

SOUTH-EAST ASIAN SOCIAL SCIENCE MONOGRAPHS

MOHAMED ARIFF

THE
MALAYSIAN
ECONOMY
PACIFIC
CONNECTIONS



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This book examines the importance of the Pacific region to the Malaysian economy. Particular emphasis is placed on the contributions of the Pacific to Malaysia's trade expansion and industrial development through foreign investment, and trade in manufactures and direct foreign investment in the manufacturing sector have been singled out for closer scrutiny. In addition, the book traces the trends in the Pacific, discusses the possible impact of such trends on the Malaysian economy in the years ahead, and draws policy implications for the 1990s and beyond.

The main message conveyed through this work is simple and straightforward: the Pacific influence on the Malaysian economy is profound and growing stronger, as Malaysia gravitates away from the Atlantic and towards the Pacific. Malaysia cannot afford not to take advantage of the many opportunities that the Pacific offers, though there are dangers and pitfalls to be guarded against in a Pacific bias. This book underscores the need for Malaysia to play a proactive rather than a reactive role in the Pacific process.

The author is Professor of Analytical Economics at the University of Malaya.

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Mohamed Ariff

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To the memory of my beloved father



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Foreword

As is well known throughout the world, the Asia-Pacific region has experienced tremendous economic development over the past few decades. These successes have, on the whole, been achieved through a combination of correct macroeconomic policies, an emphasis on private-sector development, and increased international trade and investment linkages. Hence, to a large extent, the countries in the Asia-Pacific region have prospered by integrating their respective economies. Although there is no 'typical' country in Asia, Malaysia presents an excellent example of an export-oriented, natural resource-based economy with an enterprising and well-educated work-force. Combined with prudent government policies, these characteristics have been ingredients of great progress in the economic arena over the past few decades, and the results are quite typical of many Asian success stories. Malaysia's economic performance in recent years has been surprisingly good; the rebound from the collapse of commodity prices in the mid-1980s has been speedy and robust. Along with the Asian Newly Industrialized Economies and Thailand, Malaysia has become part of the group that the OECD calls 'Dynamic Asian Economies'. Forecasts for sustained growth and development in the 1990s suggest that Malaysia will continue to be one of the world's most exciting economies.

Throughout recent years, Malaysia has been looking East. Its trade with and investment flows from the Asia-Pacific have been increasing significantly, while its interaction with Europe has diminished. Hence, in the light of these developments, it would be useful to explore Malaysian links with the Pacific, as well as examine what the future, albeit uncertain, holds.

This is exactly what Professor Mohamed Ariff has done in the present volume. Well known for his work on the economies of South-East Asia, and of Malaysia in particular, he has embarked on this task at a very opportune time: the current GATT Round is slated for completion in December 1990; the unification of European economies in 'Project EC 1992' is well underway; ASEAN is at an important point in its history, focusing more on economic imperatives; protectionism in and conflict among the developed countries are on the rise; and a new fledgeling 'Asia-Pacific Economic Cooperation' organization is in the process of taking shape. As Malaysia is one of the most open economies in the