Malaysia's Economic Trajectory

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How does your country get on an economic growth trajectory?

- *It's a jungle out there – how does your country differentiate itself?*
- *What options do you have and what results can you achieve, given your limitations and political short-termism?*
- *From a long term historical perspective, current world growth has been one of the slowest*
- *The best (growth) performers has been from Asia, Japan at 8% (1950-1973), South Korea at 6.6% (1973-1990), and China at 7.7% (1990-2005).*
- *Which country is next to promote?*
- *What is the common underlying reason for these rapid growth spurts?*
    - ***Structural changes – from low productivity to high productivity activities***
    - ***Developing industrial capabilities rather than focusing on their comparative advantage, as part of a more dynamic economic management strategy***

Why do countries experience rapid economic growth?

Success Stories of Sustained, High Growth			
	Period of high growth	Per capita income at the beginning	Per capita income in 2005
Botswana	1960–2005	210	3,800
Brazil	1950–1980	960	4,000
China	1961–2005	105	1,400
Hong Kong	1960–1997	3,100	29,900
Indonesia	1966–1997	200	900
Japan	1950–1983	3,500	39,600
South Korea	1960–2001	1,100	13,200
Malaysia	1967–1997	790	4,400
Malta	1963–1994	1,100	9,600
Oman	1960–1999	950	9,000
Singapore	1967–2002	2,200	25,400
Taiwan	1965–2002	1,500	16,400
Thailand	1960–1997	330	2,400
*Economies that have reached industrialized countries' per capita income levels.	**Period in which GDP growth was 7 percent per year or more.	***In constant US$ of 2000.	
Source: World Bank, World Development Indicators.			

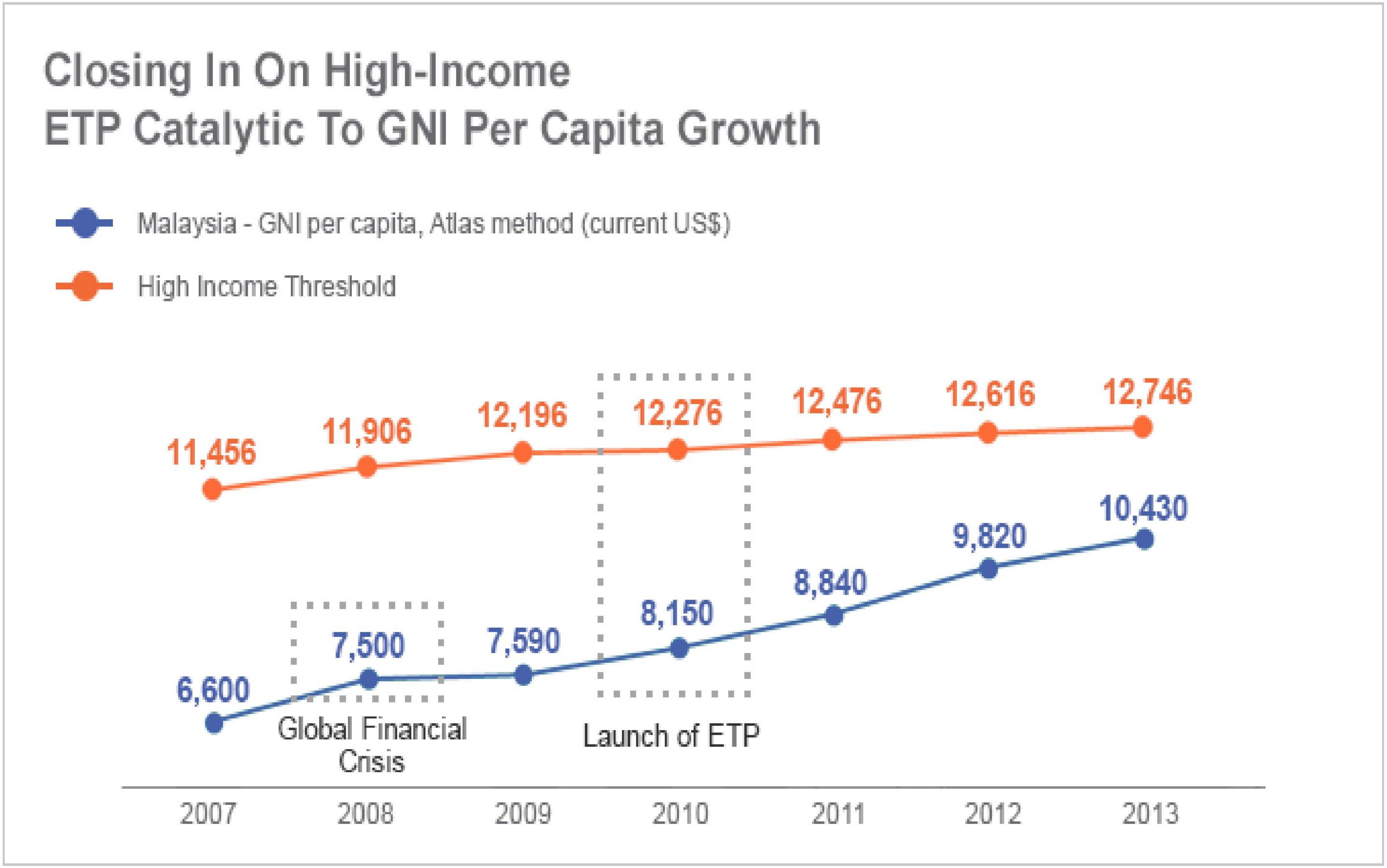
What are the common or uncommon factors of these 13 countries?

