

**Explaining further why Malaysia is no longer stuck in the middle income trap**  
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TWO weeks ago, *The Star* covered my keynote presentation on how Malaysia is no longer stuck in the middle income trap. This sparked a degree of scepticism from the public, some citing areas in which Malaysia is currently falling short. They are not wrong, but they are not completely right either.

In overcoming the whiplash from the 2008 Global Financial Crisis, Malaysia was faced with three key problems. Firstly, our government debt rose by 12% of gross domestic product (GDP) per annum. Secondly, our fiscal deficit stood at 6.6% of GDP. Thirdly, Malaysia has been caught in the middle income trap – as defined by the IMF and World Bank – since 1992.

To lend context to this, let me pose a question – would you consider the United States a high income country? By general consensus, I believe your answer is most likely a “yes”. By the World Bank definition, the United States recorded US\$55,000 gross national income per capita in 2015, well surpassing the high income nation benchmark of US\$12,475.

The United States is undeniably a high income nation. Yet in February this year, *Bloomberg* reported that 45.4 million Americans survive on food stamps provided by the Government. In April 2008 during the Global Financial Crisis wave, 28 million Americans received food stamps. That’s a 62.5% increase in people dependent on the domestic hunger safety net programme over the past seven years. This is a very real scenario today in a well-established, high-income nation. Despite the United States having poor people, doesn’t mean it is not high income.

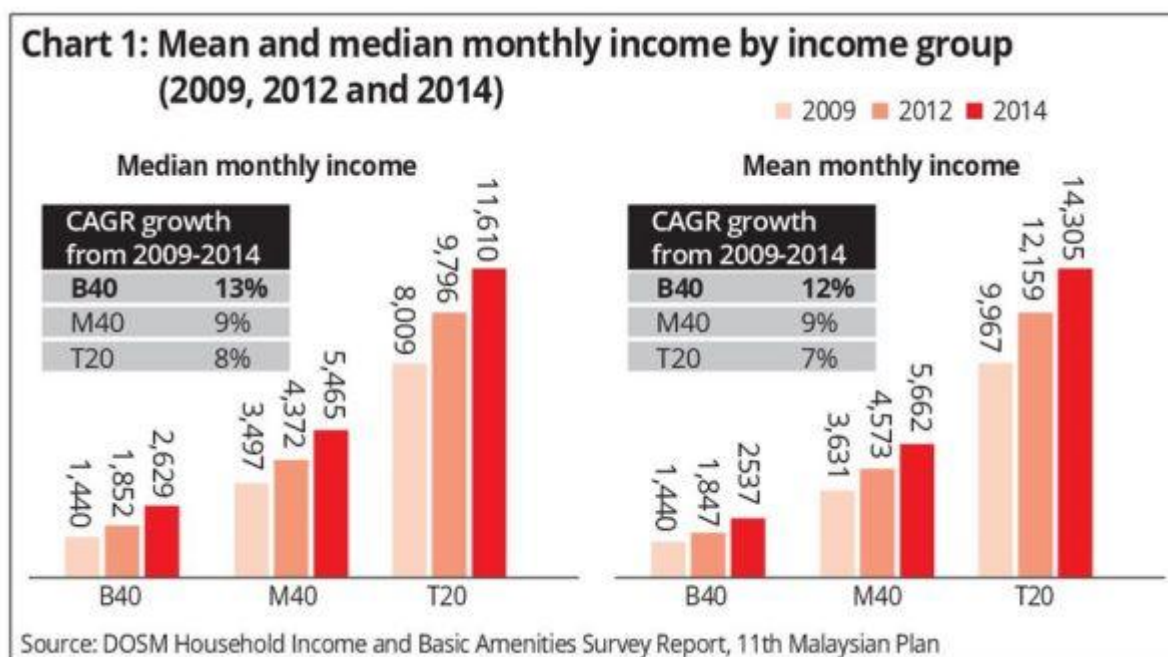
Focusing back on Malaysia, the US experience demonstrates the importance of other socio-economic levers such as sustainability and inclusiveness. To think that being a high income nation means Utopia would be naïve.

My point is to illustrate how Malaysia has become unstuck from the middle income trap as benchmarked by both IMF and the World Bank. Let me share that perspective.

In 2009, Malaysia was said to be “stuck in the middle income trap” because the gap in preceding years remained around 30%-33% and it was not narrowing. However, as of 2015 we have closed the gap to 15%. That is precisely why I said we are no longer stuck in the middle-income trap.

We have achieved this without further compromising our fiscal deficit which in fact has improved from -6.6% of GDP in 2009 to -3.2% in 2015.

Let me be clear – pushing Malaysia towards a high income nation is not a target we set to achieve at all costs. The reporter from *The Edge* is right. There are many issues to be resolved. Disparity in income distribution, as some of you have cited, is only one of many. The Government recognises this. As I have said before in the past, do not make the mistake to think that nation building is a linear effort. As we work to resolve these issues, it is not wrong to acknowledge certain measurable achievements and milestones. Having our eye on a clear measurable target, does not dismiss other critical development needs of this nation.



When the Prime Minister first took office in 2009, the Government took proactive steps to address the three key issues I raised earlier, in an inclusive and sustainable manner with a clear focus on drivers and levers that will graduate the country to high income level.

The Government had two choices – we could have chosen the road most travelled or road less travelled. Let me explain. The road most travelled is when a country pursues high economic growth and popular measures which typically requires significant borrowing, leading to high government debt. High government debt may lead to an unsustainable fiscal deficit.

