

Centre Stage

Twelfth Malaysia Plan (RMK-12) overview



pwc



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Highlights from RMK-12

Economic growth continues to be driven by private consumption, led by the manufacturing and services sectors. This includes eight targeted sectors e.g. electrical and electronics, global services and tourism.

Accelerating technology adoption, development of highly skilled talent and addressing inequality are the cornerstones of inclusive growth. This includes promoting equitable compensation of employees.

The government has made a commitment to move towards a low-carbon nation and businesses are urged to set Net Zero targets, and accelerate green initiatives in transitioning to a low carbon and circular economy.

On 27 September 2021, Prime Minister Ismail Sabri Yaakob tabled the Twelfth Malaysia Plan (RMK-12) for the period of **2021 to 2025**. This plan sets the strategic direction for Malaysia's development amidst these unprecedented times.

With the objective of achieving a *Prosperous, Inclusive, and Sustainable - Keluarga Malaysia*, the RMK-12 focuses on three themes:

- Resetting the economy
- Strengthening security, wellbeing and inclusivity
- Advancing sustainability

These themes will be catalysed by **4 Policy Enablers** and **14 Game Changers** as illustrated in the following page.

Initiatives within the plan have been proposed as part of the government's aspirations to achieve sustainable economic growth with more equitable distribution of opportunities and outcomes for all.

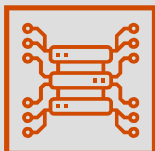
This publication highlights key areas of RMK-12 which may be of relevance to the corporate sector to help businesses forge a path forward in their recovery and growth plans.

Key considerations for businesses



Courage to invest in the face of uncertainty

Build capacity to make agile decisions on investments based on scenario planning, powered by technology and data to predict and visualise possible outcomes



Develop a human-led and tech-powered future

Re-examine your business models and adopt a citizen-led approach to upskilling - where your employees crowdsource and share solutions they have built like bots and automated workflows



Embed sustainability into your business strategy




Declare your emissions target. Based on the Malaysian Code on Corporate Governance 2021, strengthen oversight of your sustainability strategy and practices, and how these impact your company's reputation.





Overview of RMK-12

Objectives, Themes, Enablers, Game Changers and Goals

Objective: A Prosperous, Inclusive, Sustainable Malaysia

Game Changer I: Imperatives for Reform and Transformation

Themes	1	2	3
	Resetting the Economy 	Strengthening Security, Wellbeing and Inclusivity 	Advancing Sustainability 
Game changers	II. Catalysing Strategic and High Impact Industries to Boost Economic Growth III. Transforming Micro, Small and Medium Enterprises (MSME) as the New Driver of Growth	IV. Enhancing National Security and Unity for Nation-Building V. Revitalising the Healthcare System in Ensuring a Healthy and Productive Nation VI. Transforming the Approach in Eradicating Hardcore Poverty VII. Multiplying Growth in Less Developed States especially Sabah and Sarawak to Reduce Development Gap	VIII. Embracing the Circular Economy IX. Accelerating Adoption of Integrated Water Resources Management (IWRM)
Goals	<ul style="list-style-type: none"> 4.5% - 5.5% GDP growth p.a.(2021-2025 period) RM10,065 average monthly household income by 2025 	<ul style="list-style-type: none"> 50% of Federal development expenditure to be distributed to less developed states <i>Waqf</i> concept to be expanded to finance Bumiputera businesses and equity 	<ul style="list-style-type: none"> To be carbon neutral as early as 2050 45% reduction in GHG emissions intensity to GDP by 2030

Enablers	Developing Future Talent	Accelerating Technology Adoption and Innovation	Enhancing Connectivity and Transport Infrastructure	Strengthening the Public Service
				
Game changers	X. Improving TVET Ecosystem to Produce Future-Ready Talent	XI. Enhancing Digital Connectivity for Inclusive Development XII. Aligning Research and Development (R&D) towards Commercialisation, Wealth Generation and Economic Growth	XIII. Transforming the Logistics Ecosystem for Greater Efficiency	XIV. Transforming the Public Service through the Whole-of-Government Approach
Goals	<ul style="list-style-type: none"> 40% share of compensation of employees to GDP 	<ul style="list-style-type: none"> 25.5% digital economy contribution to GDP 	<ul style="list-style-type: none"> Create an efficient, resilient and competitive transportation and logistics infrastructure sector 	<ul style="list-style-type: none"> 80% of online Federal Government services will be available end-to-end by 2025

Source: RMK-12

Theme 1: Resetting the economy

Economic performance

Growth moderated in RMK-11

Malaysia's economic growth has moderated in the last five years (2016-2020). It grew on average 2.7% against the target of 4.5% to 5.5% growth under the 11th Malaysia Plan (RMK-11).

Projected GDP growth of 4.5% to 5.5% in RMK-12

Moving forward, as set out in the RMK-12, average annual GDP growth is also targeted at between 4.5% and 5.5%, during the 2021-2025 period.

Growth driven by private consumption

On the expenditure side, growth will be mainly driven by the private sector, in particular, private consumption, with a forecast growth of 5.8%.