- Every region of the world is represented – fast growth occurs in every corner of the world, where there is capable leadership and competent administration
- Some countries are as big as the combined size of several countries; others are small like city states.
- Some of the countries are rich in natural resources; the rest are not.
- One country is the world's most populous country while another has a population well below 500,000 (Malta).
- Six of the economies (Hong Kong, China; Japan; Korea; Malta; Singapore; and Taiwan, China) continued to grow all the way to high-income levels. But several of the others lost some or all of their growth momentum long before catching the leading economies
- They maintained macroeconomic stability, modest inflation, and high rates of saving and investment over the growth period
- Their economies exploited global demand trends and were in sync with the global big brother economies

Conclusion: There are some similarities but overall, there is no cookie cutter path to sustained economic growth

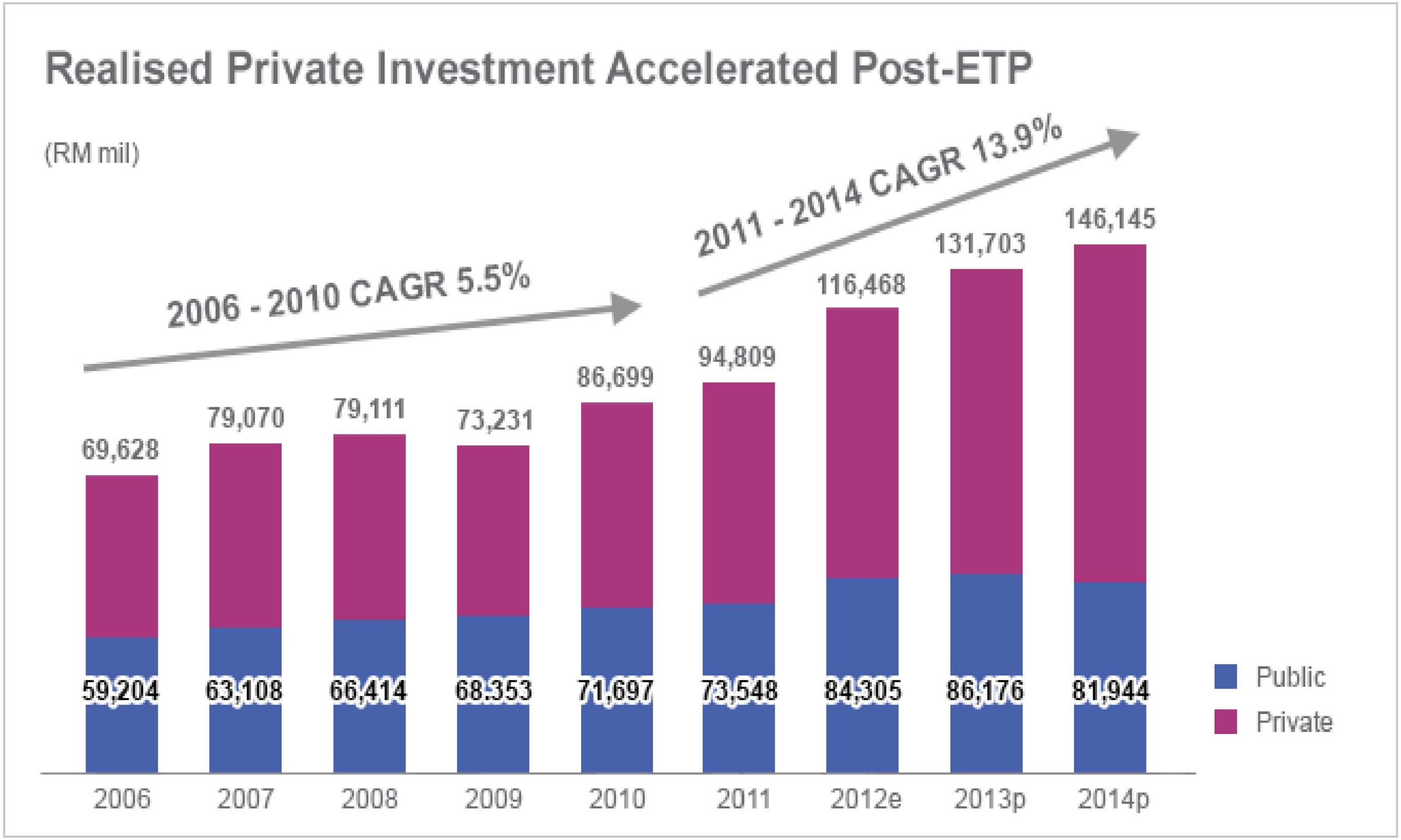
What is Malaysia's Economic Challenge

