

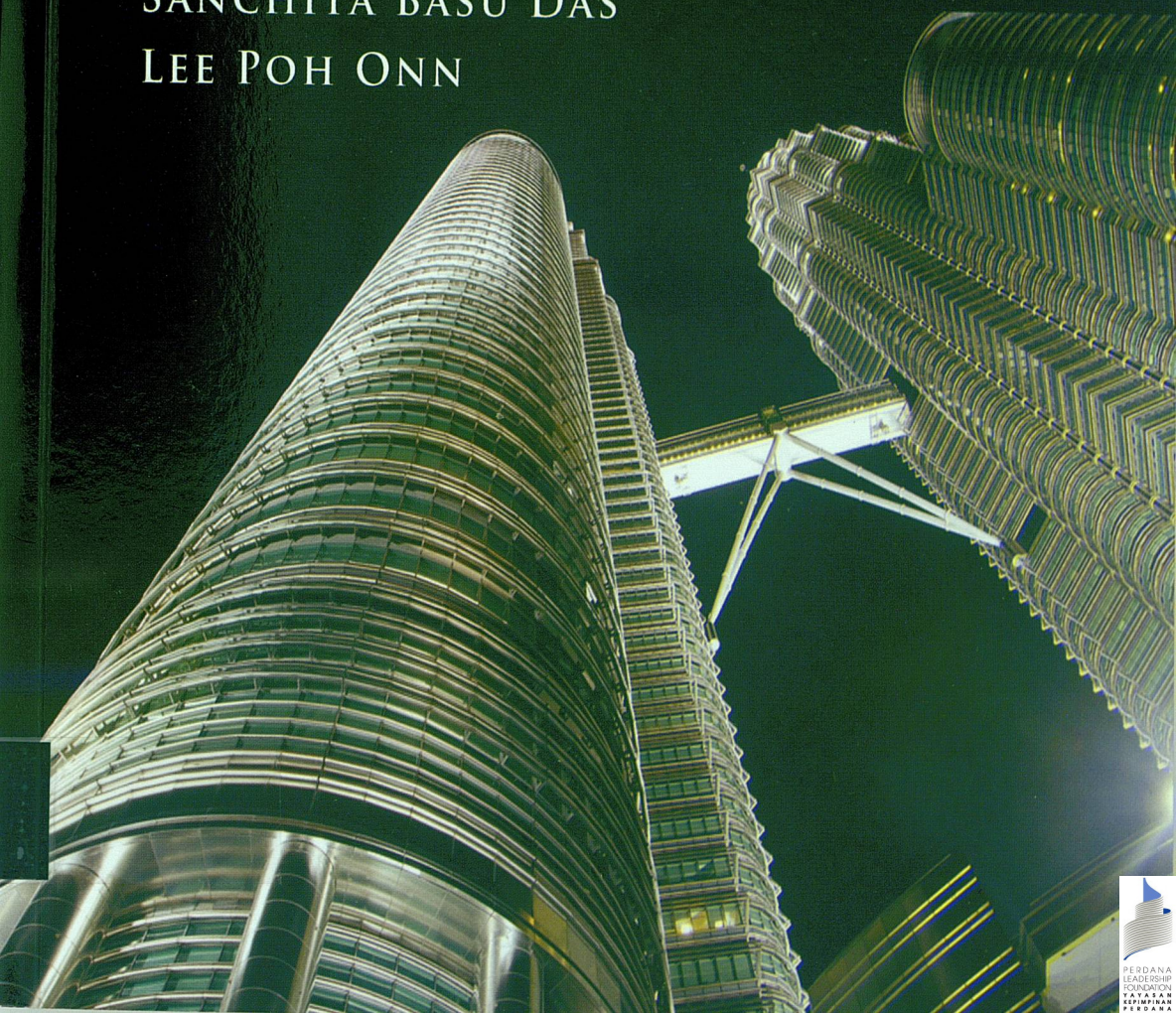
Malaysia's Socio-Economic Transformation

Ideas for the Next Decade

EDITED BY

SANCHITA BASU DAS

LEE POH ONN



Malaysia's Socio-Economic Transformation

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FOREWORD

Since its independence in 1957, Malaysia had evolved from an agrarian economy into an industrial one envied by many other developing nations. In 1991, former Prime Minister Dr Mahathir Mohammed launched Vision 2020 as a roadmap for the country to achieve developed nation status. This vision called for a self-sufficient, democratic, economically just, mature, united, liberal and tolerant society by 2020, with US\$6,000 in per capita income in 1980 prices. However, the Asian Crisis of 1998 significantly set this back, as Malaysia had to spend a number of years recovering from the crisis and regaining foreign investor confidence. The Global Financial Crisis of 2008 also negatively impacted on Malaysia's economic development and slowed its progress towards the achievement of Vision 2020.

Today, Malaysia is perceived by many as being stuck in a middle-income trap, facing challenges on many fronts. A disconnect appears to have developed between policy-making and the national economic reality. In addition, the challenges of globalization have meant that Malaysia has to significantly increase its productivity, especially in the services sector in order to stay relevant. The shortage of skills necessary for a move towards a knowledge-based economy compounds the problem, the infrastructure has expanded significantly but only in certain parts of the country, with many other areas left with little development.