Other expenditure components like private investment, public expenditure and net exports are projected to grow between 3.0% to 4.0%.

Higher investment growth target for RMK-12 vs RMK-11 performance

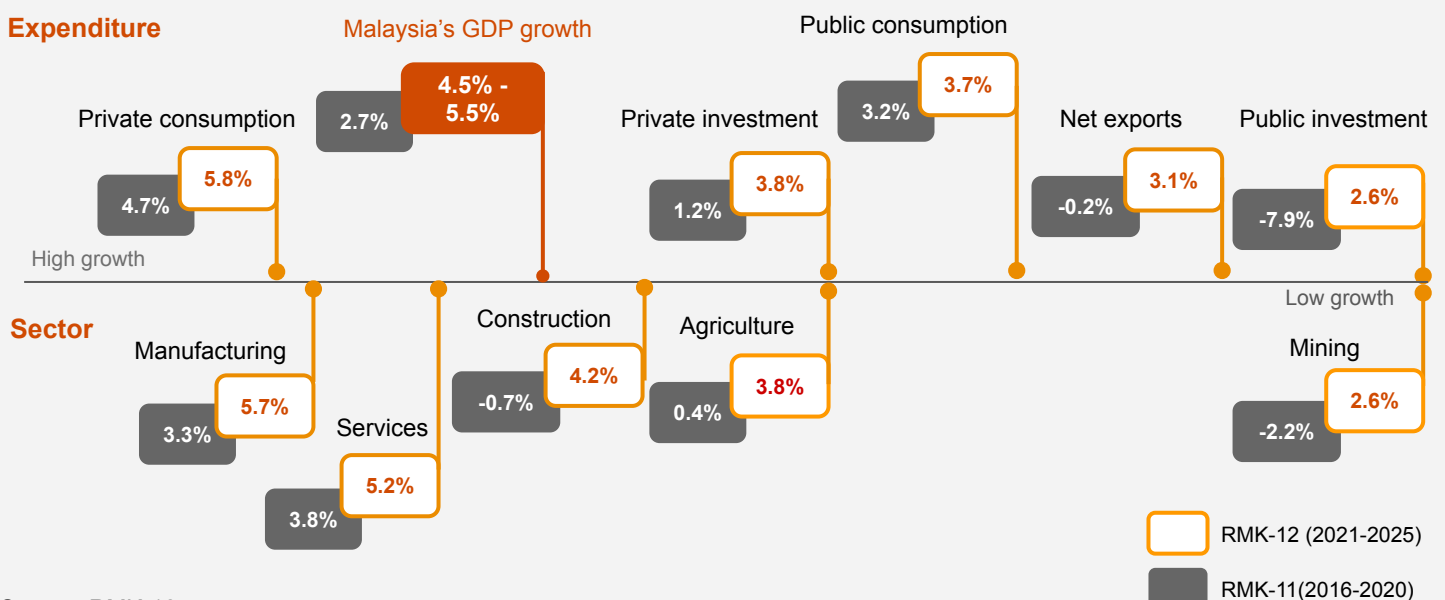
The growth target for private investment in RMK-12 is increased to 3.8% versus 1.2% achieved under RMK-11. This reflects expectations of a gradual pick up in post-pandemic capital spending activity.

Manufacturing growth to lead, followed by services sector

The economic expansion will be led by the manufacturing and services sectors, which are expected to grow by 5.7% and 5.2% respectively during the 2021-2025 period.

The construction sector is the next fastest growing sector, which is expected to expand by 4.2%, followed by agriculture by 3.8% and mining by 2.6%.

Average annual GDP growth by expenditure and sector



Source: RMK-12



Maintaining price and labour market stability

Inflation is expected to stabilise at a lower level, averaging 2.7% during the 2021 - 2025 period, on the anticipated recovery in global supply chain and capacity.

The labour market is projected to remain favourable with an unemployment rate of 4.0% by 2025 vs 4.5% in 2020.

Table 1: Inflation, unemployment and fiscal position

Item	2020	2025
Inflation	-1.2%	2.7%
Unemployment	4.5%	4.0%
Fiscal balance to GDP	-6.2%	-3.5% to -3.0%
Public debt to GDP	62.1%	-

Source: RMK-12

Maintaining fiscal position at pre-pandemic levels

The government targets to maintain a fiscal balance of between -3.5% and -3.0% of GDP in 2025. It's similar in comparison to RMK-11, ranging between -2.9% and -3.7%, with the exception of 2020.

The level of debt remains elevated with Federal Government debt-to-GDP widening to 62.1% in 2020.

Moderate revenue increase

Federal Government revenue is forecasted to reach RM272 billion in 2025, an increase of just 3% compared to pre-pandemic levels in 2019 and slower than the economic growth of 4.5% to 5.5% over the 2021-2025 period.

It may indicate an overall moderate tax collection increase over the RMK-12 period.

Among the tax measures the government is exploring in RMK-12 are:

- A dedicated tax to finance poverty alleviation programmes
- A carbon tax - a feasibility study is to be conducted on it
- An additional tourist tax to finance beach clean-ups.

