BUILDING GOVERNMENT COMPETITIVENESS IN A POST FINANCIAL CRISIS: COMPARING MALAYSIA AND INDONESIA FROM GLOBAL COMPETITIVENESS INDEX PERSPECTIVE

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ABSTRACT

The consequences of the 2007-2009 global financial crisis have been felt in virtually every economy. Most countries experiencing crisis would agree that it is government's ultimate role to build competitiveness. This paper aims to compare country's competitiveness between Malaysia and Indonesia, and governments' effort in these countries to achieve that competitiveness. By competitiveness, we mean that government must do extremely well in managing and sustaining natural and human resources. Ranking 24th and 54th respectively in the Global Competitiveness Index 2009-2010, Malaysia and Indonesia require strategic reform and transformation, political and government programs to promote high levels of prosperity. Specifically, in this paper we will compare how Malaysia and Indonesia, under the leadership of Najib Tun Razak and Susilo Bambang Yudhoyono respectively, build their competitiveness through economic, political and administrative reforms. Malaysia and Indonesia, each have put forward new transformation plans in order to build competitiveness. This paper will analyze current achievements and review challenges to both countries' recent transformation plans from the perspective of Global Competitiveness Report.

Introduction

The consequences of the 2007-2009 global financial crisis have been felt in virtually every economy. Malaysia and Indonesia, unescaped from the crisis, have bravely put forward major national plans to strengthen the economy. Starting with significant government stimulus package aimed at dampening the recession, recent growth rate accounted for Malaysia and Indonesia are slow but on a steady footing. This paper compares country's competitiveness between Malaysia and Indonesia, and governments' effort in these countries to achieve global competitiveness. By competitiveness, we mean that government must do extremely well in managing and sustaining natural and human resources.

The data for this writing and analysis are mostly based and taken from World Economic Forum (WEF) annual report on Global Competitiveness Index (GCI) complimented with other sources such as government, World Bank and media reports on economic and public policies performance and achievement of both countries. Referring to the years 2007-2010, as the focus for this analysis, Malaysia is under Prime Minister Najib Tun Razak (NTR) who took over the national leadership from Abdullah Badawi in April 2009, while Indonesia is under President Susilo Bambang Yudhoyono (SBY) who lead Indonesia since 2004 and reelected for the second term in May 2009. What NTR has been doing for Malaysia and SBY for Indonesia are certainly not to satisfy the competitiveness rank of the GCI, but since they are committed through government programs to build a competitive, efficient and effective government, so they have been doing what the WEF scholars are using on indicators that form the ranking of GCI.

Why Global Competitiveness Index

GCI embodies theory of economic development (such as Rostow's modernization theory) which place physical development as heredity factor to bring prosperity economically and socially, and the process of development achieved by developed countries can serve as the model for less developed country to follow. To date, there are many reports on measuring a country's economy and competitiveness level. There are many similar reports as CGI such as the Ease of Doing Business Index and the Indices of Economic Freedom which also look at factors that affect economic growth, but these two indices do not cover broader range of performance competitiveness factor as the GCI. The Global Competitiveness Index (GCI) is a yearly assessment published by the World Economic Forum that indicates country's position and ranking and their ability to provide high levels of prosperity to their citizens. Unlike other reports, CGI measures how productive a country is using available resources, which is measured by twelve pillars indicators which are further divided into three broad general categories to form competitiveness. The underlying philosophy of this pillars and competitiveness level is stages of economic development which all countries are involved. In this regard, CGI can be used to separate countries into three specific stages of economic development basis, which other less developed economy can follow what developed countries have achieved. The CGI model is illustrated in Figure 1.

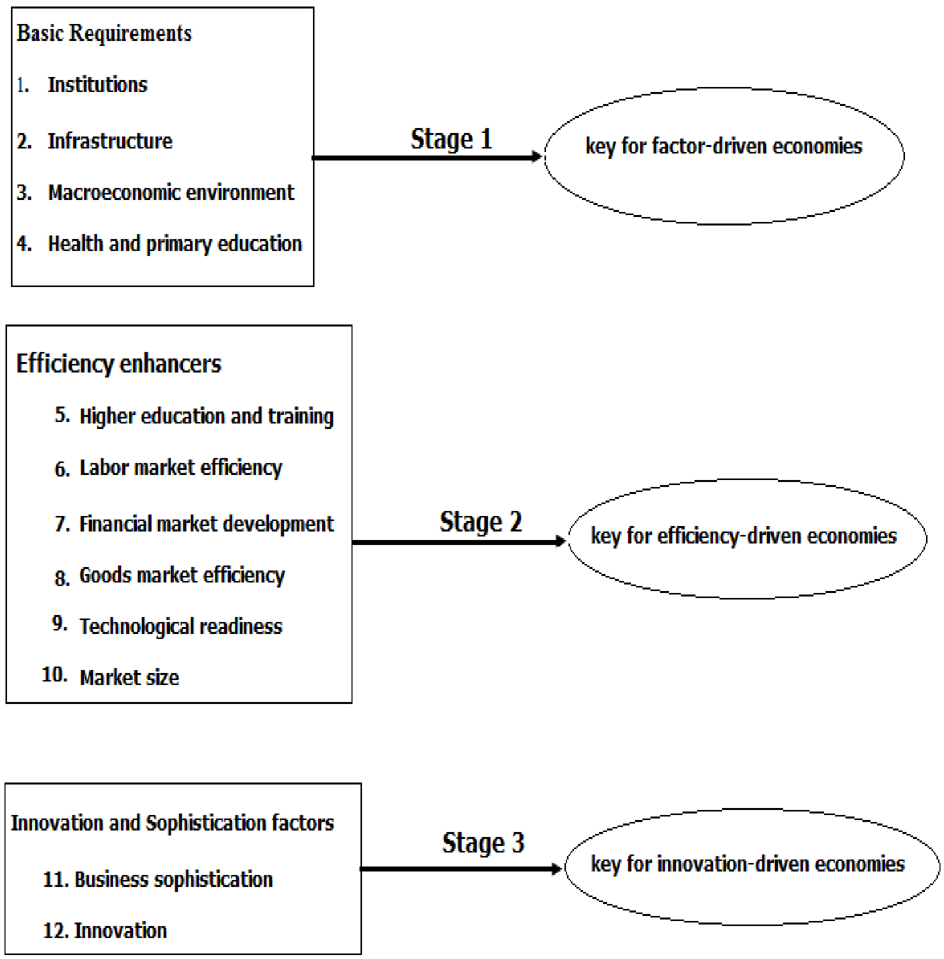

Figure 1: The 12 pillars and 3 stages of development

Many development theorists may agree to the basis derives under CGI philosophy. The factor-driven stage, known to be the fundamental stage in which countries compete based on their factor endowments, primarily unskilled labor and natural resources. Most firms in this economy compete on the basis of prices and sell basic products or commodities, with their low productivity reflected in low wages. The CGI argues that as a nation develops, wages tend to increase, and that in order to sustain this higher income, labor productivity must improve for the nation to be competitive. To maintain competitiveness at this stage of development, competitiveness hinges mainly on well-functioning public and private institutions (pillar 1), appropriate infrastructure (pillar 2), a stable macroeconomic framework (pillar 3), and good health and primary education (pillar 4). Bear in mind that what creates productivity in Asian countries such as Malaysia or Indonesia perhaps is different from what drives it in developed countries such as Sweden.