- Malaysia jumped to lower income to a middle income economy by changing from natural resources based agricultural and manufacturing based economy to electronics manufacturing.
- *But to reach developed nation status require evident improvements in human capital and institutional integrity to successfully undertake a higher complexity economic track*
- *These skills are required for Malaysia to undertake more complex engineering in areas it already excels in such as electronics and automobiles, and to provide higher value-add financial services, etc.*
- *Malaysia needs to develop a capability to think adapt and quickly fine-tune economic strategies as the global outlook changes*
- *The government has been extremely courageous in pursuing its current economic strategies*
- High-speed growth relies on export growth and a rapid integration into the global economy. That process is affected by exchange rates, interest rates, and inflation. Thus the central bank's choices in all three areas bear heavily on the implementation of a growth strategy.



Source: World Bank Atlas Method

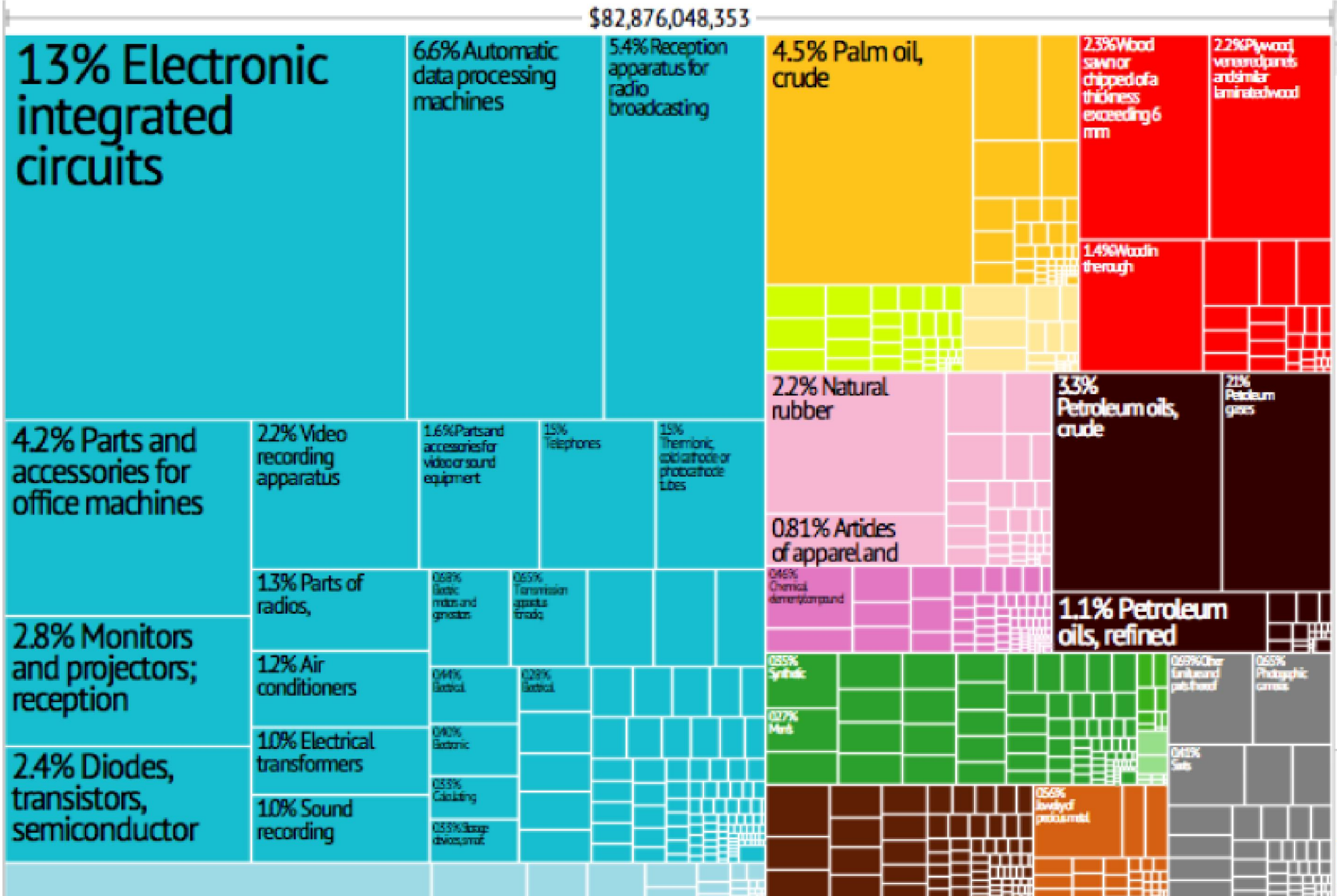
There has been clear progress towards DNS



