

Book Review

Malaysia@50: Economic Development, Distribution, Disparities by Jomo Kwame Sundaram and Wee Chong Hui, (2014) Petaling Jaya: Strategic Information and Research Development Centre, 2014, 216pp.

On Malaysia's 50th independence anniversary in 2007, the Nobel Prize-winning economist Joseph Stiglitz extolled the country's developmental record as a "miracle" with "much to teach the world about economics..."¹ As it well should be: one of poorest nations in Asia in its early years, the country's subsequent experience has instead catapulted it to the echelons of high-growth economies in the Asia-Pacific. What processes have paved the way for this unprecedented economic transformation?

This economic history is the subject of Jomo Kwame Sundaram and Wee Chong Hui's compelling book *Malaysia@50*. Espousing a historically-grounded political economy approach to the analysis of the country's development, they contend, against the grain of orthodox economic literature on Malaysia, that timely, appropriate and responsive government interventions in the policy, planning and public expenditure fronts have been at the heart of the country's sterling five-decade developmental record². Yet this role of the state was by no means a pre-given and fixed feature of the Malaysian economy: as the book's first part elaborates, the exact orientation of Malaysian state intervention in overcoming development challenges has varied distinctly across five different "development stages", each typified by different regulatory orders and political priorities. From laissez-faire and generally pro-British investor inclinations in the post-independence era (albeit with limited ISI and rural development efforts), state economic involvement escalated dramatically following the May 1969 race riots and the adoption of the New Economic Policy (NEP) in 1971, with government enlarging its role in areas of public resource allocation, public sector ownership, and business regulation so as to achieve the inter-ethnic restructuring objectives of the NEP, even while embarking on development strategies of export-oriented industrialization.

With the ascent-to-power of Mahathir Mohamad, the government's intervention regimes experienced shifts of comparable magnitude. From roughly 1981 to 1985 (Mahathir's "Look East" period), Malaysian state activism gravitated towards attempting heavy industrialization and the creation of a homegrown Bumiputera industrialist class in the mold of Japan and South Korea, as evidenced by strategic protectionist measures, subsidies to selected sectors as well as high-profile ventures like the Proton Car project. In the aftermath of the mid-1980's recession, government policy and

planning rebalanced towards a selective liberalization of the economy³ as a means of reaping investment from domestic and foreign sources, downsizing the fiscal burden of what was by then one of the largest public sectors in the developing world, and sustaining efforts to foster the expansion of favored Malay capitalist elites via a centerpiece privatization program. GDP growth rates soared to their highest recorded levels since independence—yet the more liberal *modus vivendi* remained marred by structural vulnerabilities and ultimately unraveled with the onset of the Asian Financial Crisis in 1997. Famously, the Malaysian government imposed capital controls to weather the crisis' financial storms while bailing-out nationally-significant and politically-connected interests, signaling a broader policy return towards more systematic intervention where the regulatory regime has overall remained.

Highlighting this central role of the state in Malaysia's development trajectory, however, does not mean lionizing it as consistently progressive and pro-poor. In this regard, Jomo K.S. and Wee Chong Hui make no bones in accentuating the "crony," "ersatz capitalist," and "rentierist" mores of state-business ties that predominated over the decades, such as with the much-ballyhooed privatization program which arguably benefitted patronage-linked business elites over broader public interest. Among many other trends, parts II and III (focusing on distribution and public finance issues) demonstrate that while certain lengths of Malaysia's economic history have witnessed spells of pro-poor and equitable growth, other intervention-laden periods have nonetheless been associated with imbalanced outcomes. Whereas the first decade of NEP implementation, for instance, produced appreciable declines in inter-ethnic income disparities, overall household income inequalities and wealth ownership disparities, while upholding relative progressivity in income taxes, later developments in the 1990's—the heyday of Mahathir's heterodox liberalization—have also underscored rising levels of both inter-ethnic and intra-ethnic income inequality. Even since the 1980's, the country's distribution of tax burdens had already been growing more regressive in line with the government's investment attraction drive, though this regressivity was further worsened with the privatization of crucial public services such as in health and water supply.