CGI informs that at the efficiency-driven stage, as wages rise with advancing development, countries move into the efficiency-driven stage of development, when they must begin to develop more efficient production processes and increase product quality, competitiveness becomes increasingly driven by higher education and training (pillar 5), efficient markets (pillar 6), and the ability to harness the benefits of existing technologies (pillar 7).

Finally, as countries move into the innovation-driven stage, they are only able to sustain higher wages and the associated standard of living if their businesses are able to compete with new and unique products. At this stage, companies must compete by producing new and different goods using the most sophisticated production processes (pillar 8) and through innovation (pillar 9).

The paper focuses on the 12 pillars in comparing Malaysia and Indonesia in term of country as well as government competitiveness emphasizing on indicators in politics, economy and public administration that form the pillars. Since all these pillars are all form competitiveness of countries should they be part and involve in an open and globalised economy, omitted several of them is almost impossible to do in comparing countries. One of the primary reasons is that both Malaysia and Indonesia are two open economies that tied themselves to global capitalist economy.

New Approach in Administration: Malaysia under PM Najib Razak

NTR was elected to top post in Malaysia as a chief executive succeeding Abdullah Badawi through the meeting of general assembly of the United Malay National Organization (UMNO), March 24-28, 2009. In the time of rising power of the opposition parties, the widening racial rift, and the downturn in economic growth, NTR's appointment was unopposed as the president of the party and later sworn in as the 6th Prime Minister of Malaysia. On assuming office as the 6th PM of Malaysia on 3rd April 2009 NTR clearly stated that the focus of his government is about reform, economic resilient, social justice and harmony among different ethnics. He describes his government to be 'a government with new approaches for new times, a government that places priority on performance' that ensure that 'the people must come first' (*NST*, April 4, 2009).

To fulfill the promises of building a competitive government, NTR introduced a leaner cabinet consists of 25 ministers compared to 30 ministers of the previous administration. He dropped seven ministerial posts but introduced two new posts, i.e. Unity and Performance Ministry and special government body the Performance Management and Delivery Unit (Pemandu) (*NST*, April 10, 2009) to achieve his mission. Considering the current social, economic and political situations in Malaysia, many analysts expect that NTR's ability is not only to govern politics but also in transforming Malaysia economy. Reforms in governance and economy as an effort to build a competitive government will serve what NTR has to achieve to deliver better service to the people and to ensure the achievement of the Vision 2020 on the time frame. Briefly, NTR three reform policies for Malaysia must be discussed here.

The One Malaysia Concept

Coming from a shocking 2008 election's result and financial crisis, NTR held a challenging task to overcome these two main issues. Cleverly, NTR introduced "1Malaysia, People First, Performance Now' that later popularly known as the 1Malaysia Concept to serve the purpose. Under 1Malaysia flag, he selects two principles of the achievement, "to ensure the life of the people better than today" and "to propel the national economy in a stable growth" (NTR's speech, 2010). Branded under social vision, the term '1Malaysia' is not a new concept or formula but 'different approach and methodology to suit the era and generation of the primary vision of previous leaders over the last five decades.[1] In this regard, NTR further lays three principles for people of Malaysia to observe and internally introduced to oneself: acceptance among all races and people, nationhood build upon the Federal Constitutional and Rukun Negara, and social justice. The phrase '1Malaysia' is now enjoying wider acceptance among the people. What lies ahead and need to be done critically is the following phrases 'People First, Performance Now'. What becomes an endless debate is how NTR pursues its direction and his ability to orchestrate government administration to achieve that. 'People First' means consulting with the people around Malaysia in determining priorities and policies, a bottom-up approach in decision making process. Then, 'Performance Now' phrase is a promise he makes to improve the governance of the country by strategic national plans and targets'. To achieve this, NTR places more emphasis on merit and talented people to re-energize passion for public service (*NST*, April 4, 2009).

Government Transformation Program

A country is well served by public sector that are run honestly and efficiently, where public managers abide by strong mission in serving the public. The importance of sound government machinery has become more apparent during the economic crisis, given the increasingly direct role played by the government of a country and limited financial resources. Earlier 2010 NTR unveiled an administrative reform known as Government Transformation Program (GTP). The GTP is the blueprint for governance reform for Malaysia in support to the achievement of the 1Malaysia concept as well as the vision 2020. The GTP covers two important agenda of public sector, namely key performance indicators and national key result areas. The work of public bodies and the performance of the ministers and government officials must be measured annually and these must be synchronized with the national targets. KPIs or key indicator of works and achievement is put in place by the PM to measure and improve the efficiency and quality of government services. In NTR's words, KPIs are implemented "to ensure the people's satisfaction, whether they are satisfied with our service, whether we have solved their problems". Each ministry has been required to establish specific KPIs that focus on policy outcomes over the traditional emphasis on inputs typically found in government performance assessments and planning (www.pmo.gov.my). The KPIs provide a mechanism for the evaluation of ministries and other government agencies including performance reviews carried out every six months. This was emphasized by Najib when he announced his cabinet:

> We will use the key performance indicators to stress impact and not input, results and not output, and value for money. I want ministers and senior government officers to be responsible for their own performance based on the indicators. … and I have ordered the ministers to prepare a clear KPI, detailing their scope of responsibilities and duties as well as that of their deputy ministers within 30 days (*NST*, April 10, 2009).

