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Malaysia's Past Successes and Uncertain Future: Graduating from the Middle or Caught in the Middle?

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ABSTRACT

In the space of just over five decades, Malaysia has transformed from a largely agrarian economy to a manufacturing economy with a sustained high rate of economic growth. While Malaysia's achievement in terms of raising the per capita income of its citizens is pretty much universally acclaimed, recent concerns have been expressed that Malaysia is now in a middle-income trap. Moreover, there are a growing number of commentators who are arguing that Malaysia's New Economic Policy (NEP) needs an overhaul if Malaysia is to progress to become a high-income country. This paper provides an overview of the evolution of the Malaysian economy and critically evaluates recent strategic reform initiatives, encapsulated in the New Economic Model (NEM) and Economic Transformation Programme (ETP) that are designed to assist Malaysia in its aim to become an innovation-intensive, high-income country by 2020.

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Introduction

Malaysia has long been regarded as an Asian success story in terms of economic growth. Malaysia was recognised as one of the emerging tigers in the East Asian miracle (World Bank, 1993). Since the publication of that volume, Malaysia has continued its strong growth performance through the 1990s and 2000s, despite experiencing three major recessions. Through adopting an export-led industrialisation drive, Malaysia has been able to successfully transform from a largely agriculture to manufacturing-based economy. In contrast to countries such as Fiji, Malaysia has been able to make this transformation, while maintaining political stability and social harmony in a multi-ethnic society. However, in recent times the development literature has asked whether Malaysia is caught in a middle-income trap and pondered what it needs to do to transition to the government’s stated goal of being a high-income country by 2020 (Hill *et al.*, 2012; Menon, 2013; Woo, 2011; World Bank, 2011).

Fingers are increasingly being pointed at the New Economic Policy (NEP) as a barrier to Malaysia graduating to a high-income country (Doraisami, 2012; Menon, 2013). Critics of the NEP argue that even if the policy was not a drag on economic growth in the past, it is now creating distortions which, coupled with demographic transformation and out-migration, are making it increasingly difficult for Malaysia to leapfrog into advanced economic sectors (Menon, 2013). The change in policy direction envisaged in recent planning documents and, in particular, the New Economic Model (NEM), Economic Transformation Programme (ETP) and Tenth Malaysia Plan (TMP) (2011-2015) at least implicitly recognise that a change in economic direction is needed. However, the Malaysian government is dependent on powerful vested interests within the Malay community for continued political support. As such it remains to be seen whether there is political will to make genuine reform.

The purpose of this paper is to provide an overview of the factors driving Malaysia’s economic success over the last five decades and critically evaluate the main economic problems facing Malaysia’s policymakers today as they seek to escape the middle-income trap. The remainder of the paper is divided into seven parts. In the next section we provide an overview of the key tenets of the Malaysian economy as it has evolved over time. Section Three examines the drivers of Malaysia’s political economy, focusing on the achievements and shortfalls of the NEP. Section Four provides an overview of Malaysia’s expenditure on defence. The Malaysian government’s blueprint for economic reform, as detailed in the NEM, ETP and TMP, is evaluated in Section Five. Section Six evaluates Malaysia’s economic corridors and their potential to contribute to future growth. Malaysia’s competitive position in international perspective is considered in Section Seven. A final section concludes.

The Key Tenets of the Malaysian Economy as it has Evolved

Since achieving independence in 1957, Malaysia has exhibited strong economic growth over five decades. Table 1 shows that real GDP increased 30 times from US$6.6 billion in 1960 to US$198 billion in 2012, while real GDP per capita increased eight times over this period. Average per capita economic growth was 4 per cent for the period 1961-2012, broken down into 5.6 per cent in the 1960s, 5.3 per cent in the 1970s, 3.2 per cent in the 1980s, 4.6 per cent in the 1990s and 2.8 per cent between 2001 and 2012. In spite of economic recessions in 1985-1986, 1997-1998, 2001-2002 and 2008-2009, between 1960 and 2012, Malaysia has averaged 7 per cent economic growth (see Figure 1).

Per capita income has almost doubled each decade since 1970 to exceed US$8,000 in 2012 (World Bank, 2013). From 1970 to 1990, Malaysia's economic growth lagged some of its Asian neighbours, such as Korea, Singapore and Thailand. As such, Malaysia's growth record was described by Hill *et al.* (2012, p. 1689) as "respectable, but not stellar". However, since 1990 its growth has been on a par with Singapore and Thailand. While the Malaysian economy contracted 1.7 per cent in 2009, in 2010 economic growth rebounded to be 7.2 per cent on the back of anti-cyclical policies designed to stimulate domestic demand and rising prices for oil and palm oil, reflecting strong demand for these products in China and India (Doraisami, 2012; Nambiar, 2009; Sivalingam, 2012; World Bank, 2011).

On the back of successive 5-year plans, since the 1950s and 1960s Malaysia has transformed from an agrarian-based to a manufacturing-based economy (Hill *et al.*, 2012; Menon, 2013; World Bank, 2011). The share of agriculture in GDP fell from 30 per cent in 1970 to 8 per cent in 2012. Over the same period, industry as a share of GDP, more than doubled from 27 per cent to 55 per cent. Meanwhile, the service sector, as a share of GDP, has been fairly constant at between 43 per cent and 45 per cent (World Bank, 2013).

In the years between 1957 and 1967, Malaysia pursued import substitution in manufacturing; however, industry policy has been geared towards promoting export-oriented manufacturing since 1968 (Tan, 2013; Webster, 2012). Malaysia's early shift into export promotion resulted in a first mover advantage over other developing countries pursuing import substitution (Tham & Heng, 2011). A key characteristic of the Malaysian economy as it has evolved is that it has been consistently open (Hill *et al.,* 2012). The Malaysian economy has been characterised by low average tariffs, low dispersion of tariffs and limited recourse to non-tariff barriers (Ramasamy & Yeung, 2007). The export sector has benefitted from the effective use of export zones (Hill *et al.*, 2012; Tham & Heng, 2011).