Since assuming office in April 2009, Prime Minister Najib Tun Razak has shown his determination to stay on course to achieve the goals of Vision 2020. In June 2010, he unveiled the 10th Malaysian Plan

(2011–15) to chart Malaysia's development from a middle- to a high-income nation. In dollar terms, Malaysia will need to achieve an income level of US\$15,000 per capita by 2020. More importantly, its economy will need to be restructured to one which is driven by productivity, innovation, and a focused specialization on selected economic sectors.

Malaysia is also working intensively on bilateral and regional trade agreements. In addition to the commitment to be a member of the ASEAN Economic Community, Malaysia has signed or is negotiating thirteen bilateral FTAs. It is a member of ASEAN+1 FTAs and is negotiating its way to be a part of the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) and the US-led Trans-Pacific Partnership (TPP) Agreement. One important rationale for Malaysia to be part of these FTAs is its intention to undertake difficult domestic reforms, which currently face serious domestic opposition. This bodes well for its objective to be a self-sufficient industrialized nation by 2020.

Given this background, this book enumerates some important lessons from the past and tries to indicate where Malaysia may go wrong, and where it can do better in order to achieve its aspirations. The authors, with varied backgrounds, are recognized experts in their areas of research. The various chapters will help key stakeholders and interested members of the public understand the current state of affairs, as well as future challenges to the Malaysian economy. We hope the many recommendations found here will be of great assistance to policy-makers.

Tan Chin Tiong
Director

Institute of Southeast Asian Studies, Singapore

PREFACE

The Malaysian economy has seen many notable developments since its independence in 1957 from the British rule. Initially a commodity exporter of rubber and tin, it has undergone several structural changes and is now a diversified economy with 75 per cent of its gross domestic product (GDP) coming from the manufacturing and services sectors. The economy has emerged as a modern, high middle income nation with strong economic fundamentals. Indeed, these economic achievements have been well supported by visionary leadership and proper policies. The developmental journey has spanned 2 Malaya Plans, 9 Malaysia Plans, 3 Outline Perspective Plans as well as a National Mission before coming to this juncture today.

During the Sixth Malaysia Plan in 1991, Vision 2020 or *Wawasan 2020* was introduced by the then Malaysian Prime Minister, Dr Mahathir bin Mohamad. The vision called for a self-sufficient, democratic, economically just, mature, liberal and tolerant society, and united Malaysian nation which would achieve US\$6,000 per capita income in 1980 prices by 2020. The essence of this transformation has been again outlined in the Tenth Malaysia Plan (2011–15) which was unveiled by Prime Minister Mr Najib Razak in June 2010. In this plan, a clearer perspective has been laid out on how Malaysia can transform itself from a developing country status to a developed country status.

But there remain many pressing challenges which need to be addressed if the country were to implement the Plan and to achieve a high-income status, transforming itself into a developed economy by 2020. In the past decade, the economic landscape, with increasing globalization and emergence of China, India and Brazil, has changed significantly. Hence, Malaysia can no longer depend on a low-cost structure economy to

remain competitive internationally. In addition, Malaysia also faces internal challenges to drive economic growth to a higher level, while having to implement a prudent fiscal policy. The nation is confronted with the challenge of providing a conducive investment environment as well as developing high quality human capital, which is critical to enable the shift to a higher level of value added and productivity.

In light of this, a “stock-take” by academics, policy-makers, and the private sector to capture the past, and more importantly, apply lessons from the past to deal with challenges remaining before 2020 would be timely. It would also be appropriate to examine what Malaysia needs in the next decade to climb the economic ladder and achieve the status of a developed country, as stated in the Tenth Malaysia Plan.

In order to discuss and address these issues, the Regional Economic Studies at the Institute of Southeast Asian Studies (ISEAS), along with the Konrad Adenauer Stiftung (KAS), organized a workshop at ISEAS, Singapore on 28–29 September 2011.

The workshop gathered experts from the Asia-Pacific region, who gave their authoritative thinking. The workshop had Professor K.S. Jomo, then Assistant Secretary-General for Economic Development, United Nations Department of Economic and Social Affairs, New York, as the keynote speaker, who gave an account of Malaysia’s economic development in the past and its prospects for the future. Thereafter, the sessions examined different socio-economic issues in Malaysia that could aid or hinder the country from achieving its 2020 goals, as stated in the Malaysia Plans.

The vigorous discussions during the workshop constitute the chapters in this volume. It begins with an introduction and brings out the key challenges discussed during the sessions. The chapter concludes with the recommendations made in the discussions. The introductory part is followed by chapters on economic, political, environmental and social issues by distinguished writers from academics, international organizations and the private sector. The book also contains short commentaries, especially commissioned to provide a greater insight into the dynamics of economic development in Malaysia.

The book, with contributions from specialists intimately familiar with their topics, will be useful to academics, analysts, students and policy-makers.

