have adequate procedures to prevent the alleged corrupt activities. Moreover, the MS ISO 37001 Anti-Bribery Management System was introduced in the same year to help organisations enforce measures that meet internationally recognised anti-bribery practices and controls.

### Reducing Crime

Since the beginning of our NTP journey in 2010, our index crime has reduced by a phenomenal 53%. Initiatives such as Modern Policing, for instance, are transforming the force from a traditional policing culture to a technologically savvy, service-oriented force. In line with population changes and international standards, the Royal Malaysian Police has started measuring crime incidents per 100,000 population. In 2017, we recorded a crime rate of 306.15 per 100,000 population against the baseline of 352.07 per 100,000 population set in 2016. The Perception of Crime Indicator has also been introduced, allowing the police force and Ministry of Home Affairs to determine the key gaps in safety that need to be ameliorated.



## Assuring Quality Education

The Dual Language Programme (DLP) and Highly Immersive Programme (HIP) to elevate our students' mastery of the English language continued to register positive outcomes. The DLP is currently implemented in 1,214 schools while HIP was expanded to 5,526 primary and secondary schools nationwide, reaching 2.54 million students. In ensuring teachers' proficiency of the language, we have increased training for English teachers, bringing proficiency of more than half of the English teachers nationwide to the C1 level, or 'Effective Operational Efficiency', according to the Common European Framework of Reference. At the pre-school level, we have increased enrolment to 84.26%, equivalent to 884,983 new pre-schoolers in 2017.

## Raising Living Standards of Low Income Households

As of 2016, Malaysia's poverty rate has declined to 0.4%, contributed by programmes such as 1AZAM which has increased the income of 100,420 individuals, or 91% of the programme's monitored participants to date, by at least RM300. Additionally, the number of 1AZAM participants categorised as poor has declined to 58.69% in 2016 from 89.17% in 2009. Furthermore, successful 1AZAM participants are further empowered by the Beyond 1AZAM programme, with a total of 5,674 participants recorded in 2017. The Government has also introduced the e-Rezeki and e-Usahawan programmes to provide B40 households with access to income-generating opportunities through digital means.

## Improving Rural Development

As of 2017, the NTP has built and upgraded 6,868 km of roads in rural areas through the Program Jalan Luar Bandar (JALB) and Jalan Perhubungan Desa (JPD), and provided 354,400 and 161,931 households with water and electricity supply respectively under the Program Bekalan Air Luar Bandar (BALB) and Program Bekalan Elektrik Luar Bandar (BELB). Additionally, 103,033 households have benefited from the construction and restoration of houses via the Program Perumahan Rakyat Termiskin (PPRT). A slew of economic activities such as the Desa Lestari and Rural Business Challenge have also promoted entrepreneurship and strengthened local economies. To date, approximately 6.8 million rural folks have benefited from this NKRA.

## Improving Urban Public Transportation (UPT)

The year 2017 was momentous for urban public transportation in Greater Kuala Lumpur / Klang Valley. The launch of the Mass Rapid Transit (MRT) Line 1 on 17 July 2017 signalled the beginning of a new era in our urban transportation system. This has led to increase in total daily average ridership of rail and bus to 1.21 million in 2017 from 1.16 million in the previous year. To enhance first- and last-mile services, Malaysia has become one of the first countries in the world to legalise e-hailing services. Furthermore, developments in the Integrated Common Payment System and the construction of parking facilities at rail stations should encourage the rakyat's switch to public transport.

# UPHOLDING OUR ECONOMIC RESILIENCE AND BUSINESS COMPETITIVENESS

The NTP continues to build up the resilience of the Malaysian economy through economic diversification in the National Key Economic Areas (NKEAs). In fact, GDP growth for the year is at 5.9%, reaching the value of RM1,173.6 billion at constant 2010 prices and exceeding many analysts' initial forecasts. In 2017, the NKEAs represented 75% of our GNI of RM1,316.3 billion at current prices.