The transformation in the composition of merchandise exports has been more evident in the composition of GDP. As a percentage of total exports, manufacturing increased from 6.6 per cent in 1970 to 70.2 per cent in 2009, while agriculture fell from 63.2 per cent to 13.4 per cent (Hill *et al.,* 2012). These changes are largely attributed to a shift in exports from rubber and tin to electronics.

Malaysia has emerged as an important component of the vertically integrated global production of electronic products and has become a major world player in the trade of electronic components and parts (Athukorala, 2010; Hill *et al.,* 2012).

The Drivers of Malaysia's Political Economy

The drivers of Malaysia's political economy lie in the NEP, which has been described as a vehicle to politicise ethnicity (Pepinsky, 2013). The NEP was implemented in response to the 13 May racial riots in 1969, the basis of which was seen as long-standing economic and social disparities between the indigenous Bumiputeras (primarily the Malays in Peninsula Malaysia) and the Chinese and Indian communities. The overarching aim of the NEP, introduced in 1970, was to reduce poverty and inter-ethnic economic disparities between Malays and non-Malays. This broad objective rested on three inter-related pillars. The first aim was to raise the income level of Malays to match those of non-Malays. The second aim was to increase the share of Malays in the high earning professional and technical occupations. The third aim was to increase the Malay share of corporate ownership to at least 30 per cent. The instrument for the latter is Permodalan Nasional Berhad (PNB), the role of which is to acquire shares in companies with strong growth potential for the purpose of selling them, via Amanah Saham Nasional (ASN) exclusively to Malay individuals. By the 1990s, PNB had emerged as Malaysia's largest holder of corporate equity (Doraisami, 2012).

In line with the NEP, the government has been much more interventionist since 1970. There has been sizeable growth in government expenditure from RM3 billion in 1970 to RM250 billion in 2012 (Figure 2). The sizeable growth in expenditure also generated a budget deficit, especially after the Asian financial crisis when the deficit expanded dramatically.

The NEP, and associated policies, has produced some positive outcomes. A key result is a reduction in the unemployment rate for all ethnicities. The Malay unemployment rate fell from 8.1 per cent in 1970 to 5.3 per cent in 2005, while the Chinese unemployment rate fell from 7 per cent to 2.4 per cent while the Indian unemployment rate fell from 10.5 per cent to 3.1 per cent over the same period (Aslam *et al.*, 2012).

A second major achievement of the NEP has been a considerable reduction in the incidence of poverty. Extreme poverty was reduced from 35 per cent in 1970 to 0.7 per cent in 2008, while rural poverty fell from 69.3 per cent in 1970 to 7.4 per cent in 2008 (Aslam *et al.*, 2012). The reduction in the incidence of poverty corresponds with a fall in inter-ethnic income disparities. The income ratio between Malays and Chinese fell from 1:2.54 in 1970 to 1:1.74 in 2008 (Aslam *et al.*, 2012).

Third, the NEP has been successful in creating a large and relatively cosmopolitan Malay middle class (Pepinsky, 2013; Ramli *et al.,* 2013). While not meeting the target that Malays have 30 per cent of corporate ownership, as of 2008, Malays had 19 per cent of Malaysia's corporate wealth. The NEP has also spurned a new Malay entrepreneurial class (Pepinsky, 2013), which is a direct consequence of policies designed to increase the Malay share of corporate ownership and increased economic opportunities for Malays. The proportion of Malay retail establishments increased from 13 per cent in 1971 to 34 per cent in 1981 (Jesudason, 1990). There is also a new class of Malay millionaires (Ramli *et al.,* 2013).

In other respects, the NEP has been controversial. Ramli *et al.* (2013, p. 111) suggested that the "strongest argument for [the] NEP is the policy [has] helped to bring about political stability and national unity in the country". However, the NEP has been subjected to criticisms of racial bias. The fact that the NEP favours the Malay community has contributed to inter-ethnic tension and created resentment in the non-Malay communities (Munusamy, 2012). The NEP has been accused of being a vehicle to further 'the Malay agenda' or reduce the wealth of non-Malays (Aslam *et al.*, 2012). Nonetheless, some Chinese businesses have adopted strategies that have allowed them to thrive within a pro-Malay business environment. This includes participating in so-called *Ali Baba* companies, which are joint ventures between Malays and financially well-endowed non-Malays, set up to access contracts to be allocated to Malays under the NEP. While the Malays are not always less well-qualified, it is certainly true that in some cases they are. Hence, while disadvantaged and often unhappy about the NEP, for the most part the Chinese and Indian communities are better off in absolute terms because of the policy. This fact, together with strong overall economic growth, that has raised living standards for all Malaysians has helped to alleviate ethnic tension (Pepinsky, 2013).

There are, however, other criticisms of the NEP. While the NEP has reduced inter-ethnic income disparities, in absolute terms the gap is still large. The mean household income of the Chinese is still much higher than that of Malays (Wan, 2011). Overall income inequality has increased. The income gap ratio increased from 1: 1.59 in 1970 to 1: 2.11 in 2008 (Aslam *et al.,* 2012). Within the Malay community, income disparity has actually widened. The intra-Malay Gini coefficient increased from 0.342 in 1957/1958 to 0.440 in 2009 (Wan, 2011).

A second criticism of the NEP is that widening income inequality within the Malay community seems to reflect the fact that some of the NEP programmes. Some share allocations and government contracts, have been awarded to the Malay commercial and political elite while the poorer Malays have not benefited from these programmes (Hill *et al.,* 2012). For instance, Malay students whose families are in the top 17 per cent of the income distribution receive over 50 per cent of government scholarships (Wan, 2011). The NEP has been criticised for promoting a rent seeking mentality among Malays and facilitating corruption and 'money politics'. The latter refers to the United Malays National Organisation (UMNO) party providing contracts and other favours to the Malay commercial and political elite in return for political support (Ramli *et al.,* 2013). A case could thus be made that cronyism, favouritism and power misuse has flourished under the NEP.