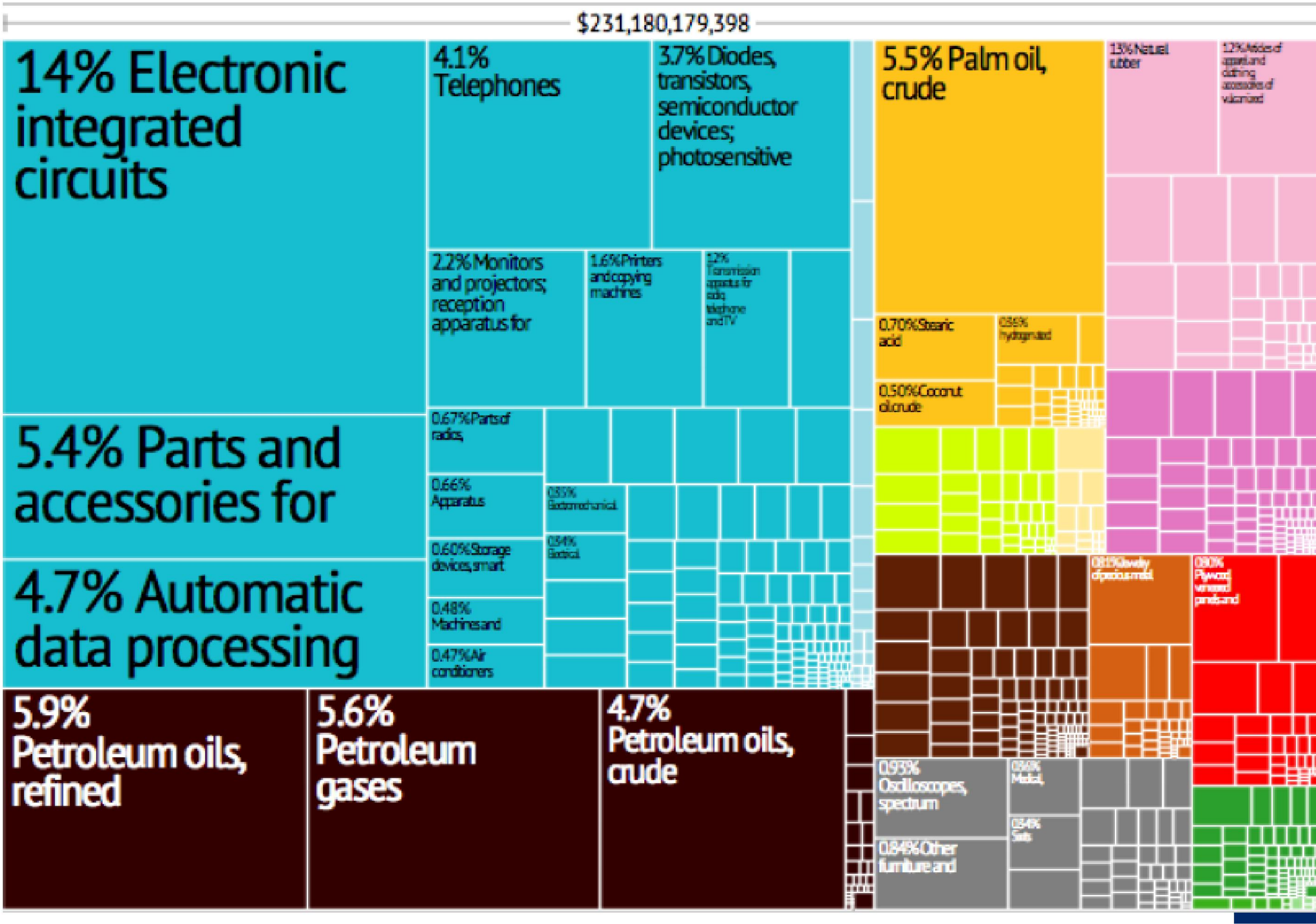
Source: Department of Statistics, Private Investment in Constant 2005 Prices in RM

- Private consumption taking a lion's share of demand

Malaysia's export structure in 1995



Malaysia's export structure in 2010



Avoiding The Middle Income Trap

Growth: How fast do countries have to grow to avoid the MIT?