Diversification through the NKEAs is also reflected by decreasing reliance on oil and gas as a source of Government revenue while increasing contribution from other prioritised sectors. In 2017, oil and gas revenue made up 15% of Government revenue, representing a remarkable reduction from 41% in 2009. As a result of optimised revenue sources, Government income surged from RM185 billion in 2011 to RM225 billion in 2017, with a compounded annual growth rate (CAGR) of 3% for that period.

Our economic landscape has been further strengthened by the stability of the Government's finances, with our fiscal deficit reducing more than half from 6.7% in 2009 to 3.0% in 2017. Furthermore, the ratio of our Government debt to GDP remains below our limit of 55%, at 51% in 2017. Collectively, these factors represent the robust economic

fundamentals which enable our economy to stand firm against external shocks.

Overall, this has put Malaysia back on the global competitiveness track, rebounding from 25<sup>th</sup> in 2016 to 23<sup>rd</sup> in 2017 in World Economic Forum’s (WEF) Global Competitiveness Index. This puts us among the top countries in Asia. In terms of ease of doing business, Malaysia is ranked 24<sup>th</sup> out of 190 economies in World Bank’s Doing Business Report 2018, placing us second in ASEAN and fourth within the Asia-Pacific region.

Since the start of the NTP, the private sector has increasingly represented a vital engine of growth, making up 68% share of total investments and growing at a CAGR of 10.5% from 2010-2017. In parallel, positive economic environment and validation from global institutions also contributed greatly to our foreign direct investment (FDI). This

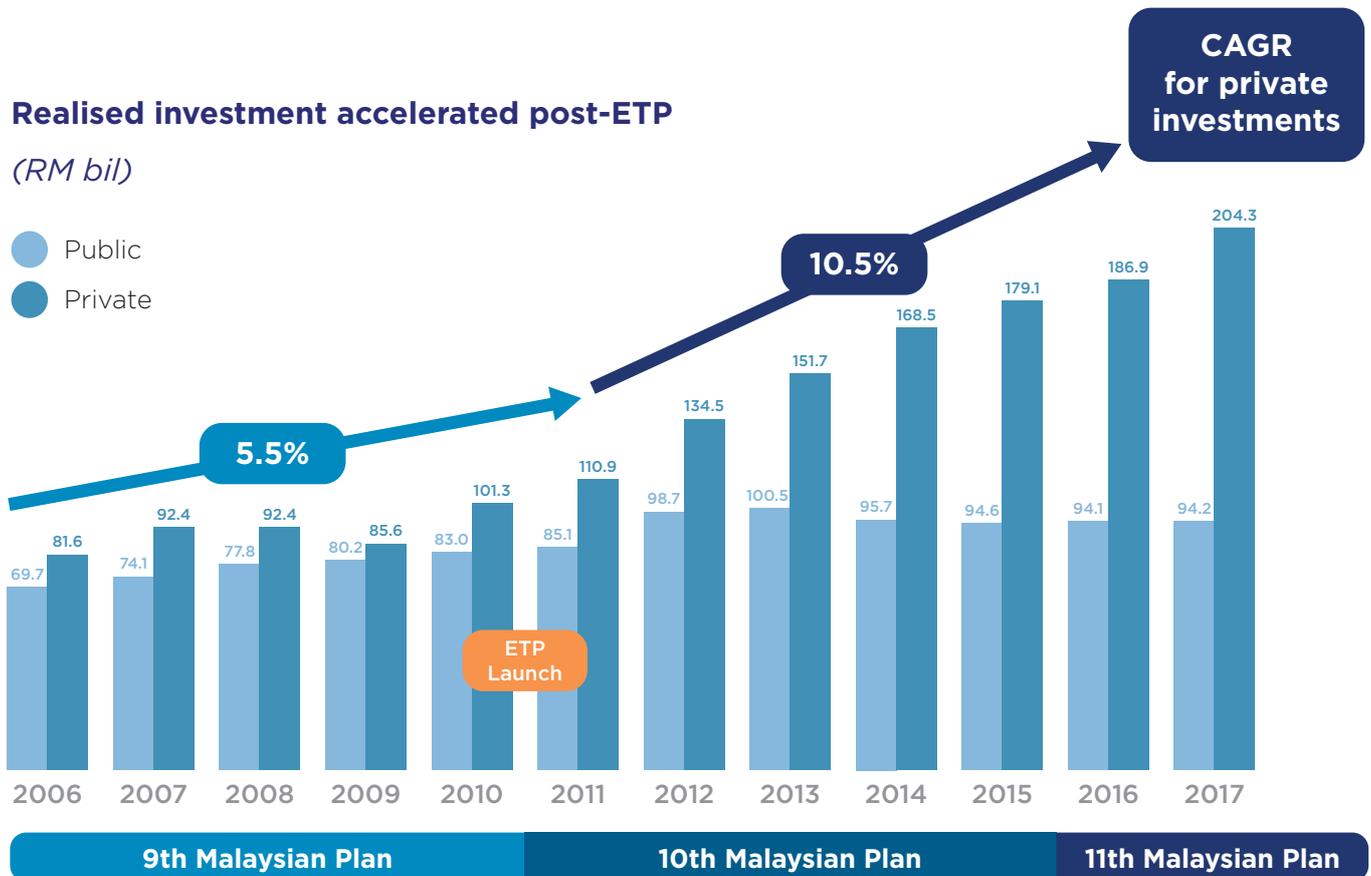
is apparent in the investments that have been made by some of the world’s largest companies, among the many include:

- Leading semiconductor company Broadcom Limited transferred its Global Distribution Hub from Singapore to Malaysia in 2017;
- Top global Information and Communications Technology (ICT) solutions provider Huawei made Malaysia its regional operations headquarters in 2017;
- Oil giant Saudi Aramco has committed to invest US\$7 billion for a 50% stake in PETRONAS’ Refinery and Petrochemical Integrated Development (RAPID) in 2017;
- Global banking company HSBC has committed to invest over RM1 billion to build its upcoming regional head office in Tun Razak Exchange;
- Chinese e-commerce conglomerate Alibaba Group has established the Digital Free Trade Zone (DFTZ) in Sepang.

### Realised investment accelerated post-ETP

(RM bil)

- Public
- Private





## Digital Free Trade Zone (DFTZ)

Malaysia's DFTZ is the first of its kind in the world that was launched in March 2017 to boost the nation's e-commerce growth and position our country as a regional hub for internet-based innovation. The DFTZ will provide physical and virtual zones to facilitate small- and medium-sized enterprises (SMEs) to capitalise on the boom of the digital economy and cross-border e-commerce activities. The physical zone comprises the e-Fulfilment Hub and Satellite Services Hub while the virtual zone consists of the e-Services Platform.

The zone would be located within the KLIA Aeropolis, a 24,700-acre development led by Malaysia Airports Holdings Bhd (MAHB) that is expected to generate more than RM7 billion worth of domestic and foreign investments. The DFTZ sets its 2025 target to double SME's goods export growth to US\$38 billion, create 60,000 jobs and facilitate US\$65 billion worth of traded goods.

The launch ceremony also witnessed the exchanges of Memoranda of Understanding (MoUs) between four parties:

- Malaysia Digital Economy Corporation (MDEC) and Alibaba Group for strategic collaboration in the development of DFTZ in Malaysia, consistent with the objective of the Electronic World Trade Platform (eWTP); and the development of a regional hub for e-commerce business, trade facilitation, SME onboarding, cloud services for enterprises, and an e-Fulfilment and logistics centre.
- MAHB and Cainiao Network for the development of a regional e-commerce and logistics hub in KLIA Aeropolis.
- Alipay with Maybank and CIMB to launch Alipay barcode payment in Malaysia. This partnership will enable mainland Chinese tourists to make payments using Alipay e-wallet, their most preferred payment method. This will also give Malaysian merchants exposure to the vast China market.
- MDEC and Catcha Group for the collaboration to establish Kuala Lumpur Internet City (KLIC).

To date, over 1,500 SMEs are at various stages of onboarding in DFTZ.

Aside from improving the vibrancy of Malaysia's business environment, these incredible investments have also contributed to local industries' technical knowledge and the job scene. Since 2010, the economy has seen an additional 2.68 million employed persons<sup>2</sup> (as of the fourth quarter of 2017), whereby 27.2% are skilled workers. In addition, income inequality has reduced, as indicated by the Gini Coefficient. In 2016, Malaysia's Gini Coefficient declined to 0.399, marking a significant reduction from 0.441 in 2009, supported by growth in median and mean income, which reached RM5,228 and RM6,958 respectively, in 2016, against RM2,841 and RM4,025 respectively, in 2009.