A third criticism of the NEP is that it has impeded domestic investment after the Asian financial crisis. Domestic investment in Malaysia was strong prior to the crisis making up about 40 per cent of GDP. However, domestic investment never recovered from the crisis and by 2005 Malaysia has become a net exporter of capital. Menon (2013) argues that the failure of domestic investment to rebound reflects distortions introduced by the NEP and the overbearing influence of government-linked corporations (GLCs), which have pushed out private investment. In Malaysia, local firms that are most likely to succeed tend to be Chinese owned. Yet these firms not only do not receive any government assistance but are reluctant to expand to avoid Malay employment quotas[1] (Doraisami, 2012).

A fourth criticism of the NEP is that it has impeded the ability of policymakers to respond to financial crises. Some studies have concluded that Malaysia represents a case study in sound macroeconomic management (see e.g. Hill *et al.,* 2012). This conclusion, however, has been rebutted by others who have emphasised the political economy of economic crises (Athukorala, 2012; Doraisami, 2012). Doraisami (2012) espouses this view and argues that in responding to economic recessions in 1985-1986, 1997-1998 and 2008-2009, the government ensured that NEP objectives were paramount and that the vested interests that emerged as a result of the NEP, especially those linked to UMNO, were preserved. In many cases the factors that exacerbated the crises in Malaysia, such as poor corporate governance and weaknesses in the financial sector, can be linked to political economy factors and an unwillingness to address these issues for fear that this would antagonise vested interests.

The brain drain refers to the outward migration of individuals with high human capital. Many non-Malays cite discriminatory policies under the NEP as a push factor in Malaysia's brain drain. The precise size of Malaysia's brain drain is not known. According to the EPU (2011) a conservative estimate is that there are one million Malaysians living abroad. Singapore absorbs 57 per cent of the Malaysian diaspora, with most of the remainder in Australia, Brunei, the United Kingdom and the United States. The Malaysian diaspora is ethnically skewed with ethnic Chinese accounting for 90 per cent of the diaspora in Singapore and ethnic Chinese being overrepresented in other countries as well. About one third of outward migration from Malaysia represents brain drain (EPU, 2011). Malaysia's brain drain is high relative to its narrow skill base. In 2000, 10 per cent of Malaysians with a university degree migrated to an OECD country, which is double the world average. The brain drain is aggravated by the absence of compensating inflows, with most inward immigration into Malaysia being poorly educated and lowly skilled (EPU, 2011).

The effect of brain drain on the Malaysian economy, however, is not necessarily negative. Conceptually, brain drain might erode the skill base in Malaysia, although it is possible that the prospects of emigration to high-income countries might provide incentives for additional human capital formation in Malaysia. The empirical evidence suggests that the skilled labour force in Malaysia has

[1] There is no official Bumiputera employment quota as such. Bumiputera positions, however, are reserved in certain industries and big corporations related to the government and GLCs. Moreover, indirectly, private companies may be asked to hire Bumiputeras when seeking to enter into contracts or licensing agreements with the government or GLCs.

not declined because of brain drain, with positive incentive effects offsetting outward migration of skilled labour (EPU, 2011). There is, however, concern that while the proportion of skilled workers in Malaysia has not declined, that brain drain has meant that the skill base has narrowed. While the proportion of skilled workers is the same, specific occupations, such as IT specialists, have been adversely affected (EPU, 2011). This has resulted in a tightening labour market for skilled workers in specific occupations, which has had an adverse effect on firm productivity (World Bank, 2009).

Overall, the jury is still out on whether the NEP has been successful. As Hill *et al.,* (2012) note, arguments can be advanced for and against the NEP being a success. Ultimately, this is largely dependent on the yardstick used to measure success. Key positive aspects of the policy include is the absence of any major ethnic conflict since 1969 and the reduction of income disparities between Chinese and Malays. A more negative assessment of the NEP would cite its failure to reduce overall income inequality and alleviate income disparities within the Malay community, as well as an increase in rent seeking and political cronyism.

Defence Expenditure

Malaysia has taken steps to improve its military forces. In the early 1990s Malaysia undertook a major initiative to expand and modernise its armed forces and in 2000 there was a review of national defence and security policy to ensure it was up to date (see Keling *et al.,* 2011). Compared with most other countries, however, Malaysia's defence budget is relatively low. In the period 1988 to 2011 military expenditure as a percentage of GDP fluctuated between a low of 1.56 per cent (2010) and 3.20 per cent (1991). In 2011, this figure was 1.59 per cent (SIPRI, 2012). In 2011, only a small percentage of military expenditure was devoted to the acquisition of military hardware, which limits the potential for significant investment in the procurement of advanced defence systems (Strategic Defence Intelligence, 2012). In addition, the procurement process for military hardware in Malaysia has been heavily criticised (Strategic Defence Intelligence, 2012). It is argued that the lack of transparency during the contract bidding process results in high levels of corruption throughout the procurement process, with the absence of an external monitoring agency contributing to the lack of transparency (Strategic Defence Intelligence, 2012). Hirnissa (2009) examined the relationship between defence expenditure and economic growth in Malaysia using co-integration and Granger causality tests. He found that military expenditure and economic growth in Malaysia were segmented from 1965 to 2006. This result reflects the small size of Malaysia's defence sector and that military expenditure is a small fraction of GDP.

The New Economic Model and the Economic Transformation Program

In July 2009, Malaysia's Prime Minister, Najib Razak, formed the National Economic Advisory Committee (NEAC) and assigned the committee with the task of designing a new economic model. The NEAC produced two reports outlining a blueprint for a NEM. The first report, released in April 2010, provides an overarching framework for elevating Malaysia from a middle-income country to a high-income country by 2020. It provides a frank assessment of the challenges that the Malaysian economy confronts and proposes eight strategic reform initiatives (SRIs). The second report, released in December 2010, details a series of specific policies to support the SRIs.