And, stated in government official website:

> In order to achieve this level of performance, we acknowledge that the Government needs a new way of working – from the top leadership down through the entire civil service. The Prime Minister has led the way by requiring all ministers to set clear KPIs, which they must then report results against regularly. This practice is in the process of being cascaded throughout the Government. We are also enhancing the transparency of our objectives, targets and plans – beginning with the GTP Roadmap. We expect to be held accountable for delivering targets we announce, and we will publish a progress report on an annual basis, starting in the first quarter of 2011, so that our achievements can be evaluated over time (www.pmo.gov.my)

As citizen, the KPIs bring ministers and officials closer to public scrutiny. Citizens will be able to monitor and assess the performance of the ministers and leaders of government agencies as well as their ministries and their agencies in delivering their job and serving the people. For the ministers and officials, KPIs provide motivation for them to achieve a maximum performance, and the people of Malaysia will benefit from this process

At the operational level, there are six major policies areas in which KPIs will play an especially important role in improving the effectiveness of the government as well as in the economic sector. These six major policies areas, known as National Key Result Areas (NKRAs) serve as determinants driving productivity and competitiveness which are aligned with indicators embedded in all four pillars in basic requirements of GCI and pillar 5 in efficiency enhancer (see Figure 2).

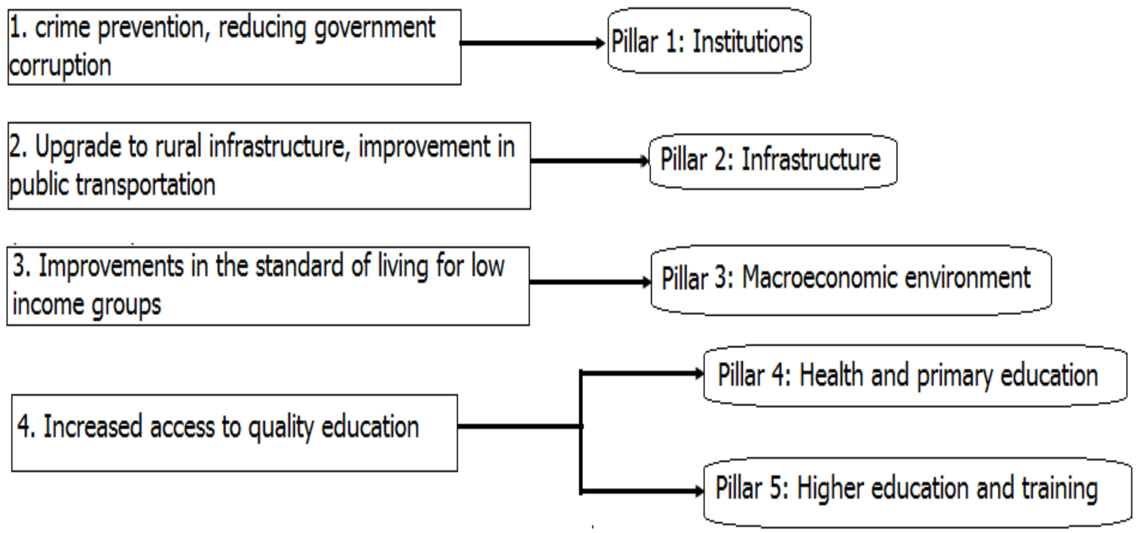

Figure 2: Connection between NKRA's and GCI's Pillars

A direct connection can be assumed between NKRAs with the government effort to boost competitiveness. For example, the government of Malaysia is working to reduce the crime rate as well as to improve the perception of safety focus on street crime and other high crime areas. A safe environment to live and to do business will improve country's score in global competitiveness report. In regard to this point, the 2010 GCR for Malaysia indicates an interesting finding. Whilst government pursuit of reducing crime rate is given the top priority, another section of the GCR shows that crime and theft score sit at the bottom of the problematic factors to do business in Malaysia! But why Malaysia put NKRA reduce crime rate as the first to attend? However, the second top score of what businesses reported is corruption. Then, the government's effort to increase public trust in government, reduce fraud and waste in government procurement should improve overall score in pillar 1. This is also right in time for the government to enhance pre-school enrollment rates and develop high-performing key schools to improve overall quality of education.

Under the GTP, the realization of these reform is handed to Performance Management and Delivery Unit (Pemandu), a special unit, headed by Idris Jala, the former CEO of Malaysia Airlines. As CEO of Pemandu, Idris is tasked to train over 500 government officers to implement the KPI system.

New Economic Model (NEM)

Stability and improved economy is important for the overall competitiveness of a country (GCR, 2010). To ensure Malaysia can compete with other advanced economies, NTR makes a deep change through the introduction of his most controversial reform policy, the New Economic Model (NEM) in March 2010. “A plan to raise the capacity of the nation and its people” and “a plan to achieve vision 2020”, NTR promised that ETP shall create 3.3 million job, calling for 131 entry point projects and 60 business opportunities worth RM 1.3 trillion and, in the long term, to create the national economic situation prepared for embarking toward a high income economy in the next 10 years. Malaysia is trapped in the middle income countries for so long and in order to achieve the status of the developed state by 2020, Malaysia has to move up out of this middle-income trap to gain new income per capita between US$ 20,000 – US$ 27,000. One of the contributing factors for this prolonged middle-income trap is, the NEM argues on the ineffective continued government intervention in the domestic market economy. Government intervention hinders the economy to perform in a full scale as the private sectors remain to wait for government leadership and initiative in order to save profits and avoid loses. It is a time for government to resort to play only a supporting role and to encourage the private sectors to take rein in economic and business activities by investing more to boost economic growth, in line with what NTR has previously said that the time when the government know best and do all has gone. In a statement that reflect to some extent the central argument of the administration, Chairman of Centre for Public Policy Studies Tan Sri Ramon Navaratnam said that the NEM maybe Malaysian’s last chance to break out of the old mould of protectionism and a subsidized mentality towards a more meritocratic, competitive and self respecting society, and this will replace NEP which served its purpose up to a point but causes Malaysia to fall into the middle income trap. “With the growing international competition and globalization it is important that NEM has to be introduced to ensure Malaysia breaks out of the middle income trap and move into higher income distribution” he said (NST, May 31, 2010).

The NEM is a non-standard policy which may be controversial. Despite positive supports from the private business sectors and applaud by non-Malay ethnics, this policy receives dissent voices from the opposition parties and Malay interest groups for different reasons. While opposition questions the ability of the government to deliver growths and progresses it’s promised, Malay’s interest groups – lead by Perkasa – voices concerns of the economic position and economic competitiveness of the bumiputera Malay under this new economic strategy. This concern is derived from the fact that NEM’s economic and business activities will no longer be based on ethnic quotas but on market-based for competition. For government actions against poverty will no longer target bumiputera in rural areas, but to all of Malaysian people irrespective of races in all respective areas (supporting 1Malaysia Concept).