Table 2: Selected targets of RMK-12

Indicator	RMK-11 performance (2016-2020)	RMK-12 targets (2021-2025)
GDP growth	2.7%	4.5%~5.5%
GNI per capita, end period	RM42,503 (US\$10,100)*	RM57,882 (US\$14,842)
Average monthly household income, end period	RM7,160	RM10,065
Compensation of employees, end period (% of GDP)	37.2%	40.0%

* 20% below the income threshold to achieve a high income nation status

Source: RMK-12

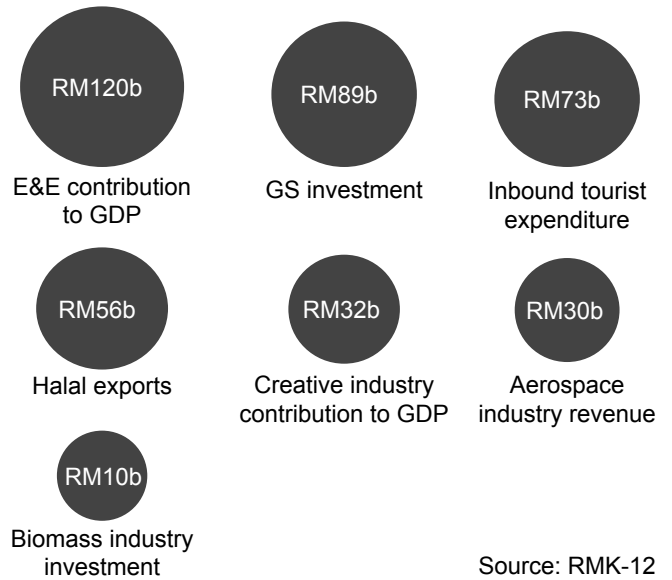
Key initiatives

8 targeted sectors for growth

In RMK-12, efforts will be focused on accelerating the targeted industries listed below to be more sophisticated by producing high value-added activities and products, attracting quality investments and expanding exports as well as contributing to a green economy.

- Electrical and electronics (E&E)
- Tourism
- Aerospace
- Creative
- Global services (GS)
- Halal
- Smart farming
- Biomass

The Plan also highlighted the market size for the targeted sectors by 2025 below:



Source: RMK-12

Accelerating technology adoption and innovation

In an effort to enable the move to high value-added and high-skilled economic activities and attract quality investments, RMK-12 will focus on:

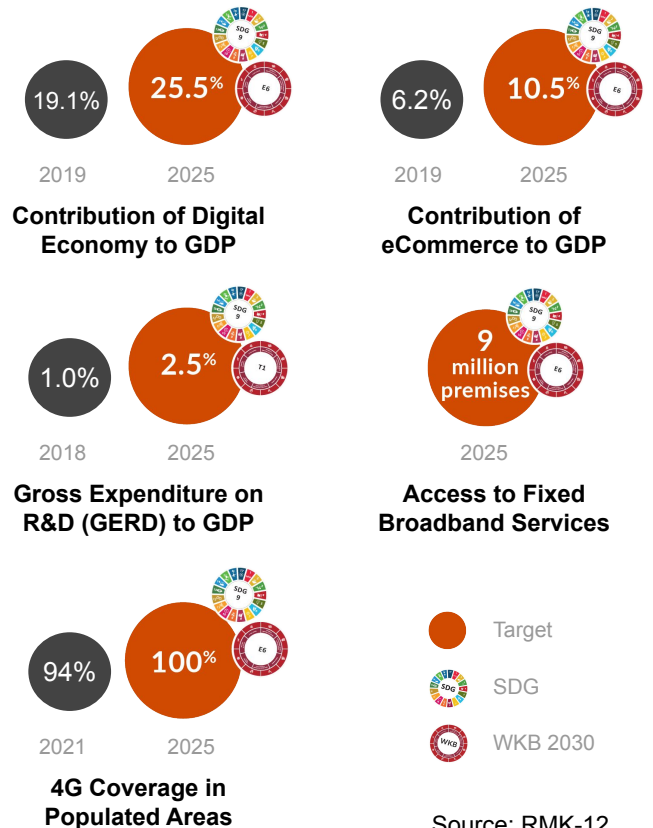
- Boosting digitalisation
- Accelerating research, development, commercialisation and innovation (R&D&C&I)
- Capitalising on the potential of advanced technology, particularly 4IR technologies

To spearhead the digital agenda, a number of notable investments in digital infrastructure were announced:

- RM28 billion to improve the existing 4G network
- RM15 billion to implement 5G nationwide by the private sector

RMK-12 is also looking to increase automation and mechanisation to **reduce foreign workers, to be capped to not more than 15% of the workforce** in the long term.

Among the targets set by RMK-12 for technology adoption and innovation



Source: RMK-12

Sustained infrastructure, with new Public Private Partnership (PPP) model

The total development expenditure allocation is estimated to be at RM400 billion under the RMK-12 period, **an increase of 61% from RM249 billion in RMK-11**. However, allocations for basic development expenditure in 2021 and 2022 are expected to be a challenging process.

Despite the long term positive outlook for development allocation, fiscal consolidation remains on the cards, shrinking to pre-pandemic levels of -3.0% to -3.5% by 2025 from -6.2% in 2020.