The three objectives of the NEM are as follows. One, achieve a US$15,000 to US$20,000 per capita target income by 2020 (high income). Two, enable all communities to fully benefit from the wealth of the country (inclusiveness). Three, meet current needs without compromising future generations (sustainability) (NEAC, 2010). The eight SRIs are re-energise the private sector (SRI1), develop a quality workforce and reduce dependence on foreign labour (SRI2), create a competitive domestic economy (SRI3), strengthen the public sector (SRI4), pursue transparent and market friendly affirmative action (SRI5), build the knowledge base and infrastructure in the country (SRI6), enhance the sources of growth (SRI7) and ensure sustainable growth (SRI8) (NEAC, 2010).

The overall objectives of, and policy framework articulated in, the NEM were incorporated into the ETP and TMP. The key elements of the NEM – a move towards a more liberalised economy, reduced government intervention and rethinking of the pro-Malay affirmative action policies in the NEP with a view to reducing policy distortions – have generally been welcomed (see e.g. Menon, 2013; Wan, 2011; Woo, 2011; World Bank, 2011).

One feature of the NEM is that it seems to represent a more pro-market approach. The NEM acknowledges that in many GLCs there is "a history of underperformance, poor corporate governance and a host of other structural breakdowns in the GLC supply chain" (NEAC 2010, p. 19). To overcome deficiencies in GLCs, the ETP estimates that 92 per cent of Malaysia's projected investment requirements will need to come from the private sector. The ETP identifies 12 sectors for encouraging future private sector investment, basically covering all areas of the economy. Such a perspective addresses specifically the criticism that NEP distortions have contributed to private investment failing to rebound following the Asian financial crisis. As noted by Menon (2013) and Wan (2011), the reforms encapsulated in the NEM, ETP and TMP appear, at least on the surface, to represent a departure from the government's previous approach towards development and key economic priorities.

There are, however, reasons to be cautious about the extent to which the ETP and NEM will represent a departure from the past. Most of the 12 sectors in which the NEM states private sector investment is to be encouraged are dominated by GLCs. It remains to be seen how many of the private investment projects slated under the NEM will, in fact, be truly private as opposed to being tied in some way to

GLCs (Menon, 2013). In the short period since the NEM was released, there are signs that the government is backtracking on its commitment to market liberalisation. Critics of the implementation of the NEM, thus far, point to interventions in the labour market and housing market in 2011 (Wan, 2011).

Ong and Teh (2012) criticised the ETP for only benefitting the big corporations and not the majority of Malaysians, who are relative low wage earners. They suggested that the government should focus on improving the productivity of Malaysian workers so that they can enjoy higher wages, rather than create too many unskilled jobs, which perpetuates reliance on foreign labour. The latter explicitly contradicts SRI2 in the NEM. The opposition leader, Anwar Ibrahim (2011) commented that 77 per cent of private investments for Entry Point Projects under the ETP are funded by GLCs or large GLICs. Hence, the nation's wealth is tied to mega expenditures with high propensity to corruption and mismanagement.

The other feature of the NEM is that it aims to roll back the affirmative action policy that was explicit in the NEP. In particular, the NEM and TMP shift the focus of affirmative action to the bottom 40 per cent of the income distribution. The aim of the NEM and TMP is to raise the income level of low-income earners, irrespective of race. This seems to acknowledge that the objective of reducing inter-ethnic income disparities has largely been realised, but at the expense of increasing intra-ethnic income disparities within the Malay community. Moreover, the exacerbation of intra-ethnic income disparities stems directly from NEP distortions.

The problem with the shift in affirmative action outlook in the NEM is that it risks alienating the Malay elites on which UMNO rely for political support. In this respect, the initial boldness of the NEM appears to have been watered down in response to strong opposition from Malay nationalists (Wan, 2011; Woo, 2011; World Bank, 2011). There is evidence that the recommendations in the NEAC report itself were watered down to appease UMNO's Malay supporters (Wan, 2011). The TMP still includes several policies designed to favour Malays, despite the overall thrust of the NEM (Menon, 2013). Several commentators have criticised the Malaysian government for backtracking on the commitment to the NEM and discontinue affirmative action policies in favour of Malays (Menon, 2013; Wan, 2011; Woo, 2011; World Bank, 2011). As Menon (2013, p. 22) puts it: "By failing to address [underlying distortions] directly, one has to assume that they will be grandfathered in to pacify vested interests, some of whom are already revolting, and the root causes of the malaise will remain unchecked. …Therefore, one is forced to conclude that although appearing detailed and comprehensive, the NEM remains little more than a vision statement that pays lip service to addressing the core underlying problems facing the economy".

The Prime Minister's announcement on 14 September 14 2013 of the establishment of a Bumiputera Economic Council to empower the Bumiputera economy shows that the UMNO-led government is prepared to sacrifice the interest of the non-Bumiputeras to secure UMNO's Malay interest (Koon, 2013). The Institute of Democracy and Economic Affairs Chief Executive Officer, Wan Saiful Wan Jan has stated: “The new Bumiputera Economic Empowerment Agenda will further make the community dependent on the government and hinder the spirit of the NEM” (Ramani, 2013).

Key Economic Corridors and their Potential

The establishment of five economic corridors under the Ninth Malaysia Plan (2006-2010) by then Prime Minister, Abdullah Ahmad Badawi, was designed to emphasise trans-border development in the country. The five economic corridors were Iskandar Malaysia (IM) in Johor, the Northern Corridor Economic Region (NCER), covering the states of Kedah, Penang, Perlis and Perak’s four northern districts, the East Coast Economic Region (ECER) covering the states of Kelantan, Pahang, Terengganu and Johor’s Mersing district, the Sarawak Corridor for Renewable Energy (SCORE) and the Sabah Development Corridor (SDC). An overview of the five economic corridors is presented in Table 2.