Additionally, the middle 40% (M40) and the bottom 40% (B40) of household income earners have led median and mean income growth. In 2016, the M40 recorded a growth in median income of 6.9% per annum to RM6,275 from RM5,465 in 2014, while median income for the B40 rose 6.6% per annum to

RM3,000 from RM2,629 in 2014. Meanwhile, mean income of the M40 increased 6.9% per annum to RM6,502 in 2016 from RM5,662 in 2014, whereas B40 mean income rose 5.8% to RM2,848 from RM2,537.

The reduction in Malaysia's overall incidence of poverty since 2009 further underscores the country's inclusive development to aid the most vulnerable groups. In 2016, the poverty rate had fallen to just 0.4% compared with 3.8% in 2009, with the incidence of poverty declining in all states. Notably, poverty in rural areas has dropped significantly to 1% from 8.4% in 2009, in tandem with our intensified efforts in rural development put in over the past seven years.

These socio-economic improvements prove the importance and relevance of the NTP, which then cement our fervent and pragmatic ambition of becoming a high-income nation.

<sup>2</sup> Employed persons calculation is based on CSDU's definition and methodology. The data for the calculation is sourced from Department Of Statistics Labour Force Survey.

## Highlights of the National Key Economic Areas (NKEAs)

<b>GNI VALUE (RM BILLION) AT CURRENT PRICES</b>	
<b>NKEA SECTOR</b>	<b>2017</b>
Agriculture	73.6
Palm Oil/Rubber	79.9
Oil, Gas & Energy	203.5
Electrical & Electronics	63.4
Wholesale & Retail	201.9
Education <sup>3</sup>	58.3
Healthcare <sup>3</sup>	26.0
Communication Content & Infrastructure	58.7
Tourism	81.1
Financial Services	73.9
Business Services	64.0
<b>TOTAL NKEA</b>	<b>984.3</b>
Other Industries	393.2
<b>TOTAL GNI</b>	<b>1,316.3</b>

### Agriculture

The Agriculture NKEA has sustained the development of the sector through a shift to high value-added agribusinesses. During the year, the sector contributed RM73.6 billion to GNI, exceeding our Roadmap target of RM49 billion by 2020. This is driven by growth of the processed food sector, aquaculture segments and herbal products, in addition to the development of agriculture SMEs which provided income-generating opportunities for smallholders in 2017. Of note, the processed food sector saw the participation of 154 SMEs and RM511.21 million of sales to support anchor companies along the full value chain in 2017, the

highest number recorded since 2015 when the SME development programme was initiated.

### Business Services

The business services sector continued to provide high-skilled services to the economy and increase the nation's income. The GNI generated from business services in 2017 stood at RM64 billion, contributed by the aerospace, shared services and outsourcing, data centre, shipbuilding and ship repair, and green technology industries. Among the sector's highlights is the significant growth of the aerospace industry, primarily in the aerospace manufacturing and Maintenance, Repair & Overhaul (MRO) sub-sectors, highlighted by the appointment of Composites Technology Research Malaysia (CTRM) Sdn Bhd as a single-source supplier for the manufacture and supply of Airbus A350 fan cowls. Furthermore, UMW Aerospace is the first Malaysian company to be a tier-1 fan case supplier to Rolls-Royce under a contract worth RM830 million, hence positioning Malaysia as a critical supplier of aircraft structural components.

### Communications Content and Infrastructure

The communications content and infrastructure sector has been a key focus of the NTP in bridging the urban-rural economic gap. The development of the sector is aimed at opening the digital economy platform to the rural areas, thereby improving their economic participation and increasing the nation's per capita income level. A 3,800-km national submarine cable project, known as the Sistem Kabel Rakyat 1Malaysia (SKRIM), was completed and started its operations on 16 September 2017 to enhance connectivity links between Peninsular Malaysia, Sabah and Sarawak, and lower internet traffic congestion among these three regions. During the year, the NKEA recorded RM58.7 billion in GNI anchored by growing telecommunications penetration as well as production of creative content.