Under the RMK-12, new infrastructure projects were not announced, focusing instead on ongoing developments.

The government is also looking at PPP 3.0, with a specific facilitation fund for infrastructure projects to be established.

The PPP 3.0 project implementation model will not involve the government's financial commitment and will instead adopt the Request for Proposal (RFP) method. The implementation of projects under this new model is expected to be announced in mid-2022.

Transforming the logistics ecosystem for greater efficiency

Transport and storage, together with communications, are among the top three services sectors, contributing 17% of the service sector GDP in 2020.

The sector is a crucial enabler to a number of key industries including manufacturing, wholesale and retail trade, e-commerce and agriculture.

However, fragmentation of the industry, low technology adoption, uncoordinated planning and implementation as well as weak governance have resulted in mediocre quality of services and relatively higher costs.

In RMK-12, the government plans to transform logistics services by centralising the planning and development of logistics hubs, accelerating digital adoption and encouraging mergers and acquisitions among industry players.

The goal of these initiatives is to create a resilient and competitive logistics services sector that can enhance Malaysia's international trade competitiveness.



Transforming Micro, Small and Medium Enterprises (MSMEs) as the new driver of growth

MSMEs are a vital segment of the national economy. At the end of 2020, the number of MSMEs were estimated at 1.2 million, equivalent to 97.2% of total enterprises.

However, most MSMEs remain uncompetitive and need to be revitalised as they were adversely affected by the pandemic.

To enable MSMEs to better compete in a globalised market, the RMK-12 transformation will focus on:

- Prioritising MSME digitalisation as a national agenda
- Equipping MSMEs with the skills to enable them to digitalise their business process agenda
- Providing assistance to MSMEs to produce products and services that are on par with international standards
- Developing a unified portal to facilitate entrepreneurs in obtaining essential information on financing

Target MSME contribution to the economy and digital adoption in 2025

45%

Contribution of MSMEs to GDP

25%

Contribution of MSMEs to Total Exports

90%

MSMEs digitalise their business operations

Source: RMK-12





Theme 2: Strengthening security, wellbeing and inclusivity

Key initiatives

RMK-12 looks to enhance the security and wellbeing of Malaysians by providing quality healthcare and housing, addressing poverty, strengthening inclusivity, as well as achieving a decent standard of living and social justice.

Enhancing healthcare services

The government aims to expand access to quality and affordable healthcare through digitising healthcare services and fostering collaboration with the private sector.

A Healthcare System Reform Blueprint will be introduced, which would include public healthcare transformation, private healthcare regulatory reform and sustainable health financing.

Increasing supply of affordable housing

The government has allocated RM2.25 billion to provide affordable housing. An additional 500,000 affordable homes will be built by 2025.

Under the RMK-11, the target was 653,000 homes and as of 2020 a total of 282,259 units were completed (43% of the targeted units).

The construction of affordable houses will be made a priority in the development of new townships and access to financing will be expanded e.g. by introducing a new financial model with more attractive loan packages.

Selected 2025 performance indicators:

4.2%

Absolute Poverty Rate
(5.6% in 2019)

RM4,300

Median Monthly Household Income B40
(RM3,166 in 2019)

0.388

Gini coefficient index
(0.407 in 2019)

Addressing poverty and narrowing inequality

In addressing hardcore poverty, new initiatives will be introduced, for example, exploring the possibility of a dedicated tax to finance poverty alleviation, establishing dedicated poverty units and integrating and centralising a database on poverty.

In addition, to enhance the socioeconomic development of the Bumiputera community, the Plan looks at:

- Strengthening the development of Malay Reserve Land
- Optimising *waqf* instruments to finance businesses and increase Bumiputera equity
- Exploring the possibility of establishing an equity safety net to ensure disposal of Bumiputera equity will be made to other qualified Bumiputera individuals and entities.