Sanchita Basu Das and Lee Poh Onn
Editors

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THE ECONOMY OF MALAYSIA Present, Problems, Prospects

Sanchita Basu Das and Lee Poh Onn

Introduction

The economic development of Malaysia since 1957, by all accounts, has been a spectacular trajectory of restructuring and of rapid economic growth, punctuated only by the Asian Financial Crisis in 1997, and by the economic crisis in 2008. Malaysia has also been able to graduate from a predominantly agricultural base to that of a manufacturing and services base through prudent economic management, balancing economic efficiency considerations with that of the redistribution of the economic pie. In recent years, however, the government has come to realize that the traditional approach of restructuring and diversifying the economy may not be sufficient to propel Malaysia to the level of other high-income nations. Furthermore, the historical engines of agriculture and manufacturing that have been driving Malaysia's economic growth has been losing its momentum over the past decade. Part of the slowing momentum is largely due to the fall in private investments: from 25 per cent of GDP throughout the 1990s to about 10 per cent in the past decade.

The Tenth Malaysian Plan (2011–15) succinctly outlines what needs to be undertaken for Malaysia:

[the] challenge is to move from an economy that competes on cost and natural resources, to an economy that is driven by productivity, innovation and that is able to nurture, attract and retain talent, companies and capital. In order to move into the league of high income economies, Malaysia will also need to move from a strategy of diversification of the economic base, which successfully elevated the nation to a middle-income economy, to a strategy which focuses on specialisation in a few selected economic sectors and geographies where Malaysia has a relative competitive advantage.¹

Can Malaysia transform its economy up to the level of other high income countries? How has Malaysia landed in its present dilemma of the middle income trap? What are some of the challenges that need to be overcome that will move the country to join the ranks of a high-income and developed country? What are some of the suggested policies that can bring Malaysia to the next stage of development?

A number of recent works have been undertaken on the Malaysian economy. Notably, three recent publications, dealing with a mix of issues confronting Malaysia's economic development all have one aim: to examine the economic challenges facing the country in order to reach the status of a high-income country, and to escape from the current trap of being a middle-income economy.

The publication edited by Hal Hill, Tham Siew Yean and Ragayah Haji Mat Zin (2012) examines the various economic, political and developmental challenges facing Malaysia in its aim to graduate from a middle-income to high-income economy.² In this volume, microeconomic, macroeconomic and distributional factors have been analysed to be crucial to Malaysia's transformation to become a developed nation.

Another publication edited by Rajah Rasiah (2011) on the *Malaysian Economy: Unfolding Growth and Social Change* systematically and collectively examines development from a sectoral perspective, filling the gaps in macroeconomic and microeconomic developments with a historical anchor. Notably, the publication by the Institute of Strategic and International Studies (ISIS) Malaysia (2011), on *Malaysia:*

Policies and Issues in Economic Development involves a thematic approach which includes economic analysis balanced with historical, socio-economic and institutional approaches in looking at Malaysia's economic development process.³

The present volume builds on the works published in these publications but it adopts a different approach in that it is a stocktake by individuals from the academia, international organizations, and the private sector to understand the past; to discuss and analyse the reasons behind Malaysia's successes in graduating from a low-income to middle-income economy; and to critically analyse the challenges and obstacles that Malaysia needs to overcome in order to become a developed country by 2020.

The various chapters are broken down into thematic approaches which focus on economic issues; political, decentralization, and environmental issues; and social issues confronting Malaysia's development. In doing so, this book hopes to provide a multi-disciplinary approach to understand and analyse Malaysia's economic development and the challenges confronting the country. Short commentaries are also interspersed between some of the chapters. These provide a quick and sharp analyses of certain issues that are also pertinent to Malaysia's transformation process.

The Present Malaysian Economy

After a feeble growth rate of 1.6 per cent during 2008–09, the US\$306 billion Malaysian economy bounced back and showed many signs of improvement. In real terms, the economy grew at a rate of 5.6 per cent during 2010–12, at par with an average growth rate of 5.7 per cent for its neighbours⁴ in Southeast Asia (see Figure 1.1). It was the third largest economy in the region by purchasing power parity (PPP), and its per capita at US\$15,568 (in terms of PPP) put it in the middle income bracket among the world economies (see Figures 1.2a and 1.2b). The economy also exhibited a modest inflation rate of 2.5 per cent during the period, with low interest rates at 3.0 per cent by end of 2011. Externally, the country's exports were growing by 20 per cent in U.S. dollar terms (see Figure 1.3) during 2010–11, despite uncertainty in the U.S. and the EU economies. These feel good factors have also been reflected in the stock market as

Since 1957, Malaysia's economic development has been an account of growth, transformation, and of structural change. More than 75 per cent of its gross domestic product (GDP) comes from the manufacturing and services sectors. However, Malaysia is stuck in a middle-income trap and is facing challenges on the economic and political front. In June 2010, Prime Minister Najib Razak unveiled the 10th Malaysian Plan (2011-15) to chart the development of Malaysia from a middle- to high-income nation. This publication represents a policy-oriented stocktake and evaluation by academics, policy-makers, and business people on Malaysia's achievements, present work-in-progress endeavours, and some of the future challenges facing the nation in its pursuit to achieve a developed high-income country status.

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