

**Why Malaysia is facing the "middle-income trap"**  
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MALAYSIA has to put a fullstop to its past 40 years of economic activities in order to escape the "middle-income trap."

Michael Schuman, TIME correspondent based in Hong Kong, has commented on Malaysia's low economic performance in comparison to high-developed nation, South Korea, in an article published on the TIME website on Tuesday.

The "middle-income trap" concept refers to an easy transition of a low-income to a middle-income economy due to its competitive nature in terms of cheap wages and labour-intensive industries, Schuman writes.

However, the growth into a high-income economy will be affected by increasing cost and wages, and therefore, undermining the competitive nature of the low-tech manufacturing industries.

According to Schuman, it is not sufficient to rely on Foreign Direct Investment (FDI) to fuel the economy but companies should invest in R&D and employ educated and skilled workers to generate investments into products and profits.

Although Malaysia has done well in the past, Schuman said the country's recent performance has been disappointing with GDP growth rate declining to 5.5 per cent in 2002-08 from 9.1 per cent in 1990-97.

While Malaysia "degenerates" from being the best performing economies since World War Two, other Asian economies have taken over the lead.

For example, World Bank statistics show that the per capita gross national income (GNI) of South Korea in 1970 was below that of Malaysia (\$260 versus \$380), but by 2009, South Korea's was three times larger than Malaysia's (\$21,530 versus \$6,760).

He noted the recommendations from the World Bank and Prime Minister Najib Abdul Razak's New Economic Model (NEM), but was sceptical with the implementation of the policies.

Schuman analysed the methods used by South Korea and Malaysia to generate growth and found that Malaysia dependence on Foreign Direct Investment (FDI) to drive industrialization has prohibited the country from producing their own local products.

Unlike South Korea which has manufactured its own products and created international brands such as LG and Samsung, Schuman said: "Businessmen (in Malaysia) have been content to squeeze profits from serving MNCs and maintaining their original, assembly-based business models."

Schuman suggestion was that Malaysia needs to foster innovation of its own where "entrepreneurs and bankers have to be willing to take more risks to support inventive ventures and new technologies."

"Talented workers have to be willing to take jobs at home instead of Silicon Valley," he added.

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