Optimising regional economic potential

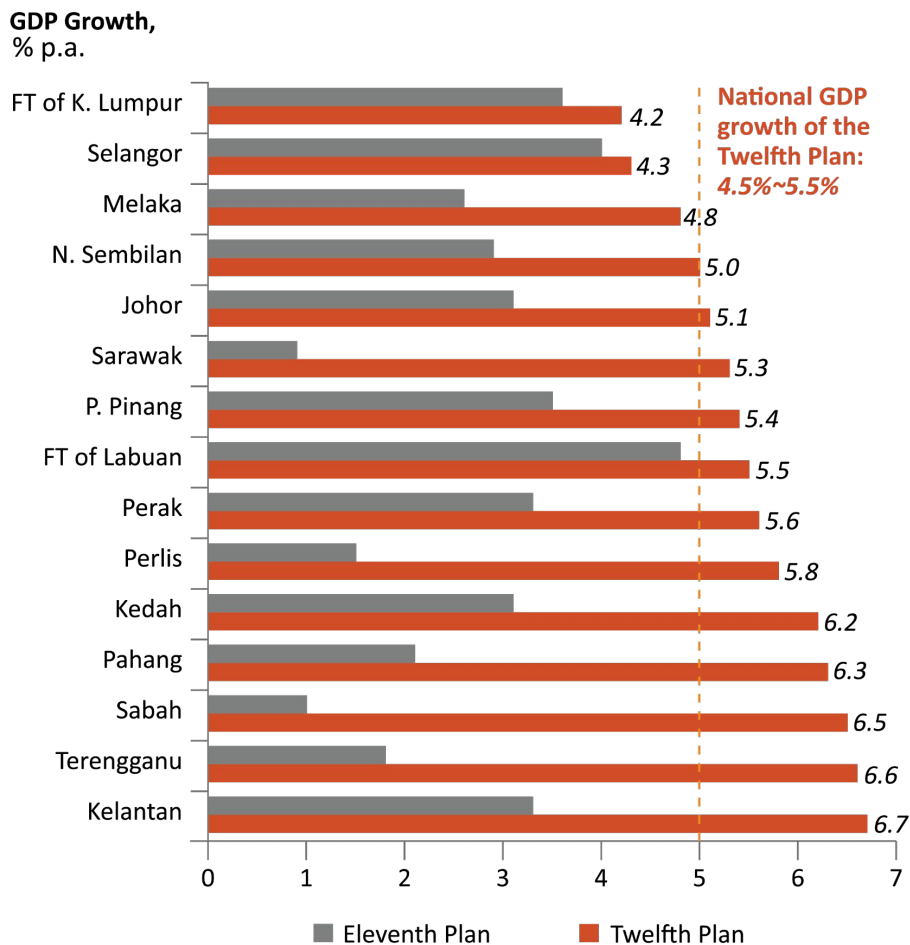
The RMK-12 looks to bridge the regional development gap and will work on optimising regional economic potential, developing sustainable cities and transforming rural areas.

Initiatives will focus on accelerating development based on key growth nodes and hotspot areas, attracting quality investment, and improving the business ecosystem.

The six less developed states comprising **Kedah, Kelantan, Perlis, Sabah, Sarawak** and **Terengganu** will continue to be prioritised with at least 50% of the Total Basic Development Expenditure allocated to their development.

Greater emphasis will be given to enhancing socioeconomic development in Sabah and Sarawak by providing better infrastructure, for example RM7.7 billion allocation to Sabah and Sarawak for the provision of broadband coverage and construction of digital infrastructure.

More than 50% of the states are expected to grow twice as fast in RMK-12 in comparison with RMK-11, with Sabah and Sarawak growing six times faster in RMK-12



Source: RMK-12

Developing future talent, with equitable compensation

Human capital development is a strong driver of social mobility, with the potential to improve the income of the B40 and narrow the income inequality gap.

Even though various initiatives were undertaken under RMK-11, the labour market and the education sector continue to face some key challenges.

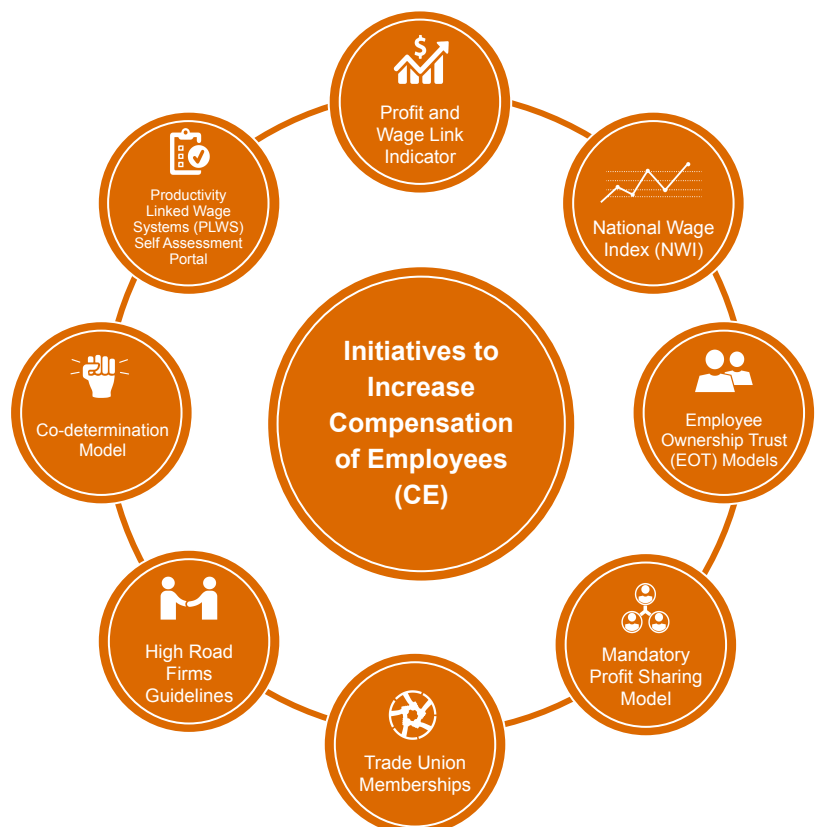
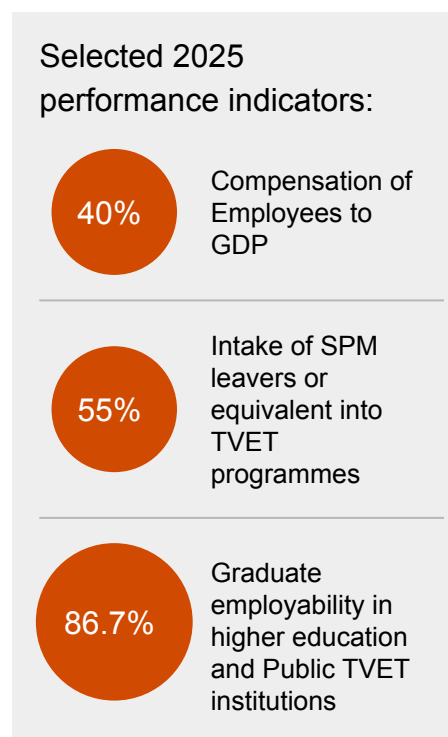
Moving forward, the RMK-12 will focus on developing future talent by realigning the labour market and further improving the quality of education by:

- Promoting equitable compensation of employees and labour participation
- Strengthening the labour market support system
- Improving the technical and vocational education and training (TVET) ecosystem to produce future-ready talent.

Emphasis is also given to raising the quality of education and training programmes, strengthening governance, and leveraging emerging technology.

In promoting equitable compensation of employees and labour participation, a number of concerted efforts will be undertaken including the calculation of the productivity wage system and the introduction of new indicators, which measure the linkage between profit, wage and productivity.

Initiatives to increase Compensation of Employees



Source: RMK-12



Theme 3: Advancing Sustainability

Key initiatives

Advancing sustainability and green growth is one of the key themes in RMK-12, where Malaysia is committed to be a carbon neutral country by 2050 at the earliest, and has pledged that new coal-fired power plants will no longer be built.

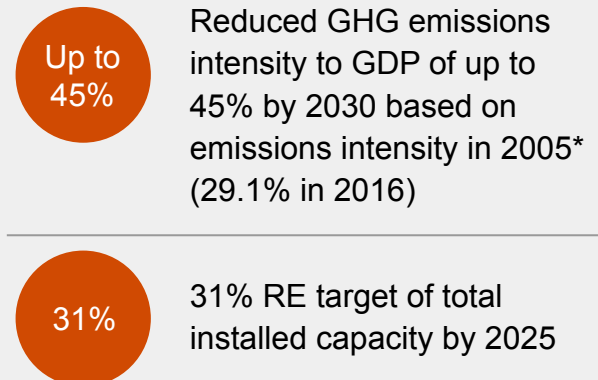
The circular economy model will also be implemented, aimed at reducing pollution and waste generation.

Moving towards a low-carbon nation

In implementing a low carbon economy, the focus will be on the following initiatives:

- **Developing enabling instruments for climate action including:**
 - Developing a Nationally Determined Contribution Roadmap specifying emissions needed to be reduced from key emitting sectors
 - Conducting a feasibility study on carbon pricing, covering for example carbon tax and an emission trading scheme
 - Exploring payment for ecosystem services including carbon offset
- **Ensuring sustainable energy and electricity for all:**
 - Formulating a comprehensive National Energy Policy from the streamlining of existing energy-related policies
 - Increase Renewable Energy (RE) installed capacity from large hydro, solar, biomass and biofuel, and adopt new technologies such as better energy storage systems

Selected performance indicators:



*This is to fulfill Malaysia's commitment to the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC)

- Ensuring a sustainable and progressive oil and gas subsector; this includes repositioning the petrochemical and gas industry to be more competitive, for example by introducing a chemical industry roadmap and liberalising the gas market
- **Other initiatives:**
 - **Conservation:** Increase conservation of natural areas and maintain at least 50% forest cover over the total land area
 - **Green and resilient cities:** 120 cities and districts are expected to achieve sustainable status by 2025 (75 in 2019)
 - **Green mobility:** Policies, legislation, incentives, and supporting infrastructures around electric and other green vehicles will be strengthened to facilitate private-driven initiatives.
 - **Green procurement:** The government's green procurement is targeted to increase to 25% by 2025 (20.7% in 2016-2019)

Accelerating transition to the circular economy

The transition from the conventional linear economy to the circular economy is needed to create more sustainable and responsible businesses and investments.

As Malaysia embraces the circular economy¹, there will be an increased focus on integrating the Sustainable Development Goals (SDGs) and ESG principles into decision-making.

The initiatives that will be implemented to expedite this transition include:

- **Improving design and processes of products and services:** the minimum content of recycled materials and sustainable sourcing standards will be set.
- **Waste management:** Implement extended producer responsibility (EPR) policy approach where producers are held responsible for the treatment and disposal of post-consumer products e.g. e-waste, single-use plastics and packaging materials.
- **Recycling:** Increase recycling rate of household waste to 40% by 2025 from 30.7% in 2020
- **End-of-life vehicles:** Conduct a study to identify mechanisms in phasing out old vehicles in a sustainable manner.

Increasing resilience against climate change and disasters

Climate change exacerbates the scale and intensity of natural hazards and extreme weather events.