IM, which is in South Johor, covers the entire Districts of Johor Bahru and Kulaijaya and several sub-districts of Pontian. It includes waterfront and residential developments and a new administrative centre for Johor. A feature of IM is that it is designed as a low carbon city. As such, it is the first region in Malaysia that has a climate change blueprint to meet its vision of being “a strong, sustainable metropolis of international standing” by 2025. This is very much consistent with the overarching sustainability objective, as well as SRI8, in the NEM. In addition to corporate income tax exemptions and a relaxation of requirements regarding sourcing foreign workers, the regulations governing IM also provides exemptions on affirmative action requirements in which foreign investors must offer a 30 per cent stake in their investment to ethnic Malays (Hew, 2008; Ho *et al.,* 2013; Rizzo & Glasson, 2012).

The objective of the NCER[2] is to add value to existing sectors, such as agriculture, manufacturing, logistics and tourism. The geographic positioning of the NCER seeks to make it a logistics hub for the Indonesia-Malaysia-Thailand Growth Triangle (Hew, 2008). It has a strong social equity dimension given that Northern Malaysia is generally poor and has a disproportionate number of households in poverty. Another feature of the NCER is that it is targeting local investors, rather than foreign investors (Hew, 2008).

With an area measuring more than 66,000 square kilometres, the ECER[3] covers more than half of Peninsular Malaysia and contains 14.5 per cent of the total population of Malaysia. The aim is for the region to be transformed into (i) a major international and local tourism destination; (ii) an exporter of resource based and manufactured products; (iii) a vibrant trading centre; and (iv) an infrastructure and logistics hub. Various projects have been implemented through the five clusters designated for the region, i.e. tourism, oil, gas and petrochemical, manufacturing, agriculture and education. The large

[2] http://www.koridorutara.com.my/
[3] http://www.ecerdc.com.my/ecerdc/

land area and low labour cost in the region provides vast potential for real estate development and large scale commercial farming. Diverse tourism resources in ECER can be further developed for a sustainable tourism economy.

SCORE[4] is a major initiative undertaken to develop the Central Region and transform Sarawak into a developed state by 2020. It aims to accelerate the state's economic growth and development, as well as improving the quality of life for the people of Sarawak. The core of the corridor is the State's energy resources. The corridor has 1.2 billion metric tonnes of known oil reserves, over 80 million tonnes of Silica sand and over 22 million tonnes of Kaolin of China clay. Tanjung Manis, Mukah, Samalaju, Baram and Tunoh have been selected as the five New Growth Nodes. The Tanjung Manis Node will be developed into an Industrial Port City and Halal Hub. The Mukah Node will be developed into a Smart City, and will serve as the nerve centre for the corridor. The Samalaju Node will become the new Heavy Industry Centre, whereas Baram and Tunoh will focus on tourism- and resource-based industries. The 2008-2030 development plan for SCORE focuses on developing the energy sector in the corridor by targeting ten high impact priority industries that will complement the development plan and provide downstream opportunities for small and medium enterprises.

SDC[5] was launched on 29 January 2008 to accelerate the growth of Sabah's economy, promoting regional balance and bridging the rural-urban divide while ensuring sustainable management of the state's resources. Under the SDC initiative, sub-regions and growth centres will be planned systematically to ensure optimum resources utilisation. The initial focus of the SDC is on enhancing Sabah's liveability index and making it a business friendly location. Six Strategic Development Areas, namely (i) the Bio-Triangle; (ii) Agro Marine Belt; (iii) Interior Food Valley; (iv) Kinabalu Gold Coast Enclave; (v) Brunei Bay Integrated Development Area; and (vi) Oil and Gas Clusters have been designated for this purpose.

One of the main problems facing the five economic corridors is attracting domestic and foreign investment. The focus of the NCER on local investors is unsurprising, given that the NCER includes the poorer and least developed states with the exception of Penang. Such states are neither unlikely to be attractive to foreign investors, nor are the NCER's social equity objectives. However, lack of foreign investment, good infrastructure or access to high quality higher education makes it difficult for the NCER to succeed (Hew, 2008).

One of the objectives of the IM is to attract investment from Singapore. However, it will be difficult for the IM to attract investment from Singapore, given IM's focus on services. Singapore is looking to relocate its manufacturing to cheaper locales, such as Johor and Indonesia, while retaining a focus on high-tech research and development. This puts IM in direct competition with Singapore in service sectors such as education, finance, healthcare and logistics (Hew, 2008). More generally, IM has had

[4] http://www.sarawakscore.com.my/
[5] http://www.sedia.com.my/

trouble attracting private investment, in particular in the fallout from the Global financial crisis in 2008-2009. The Southern Industrial and Logistics Clusters in IM have sold few parcels to private firms (Rizzo & Glasson, 2012).

Another problem is that the corridors face limitations as policy driven orchestrated clusters. The literature on clusters suggests that the diffusion of tacit forms of knowledge occurs through spatial confinement. In particular, diffusion of knowledge occurs through regular, spontaneous and informal interaction through interaction between individuals living, and working, within a cluster (see studies discussed in Richardson *et al.,* 2012). There is often a lack of public services in the corridors and those developments which exist to provide entertainment, housing and shopping are geographically dispersed over a wide area, making it an uninviting residential space (Rizzo & Glasson, 2012). The fact that few people live in these spaces severely impedes the level of informal and casual interaction in economic corridors, such as IM. This is certainly true outside the office hours of 9am-5pm on weekdays when office workers return to their homes outside the corridors (Richardson *et al.,* 2012).[6]

Finally, while it is laudable to design the IM as a sustainable (low carbon) regional development, reducing carbon dioxide emissions will prove challenging in the context of maintaining high economic and population growth in the region (Ho & Fong, 2011). Projections by Ho and Fong (2011) suggest that if the present high growth scenario prevails in the IM, and aggressive energy saving measures are not adopted, that carbon dioxide emissions are likely to more than triple their present level by 2025. To realise the government's objective of making IM a low carbon city will require strong political will to promote policies to conserve energy, promote renewable energy and regeneration (Ho & Fong, 2011).