### Electrical and Electronics (E&E)

Malaysia's E&E sector continued to record robust growth, capitalising on the rapid advancements in technology and the global digital revolution. In 2017, the industry recorded RM343 billion worth of exports and GNI of RM63.4 billion. The growth was mainly driven by investment in the manufacturing of semiconductors, solar modules, LED products and household appliances, reflecting the success of our efforts through the NKEA to innovate high-value manufacturing. Among the

<sup>3</sup>Include public education and public healthcare.



sector's highlights was OSRAM's first stage investment in the fully integrated LED epitaxy, wafer fabrication and product manufacturing facility, which has been operational since November 2017. Moreover, MIMOS and NCIA have successfully established a human capital development centre serving the field of wafer fabrication and equipment, which offers holistic and industry-driven trainings based on the curriculum co-developed with SFAM.

## Education

Malaysia has retained its attractiveness as a world-class education destination. The NKEA registered GNI of RM58.3 billion as a result of continued private sector activity to support international student enrolment, with 170,068 enrolments in higher learning institutions in 2017 as compared to 70,000 in 2010. This is driven by increased marketing efforts by the private sector and the Government and the presence of globally renowned brands in education as well as the offering of multi-disciplinary and specialised offerings to attract international students to study in Malaysia. In addition, Malaysian universities have achieved great strides and have been ranked within the Top 50 in the world in subject areas such as Hospitality and Leisure Management, Electronic and Electrical Engineering, Chemical Engineering, Mechanical Engineering, and Environmental Sciences, among others.

## Financial Services

The Government's move to diversify the economy within the services sector has allowed Malaysia to weather the turbulent headwinds of the global economy. Activity in this NKEA remains private sector-led and closely guided by the regulators, ensuring accessibility to financial services and enabling expansion of Malaysia's regional links and innovation through financial technology. The Malaysian financial system has become more regionally integrated to support stronger economic and financial linkages, as reflected by the presence and activity of Malaysian commercial banks in ASEAN. As of 2017, the value of the capital, equity and debt markets amounted to RM3.2 trillion, RM1.9 trillion and RM1.3 trillion respectively, while Assets under Management stood at RM776.2 billion. In addition, Malaysia commands a 30% share of the global market value of Shariah assets and is also the global leader of sukuk issuances. As such, these contributed to the RM73.9 billion in GNI created by the NKEA in 2017.

## Greater Kuala Lumpur/Klang Valley

The MRT Line 1 from Sungai Buloh to Kajang was launched on 17 July 2017, two weeks ahead of schedule, marking a significant achievement in our efforts to improve liveability and connectivity of Kuala Lumpur and the Klang Valley. The region also continued to record progress of another iconic project, the River of Life (RoL), to clean and beautify the designated eight rivers with the aim to improve environmental sustainability, catalyse investments and ensure better living quality in and around the country's capital. The RoL project was also given the Award of Excellence by the International Federation of Landscape Architects under the Cultural and Urban Landscape category of the Asia-Pacific Landscape Architecture Awards 2017.

## Healthcare

Since the Healthcare NKEA was introduced in 2011, the industry has grown in strength. In 2017, for the third consecutive year, Malaysia was acknowledged by two international publications, The International Living magazine as well as the International Medical Travel Journal (IMTJ), to be one of the world's top countries for healthcare in terms of service quality, accessibility, cost competitiveness and standard of post-procedure recuperation options, and as the "Health & Medical Tourism Destination of the Year" respectively. The sector registered GNI of RM26 billion in 2017. Of note, the year saw the launch of Phase I Clinical Trial Guidelines which enables early-phase trials in Malaysia for drug discovery and development. Additionally, the Private Aged Healthcare Facility and Services Act was passed in 2017 to regulate private nursing homes for the elderly, thus ensuring quality services are provided for senior citizens.