Yet, the most controversial and most debated measures of NEM are government policies on 100 percent foreign direct investment in several economic sectors and the removal of subsidiary over some primary products daily consumed by the people of Malaysia such as petroleum, sugar, flour, electricity and several others.

Overall, the results of NTR transformation plans are quite soon to be assessed. NTR indeed inherited a hard time in Malaysian politics when those expectations are so overwhelming, both from people to his government and from UMNO's member to his presidency over the party, to make change. NTR seemed to hear these aspirations and committed to put reform as a central agenda of his government. The fact that he heads a government without two-thirds majority in parliament does not restrain him to change, but even pushes him to seriously embark on both political and economic reform as an effort to achieve national goals defined in the Vision 2020. But, driving Malaysia toward a high income economy in ten years time, as envisaged by the Vision 2020, is not an easy task to do. The government should remain to be competitive and address the problems (both economics and non-economics) on the smart action bases. NTR's efforts in two years of reform seem not enough to boost Malaysia's competitiveness, as Malaysia slipped through all this last three years.

Indonesia: President Susilo Bambang Yudhoyono's reform

Political arena

Indonesia sound economic performance today is largely attributed to a mix factors – politics and economy. In politics, reformist Susilo Bambang Yudhoyono (SBY), after winning the April 2004 election (defeated President Megawati) had successfully restored positive political climate of Indonesia, gained a power balance among political parties under democratic ideology. SBY should be credited to positive domestic politics since winning his first direct presidential election in 2004 and reelected in 2008.

The economy

Economic reforms kick-started in 1993 after the political turnaround from Suharto New Order (a highly centralized system) which melted down Indonesia's economy resulted in International Monetary Fund intervention. After the 1997-98 Asian financial crisis, a new fiscal system was introduced in 2001. Regions are allocated a huge slice of the country's budget to spend more or less as they please (Wehrfritz in Newsweek, October 28, 2008). Poor and remote areas receive the most per capita, and those with abundant natural resources get shared extraction revenues. Regional governments are accounted for 36 percent of expenditures, compared to an average of just 14 percent in all developing countries. Local administrations can promote any agendas they choose (Rahman E., World Bank ?). Local administrations elected officials make policy, managed two thirds of all civil servants and oversee everything from schools to economic development.

When SBY took over the country, he strongly maintains macroeconomic discipline and political stability in order to support for local autonomy. With good economics record, Indonesia today should be looked "as a normal country grappling with challenges common to other large, middle-income, developing democracies" (MacIntyre in Newsweek, October 28, 2008).

There are many negative analyses on Indonesia and to the surprise they all went unexpectedly. Rather than being predicted to collapse, Indonesian's economy grew stronger and robust, 6.3 percent in 2007 with foreign direct investment tripled, to a respectable $4 billion, per capita income is $3,348, and recorded one of the lowest debt ratios in the world after ten years of restructuring following the 1997-98 crisis. Indonesia indeed is in the process of looking for further economic stability and prosperity.

Briefly, SBY's reforms in politics and economy are very much connected:

1. Political decentralization programs give rise to regional autonomy and empowering hundreds of local administrations under 33 provinces and 500 local administrations.
2. Having consensus from political parties to agree on economic policy, effectively on debt restructuring.
3. Reduced corruption, improve the law and make government more efficient.
4. Removed military power from politics, SBY himself was a former military general, elected as president in 2004.
5. Rolled up terrorist problem related to Islamic extremism and separatist insurgencies.

Success of the reform under SBY:

1. Growth rate rose from -13 percent to 6 percent.
2. Poverty rate dropped fourfold to just 5.5 percent.
3. Value of four major crops – rubber, coconut, palm oil and cocoa rose from $2.3 billion in 2000 to an estimated of $19 billion in 2008.
4. Foreign debt reduced from 54 percent of GDP (2004) to 33 percent (2008); one of the Asia's lowest. Indonesia paid IMF $7 billion in IMF loans four years ahead of schedule.

SBY admits that Indonesia must be very adaptive where democracy and modernity exist side by side and his task for the rest of the years is to ensure openness, consensus building, clear rules of the game, advance ethics in politics and greater public participation and better check and balance.

The government bureaucratic reform

One should not underrate Indonesia's major war against corruption. This effort had been given top priority by SBY when he took over the post and supported the Indonesia ex-Finance Minister, Dr Sri Mulyani Indrawati's effort (now joined the World Bank in June

2010), to clean up corruption among government officers. Many cabinet ministers including graft-ridden tax and customs officers were charged with corruption.

In his second term, SBY government is in the final stage of mapping public sector reform called Grand Design and Roadmap, aims to equip Indonesia's government mission with long-term objectives (2010-2025) to upgrade public sector service. He realized that decentralization sometimes can stand as major block to national reforms and projects. Therefore, public offices and bureaucrats must embrace necessary tools, knowledge and attitude to achieve transformation. As the Indonesian government is still struggling with the previous 2001 reform efforts, the Grand Design should be looked as a more systematic and realistic model to build a sustainable reform for Indonesia.

Global Competitiveness Report for Malaysia and Indonesia, 2008 to 2010

General

Out of these efforts and reform policies implemented by NTR in Malaysia and SBY in Indonesia during the last two years, how Malaysia and Indonesia's performances in term of economic achievement and government efficiency are measured globally? Malaysia was ranked at 26th position out of 139 countries with an index score of 4.88, in the Global Competitiveness Report 2010-2011 by the World Economic Forum, slipping downwards by two positions from the previous year. A year earlier, Malaysia was rank 24th out of 133 countries with an index score of 4.47, also slipped further downward three points from previous year. Indonesia was ranked at 44th position out of 139 countries with an index score of 4.4 in the same report. Indonesia gained upward for two consecutive years, from ranked at 54th position with an index score of 4.3 in 2009 (out of 133 countries) and ranked at 55th position with an index score of 4.3 (out of 134 countries) in 2008. Malaysia and Indonesia performance measured by ranking and score in comparison with surveyed countries globally during the year of 2008 to 2010 are as follow.

Table 1: Malaysia and Indonesia Ranking/Score, 2008-2010

Report's Year	**Malaysia**	**Indonesia**
2010–2011 (out of 139)	26/4.9	44/4.4
2009–2010 (out of 133)	24/4.9	54/4.3
2008–2009 (out of 134)	21/5.0	55/4.3

Source: *The WEF Global Competitiveness Report 2010-2011*

Malaysia has been on a declining trend in competitiveness ranking since 2007. This decline is, as manifested in two slips before, essentially as a result of unfavorable assessment of institutional framework or general social and economic environment within which individuals, firms and governments interact to generate income and wealth. This environment lay in the second and third categories of pillars that are pillars for efficiency enhancers and innovation and sophistication. Although it has a good score in the basic requirements pillars (institutions and infrastructure), Malaysia still has to improve in pillars for efficiency enhancers and innovation and sophistication factors. For Indonesia, two years gain is mostly due to improvement in basic requirements, especially concerning the pillars of institutions, health and primary education, and macroeconomic environment.