The Competitiveness of the Malaysian Economy

A concern among policymakers in Malaysia is that the country is becoming less competitive vis-à-vis China and India (Hew, 2008). This relates to the general concern that Malaysia is stuck in the middle between being a labour intensive low-income country and an innovation-intensive, high-income country (Hill *et al.,* 2012; Woo, 2011). A study by McKinsey Consulting concluded that middle-level ASEAN countries, such as Malaysia, have lost their competitive advantage to China (Schwartz & Villinger, 2004). The Third Industrial Malaysian Plan (2006-2020) identifies total factor productivity growth (TFP) as holding the key for continued economic growth in the face of lower wage competition in China and India. However, TFP growth has been found to be relatively low in Malaysia. For example, Mahadevan (2011) found that TFP growth in manufacturing was less than 1.5 per cent over the period 1970 and 2002 and that technical efficiency was actually negative.

[6] While not a designated economic corridor as such, the same criticism has been leveled at the multimedia super corridor (MSC). One of the limitations of Cyberjaya, in the MSC is that it is not a residential centre, with most people living in Kuala Lumpur and commuting to work. People do not want to live in Cyberjaya because they claim it lacks character and social amenities (Brooker, 2012; Richardson *et al.*, 2012). As a result, it has been suggested that Cyberjaya is "estranged from its surrounding territory" (Brooker, 2012, p. 50).

The introduction of economic corridors and policies contained in the NEM, ETP and TMP represent responses by the government designed to improve the competitiveness of the Malaysian economy, improve TFP and provide a catalyst for Malaysia to move up the value-added chain in order to escape the middle-income trap. It is useful to get an indication of how Malaysia compares with other Asia Pacific countries in terms of economic competitiveness, in order to ascertain whether the concerns of policymakers are justified.

Table 3 shows the World Competitiveness Scoreboard and Ranking from 2004-2013 from the World Competitiveness Yearbook (WCY). Table 3 suggests that Malaysia is fairly competitive at an international level. The scores are indices from 0 to 100. There are a total of 60 economies covered in 2004 and 2005, 53 economies covered in 2006, 55 economies covered in 2007 and 2008, 57 economies covered in 2009, 58 economies covered in 2010, 59 economies covered in 2011 and 2012 and 60 economies covered in 2013. Malaysia is ranked 16th in 2004, 28th in 2005, 22nd in 2006, 23rd in 2007, 19th in 2008, 18th in 2009, 10th in 2010, 16th in 2011, 14th in 2012, and 15th in 2013. This places Malaysia in the top 25 per cent of countries covered in the WCY rankings. In 2013, Malaysia trailed behind Singapore and Hong Kong, as well as the United States, but was ranked ahead of other Asia Pacific countries such as Thailand, Indonesia, Philippines, Australia, Japan, and Korea. Interestingly, despite the concerns that Malaysia is losing its competitive edge to China and India, Malaysia has been consistently ranked higher than both countries in terms of competitiveness.

Table 4 shows Malaysia's competitiveness ranking based on the WCY, according to different categories. Among countries with population exceeding 20 million, in 2013 Malaysia was ranked 5th out of 29 countries, ahead of Australia, 6th, United Kingdom, 7th, China, 8th, Korea, 9th, and Japan, 10th. Among countries with GDP per capita less than US$20,000 in 2013, Malaysia was the most competitive of 30 countries ahead of China, Chile and Thailand. Of 13 Asia Pacific countries, Malaysia ranked 4th in competitiveness, after Hong Kong, Singapore and Taiwan. Among ASEAN countries, Malaysia is the second most competitive nation, behind Singapore, but ahead of Thailand (3rd), Philippines (4th) and Indonesia (5th).

Table 5 shows the Global Competitiveness Scoreboard and Ranking from 2008-2014 by the Global Competitiveness Report, World Economic Forum. These rankings paint a similar picture to the WCY rankings. The scores are measured on a 1 to 7 scale. There were a total of 134 economies covered in 2008-2009, 133 economies covered in 2009-2010, 139 economies covered in 2010-2011, 142 economies covered in 2011-2012, 144 economies covered in 2012-2013 and 148 economies covered in 2013-2014. Malaysia was ranked 21st in 2008-2009, 24th in 2009-2010, 26th in 2010-2011, 21st in 2011-2012, 25th in 2012-2013, and 24th in 2013-2014. In 2013-2014, Malaysia's ranking placed it in the top 16 per cent of countries in the world, which was ahead of Asian neighbours, Thailand, Indonesia, Philippines, China, India and Korea, but behind Singapore, the United States, Australia, Japan and Hong Kong.