Hence, the need for integrated approaches for climate change adaptation and disaster risk reduction.

During RMK-12 and RMK-13, a number of projects amounting to RM16 billion will be implemented for:

- flood mitigation, forecasting and warning
- integrated river basin management
- coastal erosion control

In addition, climate change impact and disaster risks will be taken into account in policy planning and implementation to enable evidence-based and risk-informed actions

New developments in high-risk, flood-prone and environmentally sensitive areas will be strictly regulated with existing building codes reviewed and critical infrastructure retrofitted.

¹PwC's [The geometry of sustainability: progressing from linear to circular economies, 2021](#)





The New Equation

The disruptions caused by the pandemic have forced businesses to reinvent themselves or lose out by staying stagnant. While accelerated digitalisation has been a positive outcome of the pandemic, inequalities have also been accentuated. News headlines on businesses at the brink of collapse, and jobs under threat paint a sobering picture of what more needs to be done as businesses race against time to keep their lights on. With these challenges in mind, the RMK-12 aims to rebuild the economy to achieve prosperity, inclusivity and sustainability.

Businesses must rethink how they operate, which requires a new equation to urgently and successfully respond to these changes in order to meet the varied needs of their stakeholders; and build trust at a time when it is both more fragile and more complicated to earn.

To successfully respond to the issues and opportunities presented in the 12th Malaysia Plan, organisations will need to consider these key business imperatives:

- Courage to invest in the face of uncertainty
- Develop a human-led and tech-powered future
- Embed sustainability as part of the business strategy

Evidently, businesses can't embark on these changes alone. Looking inwards to assess how they can reinvigorate their workforce through upskilling and capacity building, is just as important as pursuing collaborations with other organisations to achieve shared goals. Regardless, the success of these efforts are a collective responsibility of the whole community.



Courage to invest in the face of uncertainty

The current climate for business is mired in great uncertainty with business leaders taking certain steps to reduce investment and manage cost. In PwC Malaysia's recent 'Act Now To Recover' survey, 65% of respondents indicated their use of rapid cost reduction programmes. Such moves are understandable and may be necessary for survival.

Rather than simply deciding on broad investment and cost cutting measures, business leaders should consider their strategic priorities and the areas they would need to invest in, if they are to build differentiated capabilities and stay on a growth trajectory.

Organisations must evolve to become more resilient. Rather than staying on a single fixed course, they need to build the capacity to be agile - possessing the balance and capability that enable them to shift their focus, priorities, and resources to meet changing circumstances.

This requires organisations to continually engage in scenario planning, constructing and evaluating an array of options that offer a broader view of the landscape and possibilities for success. Technology and data, including the use of predictive and visualisation techniques play a crucial role in assisting management to make agile decisions on their allocation of capital and resources.

With the potential outcomes plotted, organisations can then align their strategy, investments, costs and people to build a resilient and agile organisation.



Develop a human-led and tech-powered future

The need for technology acceleration and the development of skilled talent can be found in most areas of the RMK-12 initiatives. Technology adoption is a key focus area in the eight targeted growth sectors, with the potential to transform MSMEs and reduce the income inequality gap.

RMK-12 highlights the need to push for solutions that are human-led and powered by technology, in order to optimise value creation. Technology adoption involves more than investment in 4IR. To get the most out of the tools and systems, and to promote the practice of using technology responsibly, companies need to look into these key areas²:



1. Re-examine their business models

Companies must adapt as traditional business models are disrupted.



2. Upskill their workforce

Digital and human skills are needed for employees to thrive in their roles.



3. Safeguard data privacy and enhance cyber security measures

Tech vulnerabilities can expose companies to risk and must be addressed to build trust.



4. Apply technology in crisis management and response

It's hard to predict when a crisis will strike, but technology can help minimise its impact.

On development of skilled talent, organisations need to look into job functions that may be disrupted, and then run a skills assessment exercise to identify where the gaps are to implement a customised upskilling programme according to business needs.

Organisations may also consider adopting a citizen-led approach to upskilling. Formal programmes aside, a more unconventional approach is one that's built around employee crowd-sourcing. We call it citizen-led innovation - after employees are provided with the relevant tools and training, they're given the autonomy to apply their new skills and knowledge to develop, test and share their solutions with other teams. The freedom to explore different digital solutions encourages them to push the boundaries of innovation, and fosters excitement and motivation within teams.

Equally important, is the nurturing of an organisational culture - a source of competitive advantage - that welcomes learning and innovation. In this regard, leaders will have to play an important role in giving emphasis to training and development, so that it becomes a priority organisation-wide.

88%

of Malaysians³ are ready to learn new skills or completely retrain in order to remain employable in the future.