Basic requirements index

Table 2: Malaysia and Indonesia Ranking/Score in Basic Requirements, 2008-2010

Basic Requirements	***Malaysia***			***Indonesia***		
	2008 (25/5.4)	**2009 (33/5.1)**	**2010 (33/5.2)**	**2008 (76/4.3)**	**2009 (70/4.3)**	**2010 (60/5.2)**
1st Pillar: Institutions	30/4.9	43/4.5	42/4.6	68/3.9	58/4.0	61/4.0
2nd Pillar: Infrastructure	23/5.3	26/5.0	30/5.0	86/3.0	84/3.2	82/3.6
3rd Pillar: Macroeconomic stability	38/5.4	42/5.0	41/5.0	72/4.9	52/4.8	35/5.2
4thPillar:Health & Primary Education	23/6.1	34/5.9	34/6.2	87/5.3	82/5.2	62/5.8

Source: *The WEF Global Competitiveness Report 2008-2009*

Efficiency enhancer index

Indonesia performed worse in the sixth pillars for efficiency enhancer, far behind Malaysia, except that it has a better market size even in comparison to Malaysia and other countries in Asia-Pacific. General performances of Malaysia and Indonesia during the 2008 to the 2010 in terms of efficiency enhancers can be seen below.

Table 3: Malaysia and Indonesia's Ranking/Score in Efficiency Enhancers, 2008-2010

Efficiency Enhancer	***Malaysia***			***Indonesia***		
	2008 (24/4.8)	**2009 (25/4.8)**	**2010 (24/4.7)**	**2008 (49/4.3)**	**2009 (50/4.2)**	**2010 (51/4.2)**
5thPillar: Higher education & training	35/4.6	41/4.5	49/4.6	71/3.9	69/3.9	66/4.2
6th Pillar: Goods market efficiency	23/5.0	30/4.8	27/4.8	37/4.7	41/4.5	49/4.3
7th Pillar: Labor market efficiency	19/4.9	31/4.7	35/4.7	43/4.6	75/4.3	84/4.2
8thPillar: Financial market sophistication	16/5.4	6/5.4	7/5.3	57/4.5	61/4.3	62/4.2
9th Pillar: Technological readiness	34/4.4	37/4.5	40/4.2	88/3.0	88/3.2	91/3.2
10th Pillar: Market size	28/4.7	28/4.7	29/4.7	17/5.1	16/5.2	15/5.2

Sources: *The WEF Global Competitiveness Report 2008-2009*

Innovation and sophistication factors

In terms of innovation and sophistication factors, Malaysia in general has been performing better than Indonesia during the years 0f 2008 to 2010. While Malaysia experienced drop, from ranking of 23 with the score of 4.6 (in 2008) to ranking of 25 with the score of 4.4 (in 2010), Indonesia experienced gain and progress, from ranking of 45 with the score of 4.0 (in 2008) to ranking of 37 with the score of 4.1 (in 2010).

Complete performance of Malaysia and Indonesia in innovation and sophistication factors is illustrated below as follow:

Table 4: Malaysia and Indonesia Ranking/Score in Innovation and sophistication factors, 2008-2010

Innovation & Sophistication Factors	***Malaysia***			***Indonesia***		
	2008 (23/4.6)	**2009 (24/4.4)**	**2010 (25/4.4)**	**2008 (45/4.0)**	**2009 (40/4.0)**	**2010 (37/4.1)**
11th Pillar: Business sophistication	22/5.0	24/4.8	25/4.8	39/4.5	40/4.5	37/4.4
12th Pillar: Innovation	22/4.3	24/4.1	24/4.1	47/3.4	39/3.6	36/3.7

Source: *The WEF Global Competitiveness Report 2008-2009*

Malaysia and Indonesia also has two other areas of concern that affect its competitiveness in the last three years. First, health concerns such as malaria, HIV/AIDS and other re-emerging diseases like tuberculosis. Second, security concerns such as rising criminal records and potential threat of terrorism. Both these concerns are perceived to have given significant impact on business (*NST, September 10, 2010*). In regard to this, government in both countries has been doing significant efforts to fight diseases, criminals, and terrorism. Malaysia government recently even issued several measures for anti-terrorism, while Indonesia has tightened security and made some arrest to crackdown the terrorist network. Despite slipped in ranking, Malaysia maintained its score for 2010-2011 performance at 4.88 compare to a score of 4.47 in previous report for 2009-2010 out of maximum score of seven.

Comparing the two countries

Comparing Malaysia and Indonesia based on 12 pillars of competitiveness by WEF is not an easy work. These countries differ greatly in number of population, areas, and socio political problems. However, since both countries are committed to open economy, free market, capitalist economic system, and globalization, a relevant comparison is possible. The 12 pillars in account for these competitiveness and productivity are devised along the line approach of democracy, governance and free market economy. According to the Global Competitiveness Report 2010-2011, released by the WEF on September 2010, Malaysia does better compare to Indonesia in institutions (1st pillar) as well as in previous years. In 2010 (based on the report of 2010-2011) Malaysia's rank/score on 42/4.6 compare to Indonesia on 61/4.0. Malaysia ranks and scores better in most of the indicators under this pillar, except in indicator of business cost of terrorism in which Indonesia ranks101 two points better than Malaysia (rank 103), and this due to Indonesian full-fledge efforts to combat terrorism since the bombing at Ritz Charlton Hotel at Jakarta in 2008. Anyway, if we take the indicator of strength for investor protection, mostly in term of politics and laws rather than physical security, Malaysia scores almost nine times better, that is 3 to 33. Gaps in comparison between Malaysia and Indonesia also can be found in three other indicators in institutions: intellectual property protection (33 to 58), transparency of government policymaking (37 to 91), Ethical behavior of firms (42 to 99), and strength of auditing and reporting standard (32 to 78).