Average growth in Income Per Capita must be about 4.5% per annum for 30 years

- Malaysia's gross domestic product (GDP) expanded by 4 per cent in the second quarter, and from January to June, the GDP grew at 4.1 per cent. They are within the government's target for this year's GDP growth at 4 to 4.5 per cent.
- Malaysia's growth rate is sustainable but challenging because it is committed to a fiscal consolidation agenda to reduce the fiscal deficit to 3.1 per cent this year from 6.7 per cent in 2009, now about 50% of GDP.
- Growth may depend on government investment; if the government cuts this investment to meet a fiscal deficit target, growth may falter, leaving the medium run debt-to-GDP ratio no better off than before. Thus, pragmatism suggests that any assessment of the public finances should take account of the economy's growth rate, and the effect of public expenditure on that growth.
- Public investment is commonly crowded out by demands for current expenditures and redistribution. This partly reflects political short-termism, a view that places a higher value on current consumption relative to future consumption. For growth to happen, government revenue must be adequate for both consumption and investment.

Economies that became lower middle-income after 1950 and graduated to upper middle-income

Country	Region	Year country turned LM (Y_{LM})	Year country turned UM (Y_{UM})	No. of years as LM	Ave. GDP per capita growth rate (Y_{LM} to Y_{UM})
China	Asia	1992	2009	17	7.5
Malaysia	Asia	1969	1996	27	5.1
Rep. of Korea	Asia	1969	1988	19	7.2
Taipei,China	Asia	1967	1986	19	7.0
Thailand	Asia	1976	2004	28	4.7
Bulgaria	Europe	1953	2006	53	2.5
Turkey	Europe	1955*	2005	50	2.6
Costa Rica	Latin America	1952*	2006	54	2.4
Oman	Middle East	1968	2001**	33	2.7

*This refers to the second time Turkey and Costa Rica attained lower middle-income status. Turkey became lower middle-income in 1953 but slipped back to low income in 1954; Costa Rica became lower middle-income in 1947 but slipped back to low-income in 1950.

**This refers to the second time Oman attained upper middle-income status. It became upper middle-income in 1997 but fell back to lower middle-income in 1998.

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Economies that became upper middle-income after 1950 and graduated to high income