²PwC's Staying Relevant to Stay in Business report, 2021, pg 9

³PwC's Hopes and Fears Survey 2021 (Malaysia report), 2021, pg 4

Embed sustainability into your business strategy

The government's commitment to carbon neutrality signifies a crucial role corporates must play in sustainable development, which can no longer be deemed as mere corporate social responsibility. Corporate Malaysia needs to act quickly, with the increasing global scrutiny towards unsustainable business practices that have resulted in adverse consequences for companies. A solid response to sustainability needs to be driven by the Boards, with key areas of consideration below as starting points towards concrete measures:

1. **Declare your emissions target**, which would drive your management team to look at the way you do business, quantify risks and incorporate mitigation plans
2. Consider the **requirements of the Malaysian Code on Corporate Governance 2021** to strengthen oversight of sustainability, disclose your sustainability strategies and performance, and link them to your remuneration framework.
3. Recognise the impact sustainability has on the **company's reputation** and degree of **trust** with your stakeholders, which includes the wider community who expect businesses to consider the impact of their activities on people and the planet while generating prosperity.

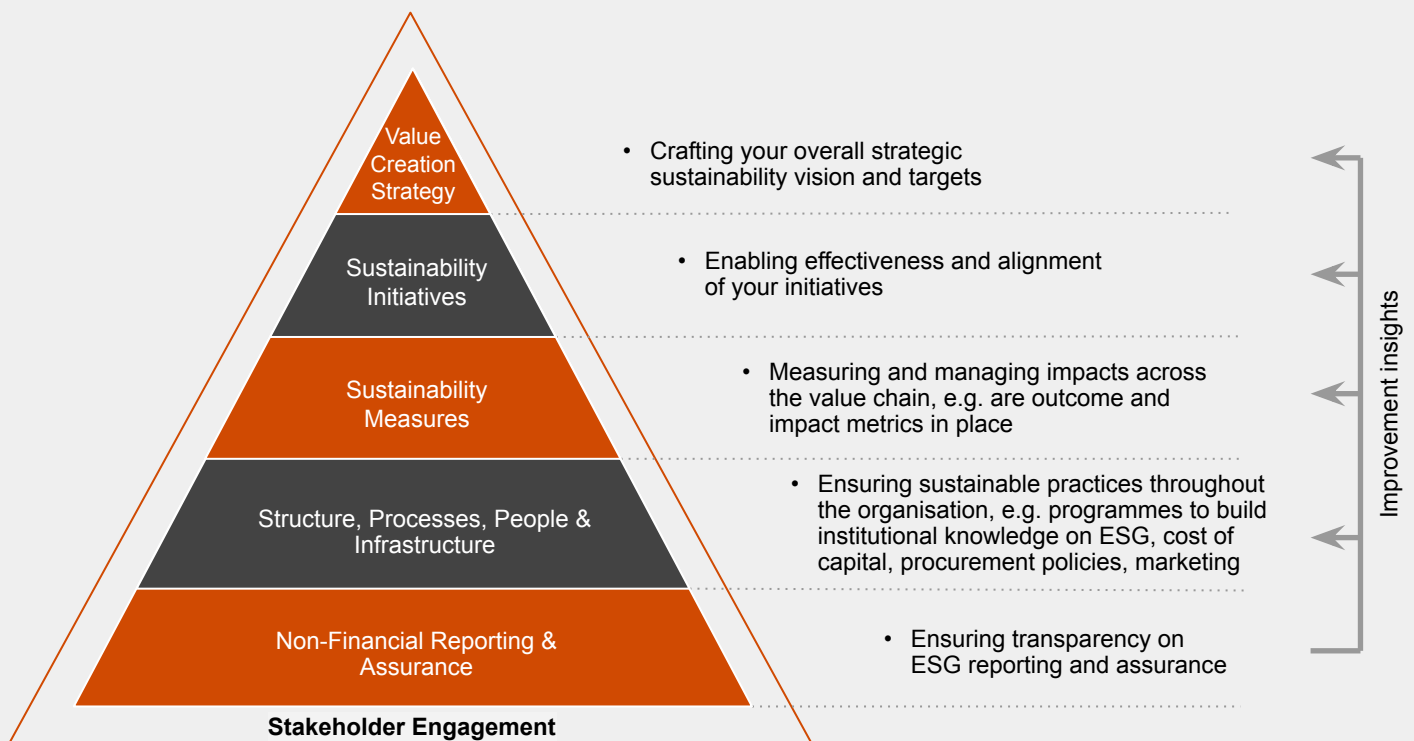
“ The Government will work together with the private sector to achieve this goal. We are committed to be a carbon neutral country at the earliest in 2050.

Prime Minister of Malaysia, Dato' Sri Ismail Sabri Yaakob

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To help corporates embed sustainability into operations and to ensure alignment with strategy, PwC's Corporate Sustainability Framework is useful as a guide :



Contacts



Soo Hoo Khoon Yean
Managing Partner, PwC Malaysia
khoon.yean.soo.hoo@pwc.com



Dato' Mohammad Faiz Azmi
Executive Chairman, PwC Malaysia
mohammad.faiz.azmi@pwc.com



Nurul A'in Abdul Latif
Markets Leader, PwC Malaysia
nurul.ain.abdul.latif@pwc.com



Andrew Chan
Partner, South East Asia's Sustainability
and Climate Change Leader
PwC Malaysia
andrew.wk.chan@pwc.com



Patrick Tay
Partner, Economics and Policy
PwC Malaysia
patrick.se.tay@pwc.com



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