No less pressing have been gross spatial disparities between the more developed states of Peninsular Malaysia and more peripheral ones like Sabah, Sarawak and Pahang, which continue to lag behind in terms of growth, poverty alleviation performance, infrastructural development, and employment. As part IV's analysis of Malaysian federalism demonstrates, this uneven regional development of Malaysia's states has been a partial outcome of highly-asymmetrical federal-state relations. Even as the Malaysian federal government has controlled the majority of public revenues

and governance functions, the ruling coalition has apparently prioritized political considerations over existing development needs in the allocation of transfers towards fiscally-constrained state governments. In separate periods when the states of Kelantan, Sabah and Terengganu fell under opposition control, to provide some examples, federal functionaries have been documented to delay grants, ban state log exports, and divert offshore petroleum royalties.

Perhaps the most vital contribution of the authors of *Malaysia@50* lies in how they advance beyond the conventional wisdom of market-oriented, state-centric and/or racial-populist policy discourses towards a guarded appreciation of the role of the state in the Malaysian economic “miracle.” This already makes the book a commendable, yet highly-accessible, addition to the lively political economy literature about the country’s developmental history. Yet even while consistently stressing the centrality of the Malaysia’s state intervention, it is striking that the authors do not sustain inquiry into the conditions that capacitated the Malaysian government for intervening effectively in economic life in the first place. While it is certainly crucial to emphasize the instrumental role of the Malaysian state, the absence of such an inquiry leaves the book’s analyses unable to provide substantive responses to pressing questions concerning the relation between growth and institution-building. What must countries hoping to emulate Malaysia do, to begin with, if they have not yet been consolidated state apparatuses with comparable institutional capacity? Indeed, as some political observers have already pointed out, this exceptional political strength and institutional capacity of the Malaysian (as well as Singaporean) state has been a core distinguishing feature of the country from most other developing nations throughout the post-war period⁴.

That record of state capacity for intervention, as well as of timely policy adjustments in the face of changing historical circumstances, will undoubtedly continue to rouse the curiosity of development experts, scholars and policymakers for decades yet to come. One can be sure that reading *Malaysia@50* will be among the best starting points available to them.

Notes

1. Joseph Stiglitz, “The Malaysian Miracle,” *The Guardian*, 13 September 2007, <http://www.theguardian.com/commentisfree/2007/sep/13/themalaysianmiracle>
2. Of course, the authors clarify that the appropriate government intervention was not the only important factor in achieving Malaysia’s successful growth record. In particular, they point out favorable national as well as international economic conditions (e.g. high commodity export prices), and

the effective use of initial natural resource wealth as other relevant contributors. Still, as their introduction expressly states, “Malaysia’s generally impressive economic development has been largely due to appropriate government interventions and reforms, which have not crowded out, but have instead induced private investments.”

3. For instance, the authors maintain that partial financial liberalization was undertaken since the late 1980’s through means like loosening national prudential regulation, reducing the powers and jurisdiction of the Malaysian central bank, promoting stock market development, and creating an offshore financial centre in Labuan. Nonetheless, the strong role of the Central Bank in setting the pace of liberalization remained evident: in liberalizing the Malaysia banking industry, for instance, local banks were forced to merge to ensure better competition against impending international entrants.
4. Dan Slater (2012). “Strong-State Democratization in Malaysia and Singapore.” *Journal of Democracy* 23(2): 20-21, 24. Just to provide one example of Malaysia’s exceptional state capacity, as discussed by Slater: from being a state without a significant system of direct taxation before World War II and the Malayan emergency, subsequent reforms in civil administration and tax system development initiated by the British, rapidly allowed Malaysia (and Singapore) to overtake their regional neighbors’ ability to collect direct taxes.

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