Table 5: Malaysia and Indonesia Ranking in Institutions (1st Pillar) in 2010-2011

Indicators of 1st Pillar: Institutions	*Malaysia*	*Indonesia*
1.01 Property rights	41	84
1.02 Intellectual property protection	33	58
1.03 Diversion of public funds	47	60
1.04 Public trust of politicians	35	51
1.05 Irregular payments and bribes	55	95
1.06 Judicial independence	52	67
1.07 Favoritism in decisions of government officials	38	28
1.08 Wastefulness of government spending	25	30
1.09 Burden of government regulation	17	36
1.10 Efficiency of legal framework in settling disputes	30	60
1.11 Efficiency of legal framework in challenging regulations	30	55
1.12 Transparency of government policymaking	37	91
1.13 Business costs of terrorism	103	101
1.14 Business costs of crime and violence	93	75
1.15 Organized crime	77	98
1.16 Reliability of police services	50	80
1.17 Ethical behavior of firms	42	99
1.18 Strength of auditing and reporting standards	32	78
1.19 Efficacy of corporate boards	17	54
1.20 Protection of minority shareholders' interests	26	48
1.21 Strength of investor protection*	4	33

Source: *The WEF Global Competitiveness Report 2010-2011*

Further gaps can also be found in infrastructure (2nd pillar) when comparing Malaysia and Indonesia. Malaysia has invested heavily in infrastructures mostly in 1980s to 1990s under the heavy industry initiative of Mahathir's administration. Both Malaysia and Indonesia was at that time having a high economic growth and even praised in several World Bank reports as 'Asian Miracle' and 'High Performing Asian Economies'. So, in other words, that Indonesia had the same opportunity as its counterpart across Melaka strait to invest heavily in infrastructure. This legacy of PM Mahathir makes Malaysia better in ranking/score in infrastructure compare to Indonesia and most of countries in Southeast Asia up to present time.

Table 6: Malaysia and Indonesia Ranking in Infrastructure (2nd Pillar) in 2010-2011

Indicators of 2nd Pillar: Infrastructure	***Malaysia***	***Indonesia***
2.01 Quality of overall infrastructure	27	90
2.02 Quality of roads	21	84
2.03 Quality of railroad infrastructure	20	56
2.04 Quality of port infrastructure	19	96
2.05 Quality of air transport infrastructure	29	69
2.06 Available airline seat kilometers*	22	21
2.07 Quality of electricity supply	40	97
2.08 Fixed telephone lines*	80	82
2.09 Mobile telephone subscriptions*	47	98

Source: *The WEF Global Competitiveness Report 2010-2011*

Indonesia does better in the pillar of macroeconomic environment compare to Malaysia that was 35/5.2 to 41/5.0 in rank/score. Indonesia's government budget balance, national saving rate, and government debt contributed to this achievement. Mostly due to the resistance of opposition parties in the House of Representatives, especially Indonesia Democratic Struggle Party (PDIP), SBY's administration has managed to balance budget with yearly deficit not exceed to 1.7 percent of national expenditure. This balance budget brings further economic impacts upon the national saving rate as well as the government debt. The same as Malaysia, Indonesian government has been issuing sukuk and government bonds at least during the last three years as an alternative government financing. Anyway, Malaysia is in better ranking with a wide gap compare to Indonesia in the indicators of inflation (28:92) and interest rate spread (29:72).

Table 7: Malaysia and Indonesia Ranking in Macroeconomic Environment (3rd Pillar) in 2010-2011

Indicators of 3rd Pillar: Macroeconomic Environment	***Malaysia***	***Indonesia***
3.01 Government budget balance*	112	41
3.02 National savings rate*	28	16
3.03 Inflation*	28	92
3.04 Interest rate spread*	29	66
3.05 Government debt*	95	51
3.06 Country credit rating*	40	72

Source: *The WEF Global Competitiveness Report 2010-2011*

Malaysia does better compare to Indonesia in overall indicators of health and primary education, except on business impact of HIV/AIDS and HIV prevalence, and these two indicators are not so important because on the different ways of these two countries in respond and combat HIV/AIDS. Two indicators that are important to note in this pillar is concerning access and quality of education in which Indonesia is still behind Malaysia in two indicators, quality of primary education (55 to 30) and primary education enrollment rate (52 to 47).

Table 8: Malaysia and Indonesia Ranking in Health and Primary Education (4th Pillar) in 2010-2011

Indicators of 4th Pillar: Health and Primary Education	*Malaysia*	*Indonesia*
4.01 Business impact of malaria	98	106
4.02 Malaria incidence*	90	111
4.03 Business impact of tuberculosis	88	102
4.04 Tuberculosis incidence*	88	105
4.05 Business impact of HIV/AIDS	93	95
4.06 HIV prevalence*	82	55
4.07 Infant mortality*	37	97
4.08 Life expectancy*	53	91
4.09 Quality of primary education	30	55
4.10 Primary education enrollment rate*	47	52

Source: *The WEF Global Competitiveness Report 2010-2011*

Malaysia's prominence in education sector compare to Indonesia are also manifesting in indicators such as quality of educational system (23:40), quality of math and science education (31:46), quality of management school (35 to 55), and internet access in schools (36 to 50). In order to upgrade its general performance in education, SBY's administration had started from the fiscal years of 2009 to allocate more than 21 percent of national expenditure for education, but this approach still has not delivered impacts to the betterment of the education in Indonesia.

Table 9: Malaysia and Indonesia Ranking in Higher Education and Training (5th Pillar) in 2010-2011

Indicators of 5th pillar: Higher education and training	*Malaysia*	*Indonesia*
5.01 Secondary education enrollment rate*	99	95
5.02 Tertiary education enrollment rate*	73	89
5.03 Quality of the educational system	23	40
5.04 Quality of math and science education	31	46
5.05 Quality of management schools	35	55
5.06 Internet access in schools	36	50
5.07 Local availability of research and training services	25	52
5.08 Extent of staff training	13	36

Source: *The WEF Global Competitiveness Report 2010-2011*

Taken in general rank/score, Malaysia does better compare to Indonesia in pillar of good and market efficiency (27/4.8 to 49/4.3). It is a wide gap mainly due to the issues of bureaucratic practices in government part and corporate culture in private sectors as they are manifested in indicators of time required to start business (33:121), burden of customs procedures (32:89), and degree of customer orientation (23:60).