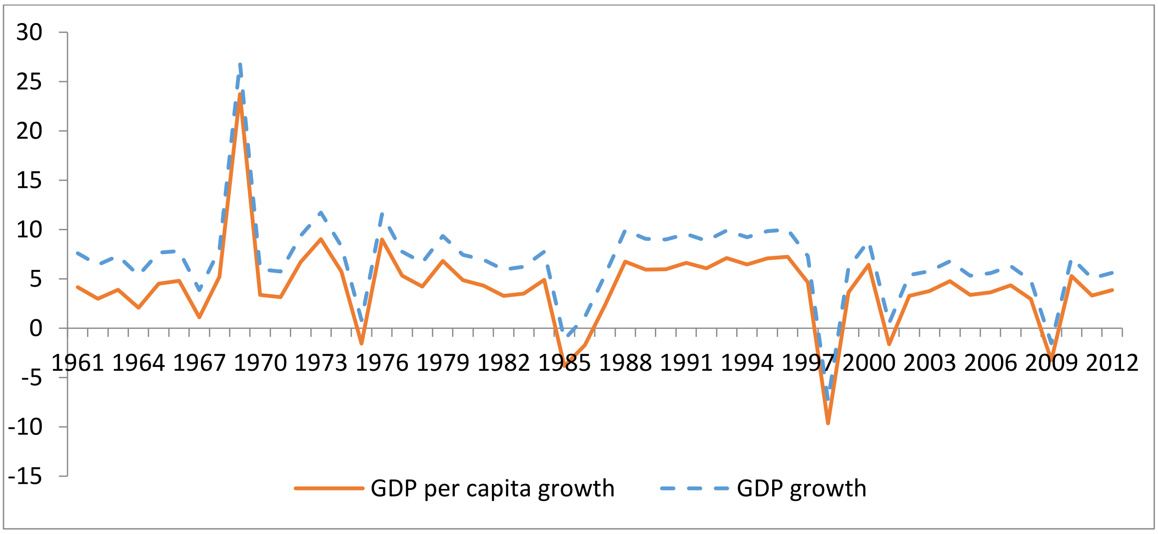
Conclusion

Malaysia has been hailed as a successful model of how export-led industrialisation can ratchet up a low income, predominantly agrarian, economy into middle-income status. The NEP has had its successes. It has ensured political stability and predominantly social harmony in a racially diverse society. The NEP has also reduced inter-ethnic income disparities. However, increasingly the political economy drivers of Malaysian growth have come into question as the development literature ponders whether Malaysia is a nation caught in a middle-income trap. The international competitive indices suggest that Malaysia remains competitive relative to other Asian countries and is in the top 15-25 per cent of countries globally. This fact, though, does little to sooth the critics of Malaysia's recent economic record who argue that it is the NEP which is the real barrier to Malaysia escaping the middle-income trap. This literature points to the decline in private investment since the Asian financial crisis and distortions to the economy caused by a racially based affirmative action policy.

This paper has critically examined Malaysia's economic performance over five decades and recent planning documents which layout a blueprint for economic reform in the future. The picture that emerges is that the jury remains out on whether the NEP has been beneficial for Malaysia. The side of the fence once comes down on depends on which objectives one values most. Perhaps one of the most difficult aspects of evaluating the historical contribution of the NEP is that we do not know the counter-factual. Would, in the absence of the NEP, Malaysia have gone down the same road as countries such as Fiji with deleterious consequences for growth or would growth have been even higher in the absence of economic distortions?

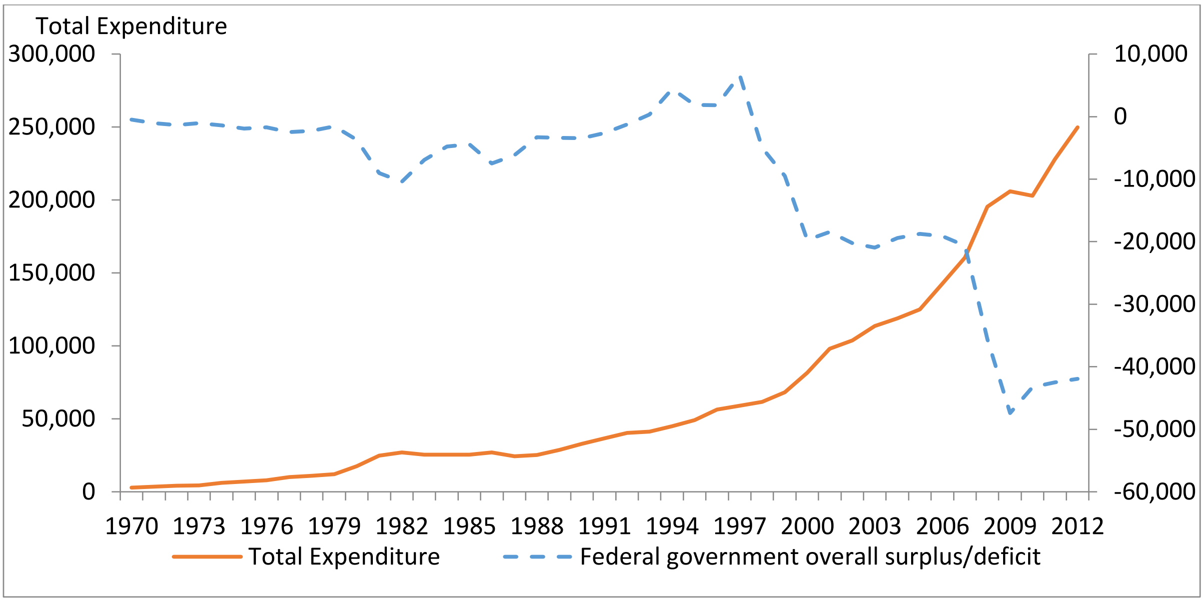
We concur with those who argue that the NEP has had its time. The move in the NEM to focus on the bottom 40 per cent of the income distribution, regardless of race, is a welcome one. The real issue now becomes whether UMNO can successfully implement the NEM, ETP and TMP. While it is still too early to make a definitive call on this, the early signs are worrying. As several commentators have noted, the Malaysian government has already shown signs of backtracking when confronted with the need to appease key Malay nationalists. That the political landscape in terms of much tighter elections, has changed in Malaysia compared with the past puts further pressure on UMNO. But it is important Malaysia gets the NEM/ETP blueprint right. Without it, Malaysia might remain trapped in the middle.

Figure 1: Malaysia Annual GDP Growth and GDP per Capita Growth (in %)



Source: World Bank (2013)

Figure 2: Malaysia Total Expenditure and Budget Surplus/Deficit (RM millions)



Source: Bank Negara Malaysia, Monthly Bulletin, various issues

Table 1: Malaysia Gross Domestic Product (GDP constant 2005 US$ million)

Year	GDP	GDP per capita	Period	GDP per capita growth (%)
1960	6,654	815	1961-1970	5.6
1965	9,278	970		
1970	15,090	1,383	1971-1980	5.3
1975	21,289	1,729		
1980	32,070	2,318	1981-1990	3.2
1985	41,134	2,609		
1990	57,312	3,147	1991-2000	4.6
1995	90,110	4,348		
2000	113,868	4,862	2001-2012	2.8
2005	143,533	5,554		
2010	178,221	6,303		
2012	197,794	6,765		

Source: World Bank (2013) and authors' own calculation.