The unsustainable impact of the road most travelled is evident in countries like Greece, Japan and the United States, where Japan’s debt-to-GDP is 225%; Greece at 176%; Singapore and the United States ranging around 100%.

Most countries would be tempted to take the road most travelled. Malaysia consciously decided to pursue a mildly expansionary economy with private investment leading the

way and to implement unpopular fiscal consolidation measures for sustainability. In other words, the road less travelled ensures sustainable economic growth with control over government debt and fiscal deficit.

After a comprehensive review of the country's socio-economic agenda in 2009, the way forward was illustrated in the two volumes of the New Economic Model. From these documents, the National Transformation Programme (NTP) was developed to detail out robust 3-year plans, emphasising a methodical way of prioritisation, target-setting and implementation to achieve growth target in a sustainable and inclusive manner. One of the critical thrusts of the NTP was to enable private sector to be at the forefront as the primary driver of economic growth.

In order to escape the middle income trap, Malaysia had to move its growth strategy from being resource-driven to a growth based on high productivity and innovation. Malaysia's challenge will be to stay focused on keeping our fiscal discipline. Like most oil-rich countries, when oil price dropped to less than US\$70 per barrel, the Government's revenue was severely impacted.

This posed a developmental budget challenge, as we had to find means to ensure minimally impact our long-term growth. We had to act!

This road less travelled had us implementing some painful fiscal consolidation measures, such as subsidy rationalisation and the introduction of GST and prioritising our resources in more selective sectoral investments.

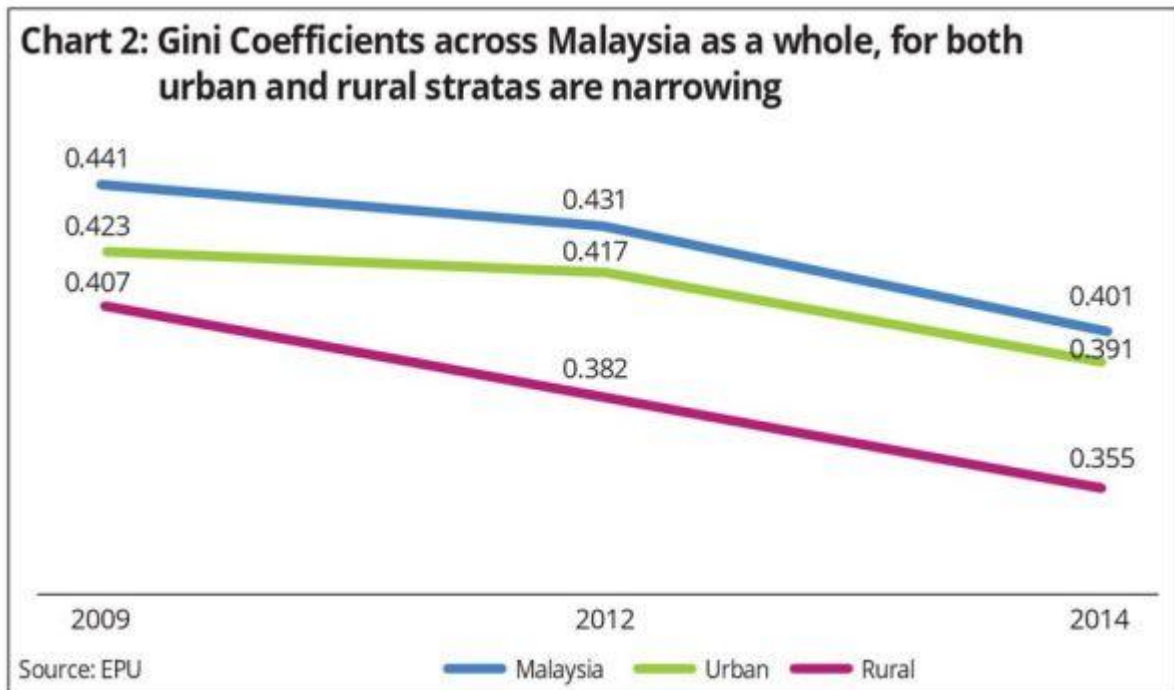
Fast forward six years, our government debt is kept in check at 53%, below our self-imposed debt ceiling of 55% of GDP. GDP growth is also steady, averaging 5.4% between 2009 and 2015. This year, our target fiscal deficit is 3.1% to ensure we avoid being downgraded by ratings agencies.

Being downgraded can cause cost of borrowing to go up, impacting on a country's ability to borrow money on the markets. Investors will see Malaysia as a riskier bet and tend to demand higher returns. This will also affect investor confidence, which will inadvertently hurt us, as we are nurturing an economic growth catalysed by private sector investments.

The reporter from *The Edge* asked if my optimism was preliminary.

The median and mean income for B40 has grown significantly compared with the Top 20% and the Middle 40%, at 13% and 12% CAGR growth respectively from 2009-2014 (**see chart 1**).

On our progress on income inequality, the gap has narrowed as indicated by the reduction of Gini coefficient from 0.441 in 2009 to 0.401 in 2014 (**see chart 2**).



Based on the data, I make no apologies for being cautiously optimistic.

We have a lot more work ahead of us. None of us has earned the right to rest on our laurels. But these are undeniably good indications that we are on the right track. Steadily, we are moving towards our trajectory mapped out in 2010. The National Transformation Programme is a good robust programme. It is yielding positive socio-economic impact through efforts from both private and public sector. These are attributes to why other countries are now looking to Malaysia as model for economic growth and sustainability.

Rather than kicking an empty can up the road, we need to keep our focus on the road.

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