Table10: Malaysia and Indonesia Ranking in Good Market Efficiency (6th Pillar) in 2010-2011

Indicators of 6th pillar: Goods market efficiency	*Malaysia*	*Indonesia*
6.01 Intensity of local competition	38	54
6.02 Extent of market dominance	30	42
6.03 Effectiveness of anti-monopoly policy	32	35
6.04 Extent and effect of taxation	28	17
6.05 Total tax rate*	47	60
6.06 Number of procedures required to start a business*	88	88
6.07 Time required to start a business*	39	121
6.08 Agricultural policy costs	12	22
6.09 Prevalence of trade barriers	88	58
6.10 Trade tariffs*	72	48
6.11 Prevalence of foreign ownership	56	54
6.12 Business impact of rules on FDI	31	49
6.13 Burden of customs procedures	32	89
6.14 Degree of customer orientation	23	60
6.15 Buyer sophistication	24	35

Source: *The WEF Global Competitiveness Report 2010-2011*

Under the pillar of labor market efficiency, Malaysia is leaving Indonesia behind in a great distance, especially in indicators of cooperation in labor-employer relations (16:47), rigidity of employment (18:100), and pay and productivity (6:20). Otherwise, Indonesia does better than Malaysia in indicators hiring and firing practices (38:50) and female participation in labor force (109:111). Both Malaysia and Indonesia are experiencing brain drain (rank 28 and 27), with Indonesia one point better than Malaysia.

Table11: Malaysia and Indonesia Ranking in Labor market efficiency (7th Pillar) in 2010-2011

Indicators of 7th pillar: Labor market efficiency	*Malaysia*	*Indonesia*
7.01 Cooperation in labor-employer relations	16	47
7.02 Flexibility of wage determination	44	98
7.03 Rigidity of employment*	18	100
7.04 Hiring and firing practices	50	38
7.05 Redundancy costs*	100	127
7.06 Pay and productivity	6	20
7.07 Reliance on professional management	25	57
7.08 Brain drain	28	27
7.09 Female participation in labor force*	111	109

Source: The WEF Global Competitiveness Report 2010-2011

In the pillar of financial market development, Malaysia does better than Indonesia in almost all indicators, except in restriction on capital flows. It is in this pillar that Malaysia performs better than most of the low-middle income economies. Some good ranks in indicators in this pillar, venture capital availability (rank 8) and legal rights index (rank 1); contribute to general performance of Malaysia in global competitiveness index in 2010.

Table12: Malaysia and Indonesia Ranking in Financial market development (8th Pillar) in 2010-2011

Indicators of 8th pillar: Financial market development	*Malaysia*	*Indonesia*
8.01 Availability of financial services	24	59
8.02 Affordability of financial services	15	59
8.03 Financing through local equity market	11	13
8.04 Ease of access to loans	10	14
8.05 Venture capital availability	8	9
8.06 Restriction on capital flows	74	49
8.07 Soundness of banks	33	92
8.08 Regulation of securities exchanges	19	49
8.09 Legal rights index*	1	103

Source: *The WEF Global Competitiveness Report 2010-2011*

Also, in this pillar of technological readiness that Malaysia has overtaken Indonesia in all indicators. For two indicators, Malaysia even ranks and scores double lead compare to Indonesia, that are in internet users (39:107) and internet bandwidth (41:102). As Malaysia is smaller compare to Indonesia in term of geographical areas so that the internet penetration will be better. Indonesia is not only bigger but also spreads to disperse areas and islands.

Table13: Malaysia and Indonesia Ranking in Technological readiness (9th Pillar) in 2010-2011

Indicators of 9th pillar: Technological readiness	*Malaysia*	*Indonesia*
9.01 Availability of latest technologies	35	77
9.02 Firm-level technology absorption	30	65
9.03 FDI and technology transfer	16	54
9.04 Internet users*	39	107
9.05 Broadband Internet subscriptions*	62	99
9.06 Internet bandwidth*	41	102

Source: *The WEF Global Competitiveness Report 2010-2011*

In the Market size pillar, in which Indonesia has been doing good in both indicators on domestic and foreign markets, Malaysia has an impressive improvement in the indicator of foreign market index, from 28th position in 2009-2010 to 16th position in 2010-2011. Indonesia is still lead in indicator of domestic market size index although relatively low in indicator of foreign market size index. In total, for the 10th pillar of market size in 2010, Indonesia's ranking is better compare to Malaysia, 15 to 29.

Table14: Malaysia and Indonesia Ranking in Market Size (10th Pillar) in 2010-2011

Indicators of 10th pillar: Market size	*Malaysia*	*Indonesia*
10.01 Domestic market size index*	36	15
10.02 Foreign market size index*	16	23

Source: The WEF Global Competitiveness Report 2010-2011

Malaysia ranks relatively high on factors which are at the top end of the value chain such as financial market sophistication and business sophistication. Policies on economic liberalizations introduced by NTR during the first months of his premiership have contributed to this improvement. There are some measures that have been undertaken by the government such as liberalizing the services sector to attract foreign direct investments and big government spending to education and training. These makes Malaysia perform better compare to Indonesia.

Table15: Malaysia and Indonesia Ranking in Business sophistication (11^{th} Pillar) in 2010-2011

Indicators of 11th pillar: Business sophistication	*Malaysia*	*Indonesia*
11.01 Local supplier quantity	29	43
11.02 Local supplier quality	37	61
11.03 State of cluster development	15	24
11.04 Nature of competitive advantage	34	33
11.05 Value chain breadth	20	26
11.06 Control of international distribution	17	33
11.07 Production process sophistication	30	52
11.08 Extent of marketing	31	56
11.09 Willingness to delegate authority	17	32

Source: The WEF Global Competitiveness Report 2010-2011

Malaysia is also doing well in innovation or in introducing new approach of governing. In the indicator of government procurement and advanced technological product, for instance, Malaysia is even scoring far better to Indonesia.

Table16: Malaysia and Indonesia Ranking in Innovation (12^{th} Pillar) in 2010-2011

Indicators of 12th pillar: Innovation	*Malaysia*	*Indonesia*
12.01 Capacity for innovation	25	30
12.02 Quality of scientific research institutions	32	44
12.03 Company spending on R&D	16	26
12.04 University-industry collaboration in R&D	22	38
12.05 Government procurement of advanced tech products	8	30
12.06 Availability of scientists and engineers	33	31
12.07 Utility patents per million population*	29	89

Source: *The WEF Global Competitiveness Report 2010-2011*

In general, Malaysia is having several areas of competitive advantage that are better than Indonesia and other low and middle-income countries, and even made the country on par with developed countries. These areas of competitive advantage, that had contributed to Malaysia's achievement in global index, are mostly reflected in indicators legal rights index 1^{st} (also in 2009-2010: 1^{st}), strength of investor protection $4^{th,}$ (also in 2009-2010: 4^{th}), venture capital availability 8^{th} (2009-2010: 12^{th}), ease of access to loans 10^{th} (2009-2010: 13^{th}), and government procurement of advanced technology products 8^{th} (2009-2010: 9^{th}). These indicators are further bolstered by indicators in infrastructure (especially quality of port infrastructure, rank 19^{th}), extent of staff training (13^{th}), financing through local equity market (11^{th}), pay and Productivity (6^{th}), FDI and technology transfer (16^{th}), Internet users (39^{th}), state of cluster development (15^{th}), and willingness to delegate authority (17^{th}).