## Oil, Gas and Energy

Despite low crude oil prices for most of 2017, Malaysia remained committed in its journey to add value to its oil and gas sector, reporting GNI of RM203.5 billion. Its flagship initiative, the Pengerang Integrated Petroleum Complex, continues a steady construction progression and attracts more investments. The project made headlines in February 2017 with the signing of a Share Purchase Agreement (SPA) by oil giant Saudi Aramco to invest US\$7 billion in the Refinery and Petrochemical Integrated Development (RAPID) project in Pengerang, representing the largest ever FDI inflow to Malaysia, while constituting Saudi

Aramco's biggest investment outside the Kingdom of Saudi Arabia to date. Furthermore, new regulations in the upstream segment are slated to promote the sector's vitality and competitiveness, while positive results in the areas of energy efficiency and renewable energy reinforce the country's commitment to the 21<sup>st</sup> Conference of Parties (COP 21) Paris agreement to reduce 45% of carbon emissions by 2030.

### **Palm Oil and Rubber**

Malaysia's position as a major global plantation and commodities player was sustained in 2017 with total exports of RM77.8 billion for palm oil and palm-related products, while the export of local natural rubber and rubber compounds contributed RM7.4 billion, a tremendous increase from RM4 billion last year. Progress was made in promoting the benefits of palm oil nutrients such as tocotrienol and carotenoids for commercial consumption, as illustrated by the RM41 million grants committed to 10 projects in the development of palm-based food, health products and animal feed in 2017. New planting and replanting of rubber, on the other hand, met its target of 8,557 hectares. RM132.7 million has been allocated for the further planting of 8,557 hectares of rubber in Sabah and Sarawak. As a result, GNI contribution by this NKEA reached RM79.9 billion in 2017.

### **Tourism**

The tourism sector remains on track towards achieving our targets of 36 million tourist arrivals and RM104 billion in GNI by 2020, with 25.7 million in arrivals recorded in 2017 following the successful rollout of the e-Visa facility for tourists from 10 countries such as China, India and Bhutan. Tourism receipts for 2017 reached RM81.4 billion, and since 2011, the sector has contributed to RM81.1 billion in the country's GNI. This has been achieved by efforts to improve our tourist offerings and attractions, making Malaysia one of the 17 must-visit destinations in 2017 by CNN Travel, and Ipoh, Perak as one of Lonely Planet's Top 10 cities for travel in 2017. Kuala Lumpur, on the other hand, was also named among the world's top 10 cities in terms of tourism growth by the World Travel and Tourism Council (WTTC).

### **Wholesale and Retail**

The wholesale and retail sector was a key contributor to economic growth in 2017, recording a GDP contribution of RM205.2 billion and generating RM201.9 billion of GNI during the year. Constant efforts in modernising,

globalising and revolutionising this sector have resulted in a consumer confidence level of 76.6% according to Nielsen's Global Consumer Confidence Trend Tracker Report, and Malaysia defending its third-place ranking in the AT Kearney Global Retail Development Index for two years in a row. Nevertheless, we continue to support the transformation of small retailers and automotive workshops as well as facilitate the industry's efforts to diversify the shopping experience to drive investment as well as consumption, especially by leveraging new developments in the digital realm.

### **Highlights of the Strategic Reform Initiatives (SRIs)**

The SRIs continue to play a vital role in enabling a conducive environment for business and strengthening Malaysia's international competitiveness, as well as promoting inclusiveness and sustainability of our national transformation.

#### **Narrowing Disparity**

This SRI has spearheaded the adoption of "growth with equity" as a key principle to ensure inclusive planning and balanced economic growth. This SRI has paved the way for the development of the Bumiputera community and the implementation of the Bumiputera Economic Transformation Roadmap (BETR) 1.0 in 2011 to mitigate fundamental issues faced by Malaysia's largest community in a holistic manner. As of 2017, BETR 1.0 has created a total of RM122.2 billion business opportunities and in April 2017, the YAB Prime Minister launched the Transformasi Kesejahteraan Bumiputera (TKB) road map as an expansion of BETR 1.0 to focus on uplifting the well-being of the Bumiputera community through improved capacity building and economic participation.