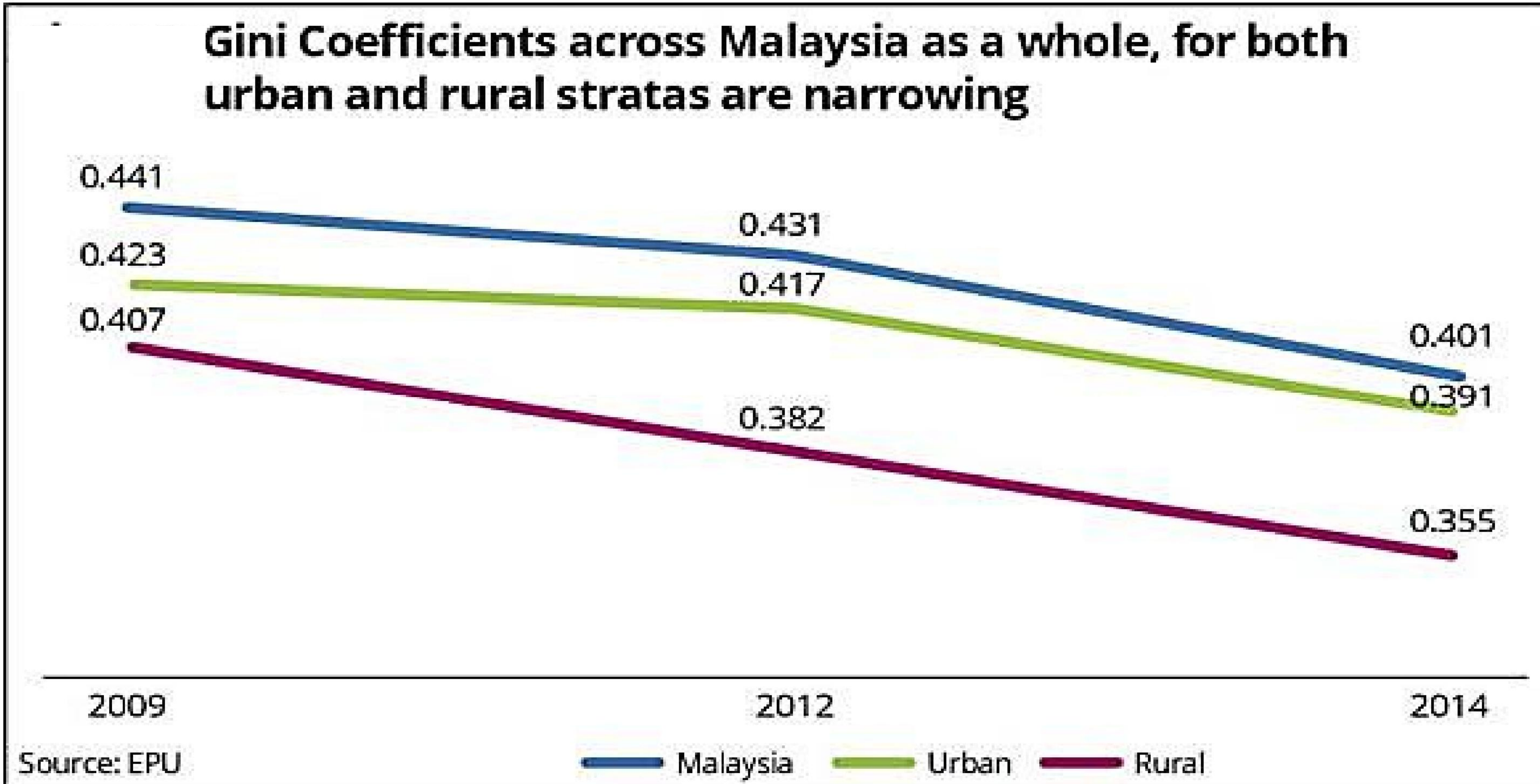
Country	Region	Year country turned UM (Y_{UM})	Year country turned H (Y_H)	No. of years as UM	Ave. GDP Per capita growth rate (Y_{UM} to Y_H)
Hong Kong, China	Asia	1976	1983	7	5.9
Japan	Asia	1968	1977	9	4.7
Rep. of Korea	Asia	1988	1995	7	6.5
Singapore	Asia	1978	1988	10	5.1
Taipei,China	Asia	1986	1993	7	6.9
Austria	Europe	1964	1976	12	4.1
Belgium	Europe	1961	1973	12	4.4
Denmark	Europe	1953	1968	15	3.3
Finland	Europe	1964	1979	15	3.6
France	Europe	1960	1971	11	4.4
Germany	Europe	1960	1973	13	3.4
Greece	Europe	1972	2000	28	1.8
Ireland	Europe	1975	1990	15	3.2
Italy	Europe	1963	1978	15	3.4
Netherlands	Europe	1955	1970	15	3.3
Norway	Europe	1961	1975	14	3.5
Portugal	Europe	1978	1996	18	2.8
Spain	Europe	1973	1990	17	2.7
Sweden	Europe	1954	1968	14	3.6
Argentina	Latin America	1970	2010	40	1.2
Chile	Latin America	1992	2005	13	3.7
Israel	Middle East	1969	1986	17	2.6
Mauritius	Sub-Saharan Africa	1991	2003	12	4.0

Economies in the upper middle-income trap in 2010

Country	Region	2010 GDP per capita (1990 PPP $)	No. of years as LM	No. of years as UM until 2010	Ave. growth 2000-2010	No. of years to reach $11,750
Malaysia	**Asia**	**10,567**	**27**	**15**	**2.6**	**5**
Uruguay	Latin America	10,934	112	15	3.3	3
Venezuela	Latin America	9,662	23	60	1.4	15
Saudi Arabia	Middle East	8,396	20	32	0.9	37
Syria	Middle East	8,717	46	15	1.7	18

* No. of years to reach $11750 = ln(11750/gdp2010) / ln(1 + avegr), where avegr is the average growth rate of income per capita during 2000-2010.

Good progress on income inequality as indicated by the reduction of Gini coefficient from 0.441 in 2009 to 0.401 in 2014



The distribution of income in successful, high-growth economies varied a lot: Botswana had a Gini coefficient of 0.61 in 1993, Indonesia 0.34.But all showed a commitment to equality of opportunity. Failure on this score harms the economy, by distorting the pattern of investment.

Developing a Capability to Quickly Adapt to Globalisation

- Identifying 'game changers' which could potentially change the trajectory of national growth. We have been a middle income for too long.
- Traditionally commodities-dominated and Government-driven, Malaysia's economy is now in transition to high value-add industries, financial services and
- The new model is the government facilitates the private sector to take risks and make profits (or losses) via PPPs
- As part of its strategy canvass, in 2010, the National Transformation Programme (NTP) was unveiled, comprising two components: the Economic Transformation Programme (ETP) and the Government Transformation Programme (GTP), both overseen by the Performance Management and Delivery Unit, established within the Prime Minister's Department.
- The eleventh economic plan for Malaysia identifies six "Strategic Thrusts", key points along which the economic policies will focus to ensure Malaysia reaches its goal of becoming a high-income country by 2020. The key target for the whole plan is for Malaysia to reach the **advanced economy status**, that is to say a **national income per capita above USD 15,000**.