The WEF Global Competitiveness Repost also ranks countries into three linear stages of development: (1). Factor-driven; (2). Efficiency-driven; and (3). Innovation-driven. In between categories Factor driven (1) and Efficiency-driven (2) there is a category called

‘Transition 1-2’ and in between categories of Efficiency-driven (2) and Innovation-driven (3) there is a category called ‘Transition 2-3’. Measured by this linear process of development, Malaysia is in economy in Efficiency-driven while Indonesia is in the Transition 1-2. TNR reform policies if continued and succeed will deepen Malaysia in this stage of Efficiency-driven to pass the stage of Transition 2-3 then eventually embark on Innovation-driven in which most developing economies are placed right now. On the other hand, Indonesia needs a more serious effort in improving its basic requirements pillars to quickly pass its Transition 1-2 stage to move to next stage of Efficiency-driven, and SBY’s administration seemed to slow the process even though it has been in steady gain in ranking during the last three years. The general socio-political situation and macroeconomic environment in Indonesia is in favor for the government to improve its performance.

Indonesia has improved her ranking in 2010, rose by 10 notches to 44th. There are two arguments we want to raise in lieu of how Indonesia’s economy in upcoming year can further improve her GCI ranking. First, as the GCI embodies theory of economic development which place physical development as important factor to bring prosperity to a country, this model of development is well accepted as a model for bringing competitiveness of a country. In fiscal terms, despite of Indonesia’s commitment to reduction in public debt, which proved to improve financial record, infrastructure improvements receive high priority. Indonesia’s national connectivity master plan is in the pipeline (The Jakarta Post, 13/10/2010). The project aims to boost domestic and ASEAN regional connectivity which cover infrastructure development in the land, sea and air transportation sector, energy, gas pipe network across ASEAN and special economic zones. Indonesia is in the final stage of identifying major infrastructure projects (including construction of railroad, highway and power plants) which will widen physical and non-physical connectivity allowing bigger flow of goods, services and people thus creating a more balanced regional economic growth. This master plan to improve infrastructure provision and quality of capital expenditure in the country is timely. With the efficient implementation of these capital spending programmes on planned infrastructure projects, the Indonesian economy shall be sustained and this will definitely contribute to good reporting in upcoming GCI.

Second, Indonesia’s membership in G20 provides greater promise for economic growth and simulation. The G20 itself is well respected as stewards of world economy Indonesia is the largest economy in Southeast Asia with GDP is more than $511 billion. After India and China, Indonesia’s fast growing economy, expanded to 3-4 percent in 2010 will significantly improve her ranking in macroeconomic sector and financial stability as one of the leading economies in Asia.

Conclusion

Malaysia and Indonesia have been introducing several drastic measures upon governance and economy since the time of global financial crisis in 2007-2009. For Malaysia, the measures have been more drastic that even in the form of reforms policies. These drastic measures was delivered under reform policies headings i.e. One Malaysia, Government Transformation Program (GTP), and the introduction of the New Economic Model (NEM) that includes in it a series of reform in economic sectors called Economic Transformation Program (ETP). For Indonesia, although President SBY's administration is still in the three priorities of government introduced from his first presidential term, several important measures have been taken. The decision of SBY to choose Budiono, a well known economist, as vice president for the second presidency seemed to signal that the government was ready to bring a significant change in policies, deepening economic growth and improving governance. Compare to Malaysia, Indonesian economy has indicated growth since 2002 from the administration of President Megawati Soekarnoputri or two years before SBY elected president and this growth continue steadily even without government intervention. Malaysian economy needs a substantial government intervention to grow so that the TNR administration has to more dynamic in terms of governance and economic innovation.

TNR was elected to PM for his first term under the new social and political situation as well as the economic challenge different from the ones faced by his two last predecessors, both Mahathir Mohamad and Abdullah Badawi. He was not only challenged to deliver economic growth and prosperity out of the global crisis but was also expected to bring change to the government and the way of governing in Malaysia, to stop dissent and to heal the racial tensions. From his political fellows, TNR is expected to make UMNO and BN to stay relevant to the current situation so that can keep support and even garner more support in elections. As a result of the rise of the oppositions in the 2008 elections, politics in Malaysia became more open, democratic, and competitive. It will be no longer easy for UMNO and BN to win both by and national elections. Reform policies under the One Malaysia, GTP, and NEM in some extend are TNR answer to the that political challenge as well as to the economic challenge and public expectations for new approach of governing. In addition to deliver economic performance, TNR has political agendas to fulfill related to elections while SBY doesn't have that same agenda. These also explain TNR reform approach and hard work to deliver significant change in government and economy.

Out of government policies and efforts from both executive leaders and administrations, Malaysia and Indonesia performed differently in ranking and score of government competitiveness under the survey by the WEF GCI during the years of 2008 to 2010. Malaysia slips in global competitiveness, from ranking of 21 (in 2008) to 24 (in 2009) and continued to drop to the ranking of 26 in 2010. Indonesia, on the other hand, gains in global competitiveness during the same years, from ranking of 55 (in 2008) to 54 (in 2009) and continued to perform to the ranking of 44 in 2010. Otherwise, Malaysia fare better in ranking as well as score in global competitiveness compare to Indonesia, as shown at the above numbers. In spite of slips in national rank, it is important to note that Malaysia remains at the top ten list in among the developing countries in the overall rankings. The 25 countries which are ranked higher than Malaysia are mainly developed countries with high GDP per capita and are in the innovation stage of development. Malaysia still in the list of the 10 most competitive countries in Asia-Pacific, ahead of all ASEAN countries except Singapore. Malaysia also remains the most competitive country among the 26 countries in the Efficiency-driven stage of development. Among Asia Pacific countries, Malaysia is ranked at 8th position in among 22 countries, ahead of China, Thailand, India, Indonesia, Philippines and Pakistan. Indonesia, which gain in ranking as well as score (in 2010-2011) during the last three years, is still in the middle list rank in among the Asia-Pacific countries.

Indonesia is better than Malaysia in applying democratic political system together with individual freedom, press freedom and political contestation. Judging from WEF GCI report (especially as shown in several indicators in different pillars) the level of democratic political system does not necessarily translate into better governance, transparency in policymaking, and corporate practices. *

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