#### **Competition, Standards and Liberalisation**

The SRI remains a key driver in raising the nation's competitiveness through the eradication of anti-competitive behaviour, promoting world-class business practices and facilitating a vibrant services sector through a supportive regulatory framework. During the year, a total of 300 out of 327 anti-competitive complaints were addressed by the Malaysia Competitive Commission (MyCC), while five decisions were issued against companies found guilty of anti-competitive behaviours. In improving the quality of goods and services, 5,331 Malaysian Standards have been made available for businesses and consumers, of which 510 standards are being made mandatory by regulators. Meanwhile, Malaysia's sustained position on international



competitiveness rankings validates our efforts to enhance our business competitiveness and landscape.

### Human Capital Development

As we progress towards high-income nation status, our talent pool needs to advance in tandem to meet the needs of the labour market by modernising our labour laws; creating a labour safety net; strengthening human resource management; conducting labour market analysis; upskilling and reskilling; and leveraging women talent. We are currently on the right track: our global human capital development performance was ranked second in Southeast Asia and 33<sup>rd</sup> in the world in the Global Human Capital Report 2017 issued by the World Economic Forum (WEF) as compared to ranking 42<sup>nd</sup> in 2016, with strong scores across the capacity, development and know-how components. The 2017 Corporate Women Directors International Report on Women Board Directors of Asia-Pacific Companies has also ranked Malaysia third out of 20 Asia-Pacific countries for our achievements in raising women directorships. The labour market also saw significant development during the year with the passing of three major laws: the Private Employment Agencies (Amendment) Bill, the Self-Employment Social Security Act 2017, and the Employment Insurance System (EIS) Bill 2017 to provide greater employee protection.

### Public Service Delivery Transformation (PSDT)

Under the PSDT SRI, the Government is focusing on transforming the delivery of public health services to the rakyat by introducing LEAN Healthcare initiatives. Significant improvements in reducing waiting time as well as congestion at the hospital prompted the expansion of LEAN Healthcare to all 133 hospitals nationwide in phases. To date, 52 hospitals under the Ministry of Health have implemented the initiative in their various departments, with aims for the Lean methodology to eventually be expanded to other public hospitals. Besides LEAN, more than 100 NBOS initiatives and 1,432 PSDT initiatives have been implemented, addressing a wide range of socio-economic areas and providing game-changing public services to the rakyat. These initiatives include the Urban Transformation Centres (UTC) and 1Malaysia Customer Service of Civil Servants (1SERVE).

### Public Finance Reform

This SRI continues to ensure optimisation of Government resources through prudent monetary

management as well as widening tax base for fair and effective revenue collection. As a result, our fiscal position remains on track towards a near-balanced budget, with our fiscal deficit narrowing further to 3.0% in 2017. This has also enabled the Government to more effectively channel development spending and public aid to the most in need.

## 2020 AND BEYOND

Amid the backdrop of criticisms and doubts raised by naysayers, the Government has consistently and successfully progressed along the NTP agenda. The success of the NTP would not have materialised without the unyielding effort by the civil servants in implementing these reforms and ensuring that all changes would positively benefit Malaysians from all walks of life.

With just two short years away to the year 2020, the Government remains resolute and committed to stay on course for the NTP. It has delivered proven outcomes and we are confident our high-income aspiration will be achieved.

True to the spirit of transformation, the NTP's aim was to promote transparency and encourage open dialogue with the public to warrant policy developments that would directly address the needs of the rakyat. As such, the Government has already begun planning for the future by way of the Transformasi Nasional 2050 (TN50) programme to sustain Malaysia's growth from 2020 to 2050. Through engagements with local communities ranging from professionals, students, public and private institutions, many aspirations have been captured and compiled to finalise the framework of TN50 in 2017. The process is in line with the YAB Prime Minister's endeavour of a pro-rakyat, bottom-up approach in creating the country's next vision.

Ultimately, the TN50 programme aims for Malaysia to become a top-20 country in economic development, social progress and innovation. Additionally, the Government will continue improving the delivery of its services to prepare ahead of the upcoming challenges that will arise as we reach out for this new goal. With strong emphasis on excellence and the focus on people and inclusiveness, we are assured that Malaysia will succeed in its transformation and elevate further upon the completion of NTP.