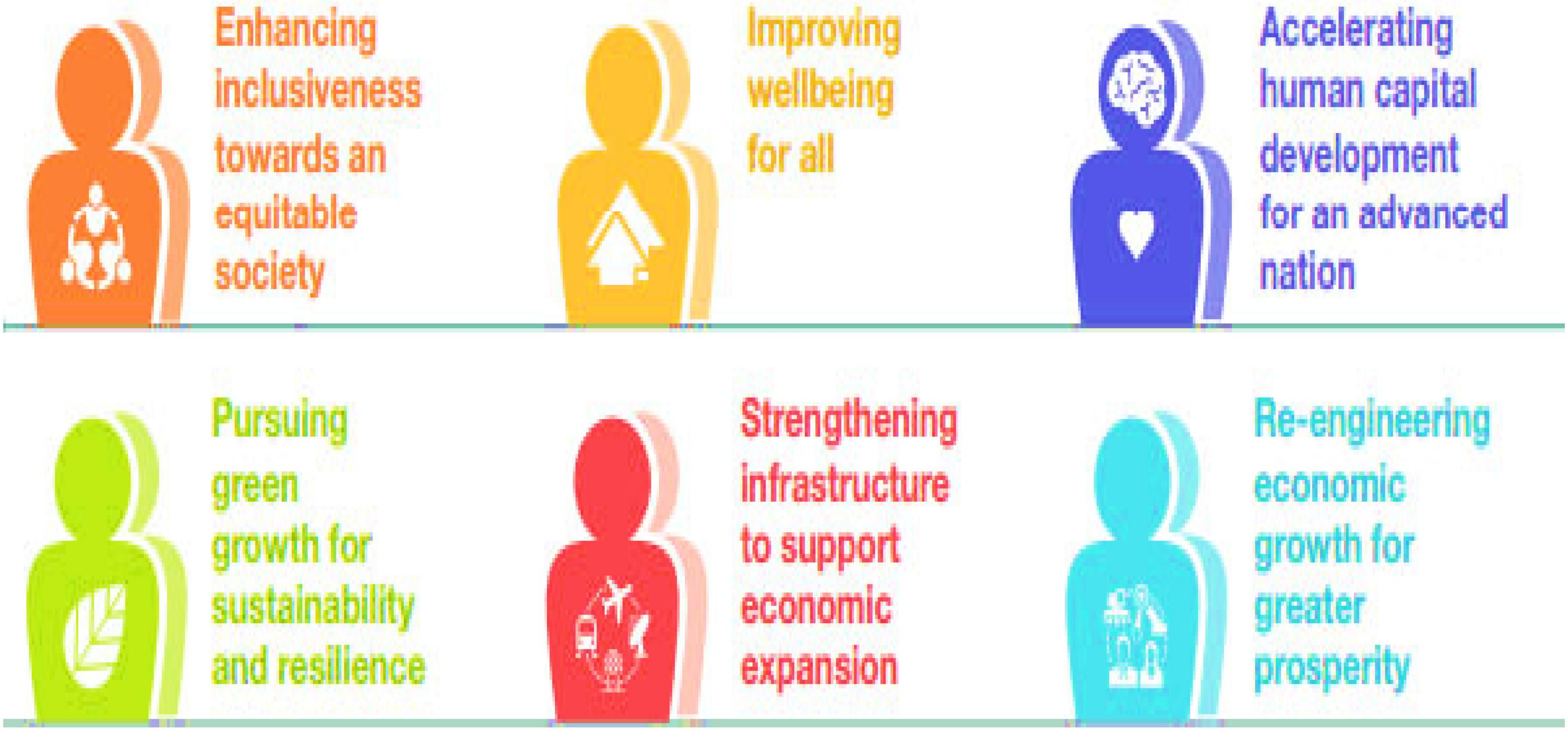
Ensuring Everyone Benefits From Economic Growth

- **Improving wellbeing for all – NKRAs - more affordable housing, quality healthcare, lower crime, more sports**
- No sustained growth without inclusiveness, towards a more equitable society
- How we achieve growth is also important – if it is through massive overseas borrowing, that is not good.
- Who benefits and who loses? Growth for whom?
- Allocation of the benefits of growth must be seen as fair
- In defense of BRIM1 – the common touch point to feel the pulse of national economic growth
- Will the entry of new international players mean our SMEs will loose? *The new agreements could potentially impact unskilled workers and businesses that are less competitive.* SMEs in Malaysia represent 97.3 % of firms & accounted for 35.9 % of GDP in 2015, but account for only 17.8 % of exports.
- SMEs are substantially less productive than large firms. It will be critical to address the constraints SMEs face in order to raise productivity and reap the benefits of emerging trade opportunities.