Table 2: Overview of Malaysia's Five Economic Corridors

Corridor	Iskandar Malaysia	NCER	ECER	SDC	SCORE
Development Period	2006-2025	2007-2025	2007-2020	2008-2025	2008-2030
Vision	A strong and sustainable metropolis of international standing	World-class economic region 2025	A developed region defined by three characteristic – distinctive, dynamic and competitive	Harnessing unity in diversity for wealth creation and social well being	Developed and industrialised state
Area of Coverage	2,216 sq km	17,816 sq km	66,736 sq km	73,997 sq km	70,708 sq km
Focus Sector / Industry	Education Financial Healthcare ICT and Creative Industries Logistic Tourism	Agriculture Human Capital Infrastructure Manufacturing Tourism	Agriculture Education Manufacturing Oil, Gas and Petrochemical Tourism	Agriculture Environment Human Capital Infrastructure Manufacturing Tourism	Aluminium Glass Marine Engineering Metal-based Petroleum-Based Timber-Based Aquaculture Livestock Palm Oil Tourism
Corridor Authority	Iskandar Region Development Authority (IRDA)	Northern Corridor Implementation Authority (NCIA)	East Coast Economic Region Development Council (ECERDC)	Sabah Economic Development and Investment Authority (SEDIA)	Regional Corridor Development Authority (RECODA)
Expected Employment (million)	1.4	3.1	1.9	2.1	3
Expected Investment (RM million)	382	178	112	113	334

Source: BizHive Weekly, The Borneo Post

Table 3: IMD World Competitiveness Yearbook Rankings by Countries, 2004-2013

Panel A: Scoreboard

Year	Malaysia	Singapore	Thailand	Indonesia	Philippines	US	Hong Kong	Australia	China	Korea	Japan	India
2004	75.919	89.008	68.235	38.095	49.666	100.000	85.765	86.046	70.725	62.201	71.915	62.971
2005	65.844	89.679	66.012	33.811	51.103	100.000	93.073	81.975	63.219	64.239	68.652	59.053
2006	70.080	90.993	62.598	36.051	49.041	100.000	96.866	82.501	71.554	57.680	74.231	64.416
2007	74.091	99.121	57.758	37.410	47.163	100.000	93.541	82.387	79.484	61.564	72.405	63.380
2008	73.199	99.330	63.096	41.520	50.478	100.000	94.964	83.500	73.758	58.884	70.028	60.625
2009	77.162	95.740	70.762	55.479	54.490	100.000	98.146	88.934	76.595	68.408	78.242	66.454
2010	87.228	100.000	73.233	60.745	56.526	99.091	99.357	92.172	80.182	76.249	72.093	64.567
2011	84.120	98.557	74.886	64.610	63.291	100.000	100.000	89.259	81.100	78.499	75.214	70.649
2012	84.217	95.923	69.001	59.499	59.271	97.755	100.000	83.185	75.769	76.747	71.354	63.596
2013	83.145	89.857	72.966	61.805	63.146	100.000	92.783	80.513	77.040	75.169	74.529	59.888

Panel B: Ranking

Year	Malaysia	Singapore	Thailand	Indonesia	Philippines	US	Hong Kong	Australia	China	Korea	Japan	India	Total
2004	16	2	29	58	52	1	6	4	24	35	23	34	60
2005	28	3	27	59	49	1	3	9	31	29	21	39	60
2006	22	3	29	52	42	1	2	6	18	32	16	27	53
2007	23	2	33	54	45	1	3	12	15	29	24	27	55
2008	19	2	27	51	40	1	3	7	17	31	22	29	55
2009	18	3	26	42	43	1	2	7	20	27	17	30	57
2010	10	1	26	35	39	3	2	5	18	23	27	31	58
2011	16	3	27	37	41	1	1	9	19	22	26	32	59
2012	14	4	30	42	43	2	1	15	23	22	27	35	59
2013	15	5	27	39	38	1	3	16	21	22	24	40	60

Source: IMD World Competitiveness Yearbook

Table 4: Malaysia's Performance in the World Competitiveness Yearbook Rankings by Categories

	2013	2012	2011	Top Performer 2013
GDP per Capita Less Than USD 20,000	1	2	2	Malaysia
Population Greater Than 20 Million	5	5	6	USA
Asia Pacific Region	4	4	5	Hong Kong
ASEAN Region	2	2	2	Singapore

Table 5: Global Competitiveness Index 2008-2009 to 2013-2014

Panel A: Scoreboard

Year	Malaysia	Singapore	Thailand	Indonesia	Philippines	US	Hong Kong	Australia	China	Korea	Japan	India
2008-2009	5.04	5.53	4.60	4.25	4.09	5.74	5.33	5.20	4.70	5.28	5.38	4.33
2009-2010	4.87	5.55	4.56	4.26	3.90	5.59	5.22	5.15	4.74	5.00	5.37	4.30
2010-2011	4.88	5.48	4.51	4.43	3.96	5.43	5.30	5.11	4.84	4.93	5.37	4.33
2011-2012	5.08	5.63	4.52	4.38	4.08	5.43	5.36	5.11	4.90	5.02	5.40	4.30
2012-2013	5.06	5.67	4.52	4.40	4.23	5.47	5.41	5.12	4.83	5.12	5.40	4.32
2013-2014	5.03	5.61	4.54	4.53	4.29	5.48	5.47	5.09	4.84	5.01	5.40	4.28

Panel B: Ranking

Year	Malaysia	Singapore	Thailand	Indonesia	Philippines	US	Hong Kong	Australia	China	Korea	Japan	India	Total
2008-2009	21	5	34	55	71	1	11	18	30	13	9	50	134
2009-2010	24	3	36	54	87	2	11	15	29	19	8	49	133
2010-2011	26	3	38	44	85	4	11	16	27	22	6	51	139
2011-2012	21	2	39	46	75	5	11	20	26	24	9	56	142
2012-2013	25	2	38	50	65	7	9	20	29	19	10	59	144
2013-2014	24	2	37	38	59	5	7	21	29	25	9	60	148

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