Threats to Malaysia's Sustained Economic Growth

- On-going rebalancing in China's economy may affect the Malaysian economy, as China remains a major trade partner of Malaysia
- Private consumption relied to spur growth but gradual deceleration of consumption due to softening in the labour market and continued adjustment to fiscal consolidation - such as subsidy rationalisation and the introduction of GST, a politically challenging measure
- Trump in the US, volatility in Europe, China's slower economic growth, high national debt, rapid ageing of the population, and uncertainty over the growth trajectory in the global economy – impact of the "the new abnormal" on Malaysia's export led economy
- Commodity price instability (oil palm and crude oil) – chance to doversify
- We need an economy which is less reliant on the huge number of foreign workers and the low-cost economic model it permits. Instead, we need to improve our education standard so that we can compete internationally
- We should be nurturing Malaysian SMEs rather than being dependent on the vicissitudes of FDI
- Need to continue paring our government debt (now about 2% away from limit of 55% of GDP) to avoid being downgraded by ratings agencies.

Six strategic thrusts



The Six Game Changers

The Malaysian government also identified six “Game Changers”, innovative approaches that will change the trajectory for the country’s economic growth and enable it to reach its economic goals:

- Unlocking the potential of productivity
- Uplifting the B40 households (bottom 40% household income group) towards a middle-class society
- Enabling industry-led Technical and Vocational Education and Training (TVET)
- Embarking on green growth
- Translating innovation to wealth
- Investing in competitive cities

A new generation of Regional Agreements

- Malaysia is now engaging in a new generation of regional agreements including the Regional Cooperation Economic Partnership (RCEP), the Trans-Pacific Partnership (TPP) and the European Union Free Trade Agreement (EUFTA).
- These agreements can help attract investment, spur innovation and technological upgrading, and further open up market access for Malaysia’s exports of goods and services.
- Trade agreements boost productivity and growth, contributing to Malaysia's successful development
- The implementation of new regional trade agreements can help Malaysia implement key economic reforms needed to accelerate the country’s transition to high-income status., in areas such as competition policy, government procurement, investment-state disputes, and investment policies

The Commission on Growth and Development, World Bank

- The Commission on Growth and Development released its final report, *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, which looks at how developing countries can achieve fast sustained and equitable growth.
- According to the Commission, fast sustained growth is not a miracle; it is attainable for developing countries with the "right mix of ingredients."
- Countries need leaders who are committed to achieving growth and who can take advantage of opportunities from the global economy. They also need to know about the levels of incentives and public investments that are necessary for private investment to take off and ensure the long-term diversification of the economy and its integration in the global economy.

The Policies of Growth

1. The first set of policies on the list falls into the category of "accumulation." It includes **strong public investment**, which helps the economy to accumulate the infrastructure and skills it needs to grow quickly.

2. The next group of measures promotes "**innovation" and "imitation**." They help an economy to learn to do new things—venturing into unfamiliar export industries for example—and to do things in new ways.

3. The third set of policies concerns the "**allocation" of capital** and, especially, labour. They allow prices to guide resources and resources to respond to prices. This microeconomics cannot unfold if it is rudely interrupted by debt crises or wild fluctuations in the general price level. The fourth group of policies therefore ensures the "stabilization" of the macroeconomy, safeguarding against slumps, insolvency, and runaway inflation.

4. The fourth is a set of policies to promote **"inclusion**." If a growth strategy brings all classes and regions of a society along with it, no group will seek to derail it.

Closing thoughts

As the economy evolves from middle to high income, it branches out into more capital-intensive and skill-intensive industries. The service sector grows. The domestic economy with its increased size and wealth becomes a more important engine of growth.

The sudden drop in commodity prices is a good time to diversify an economy— easier to create room for export industries that do not rely on nature's patrimony

We want to avoid a tsunami of the ignored. Social cohesion is required for economic prosperity

Oil prices are around US$42 a barrel and not expected to get better

Measures to provide more for the lower-income group – such as the minimum wage policy and the 1Malaysia People's Aid (BR1M) has been implemented with good effect

The need to avoid one-size-fits-all approaches and to tailor economic policies to country-specific circumstances

We have not done enough to modernise agriculture which our country are naturally suited to. Changing our growth strategy from being resource-driven to a growth based on high productivity and innovation seems to have excluded agriculture.

If the government's spending on infrastructure is too large, it can also crowd out private investment in the future. Spending, after all, must be financed by taxes, fees, or inflation, all of which deprive the private sector of resources it might otherwise have invested in growth.