Chapter 3

Malaysia aims to become a high-income country —The difficulty in demolishing long-standing abuses so as to maintain high growth

Ryuichi Ushiyama
Principal Economist, Japan Center for Economic Research

Key Points

➢ Since the Asian currency crisis, the growth momentum of the Malaysian economy has dulled. The primary cause has been the fact that investment by the private sector has remained at a low level. In the backdrop to this lie structural problems such as the large presence of government-linked companies (GLCs), and insufficient skilled labor.

➢ These problems are the effects of the Bumiputera Policy, which has been implemented in Malaysia for over 40 years. Prime Minister Najib, who took office in 2009, called for decisive reforms and has been displaying a plan to review the policy, but actual measures are lagging behind.

➢ The Malaysian government predicts achieving high-income country status by 2018, but in order for the country to continue high growth over the mid- to long-term, structural reforms are indispensable. There is a pervading sense of opacity over the future of the reforms as might be expected from the involvement of complicated ethnic issues.

Malaysia: The conspicuous presence of government-linked companies (GLCs) (sales by industry, share of indices)

Note: Based on listed companies. Calculated based on figures obtained in May-June 2012. Source: Created based on Menon (2012)
Introduction

In 2012, Malaysia’s per capita nominal gross domestic product (GDP) exceeded $10,000.\(^1\) Excluding Singapore and Brunei, Malaysia is at the top economic level in ASEAN. However, it is unclear whether this country will be able to continue steady growth over the mid- to long-term. Although the condition for that would be structural reforms that eliminate limiting factors, this will end in a half-baked manner without strong political will. Of course the difficulties in carrying out reforms, which cause a backlash from vested interests, are the same in any country, but the involvement of complicated ethnic problems in Malaysia is troublesome.

The objective of this chapter is to discuss the mid- to long-term issues in the Malaysian economy. Section 1 explains the development process and recent trends therein, the understanding by the government of the current situation, and the like, and confirms the fact that the Malaysian economy is facing a turning point. Section 2 examines the indicators that are labor productivity and investment rate in a somewhat detailed manner, and describes the phenomenon and background to a loss of economic efficiency and competitiveness including the excessive presence of government-linked companies and the outflow of skilled labor overseas. Section 3 touches on the various reform programs that the Najib administration is engaging in, and considers the current state and future of the reforms based on the political situation after the general election in May 2013. Finally, the nature of support from the Japanese government and the like is discussed, concluding this chapter.

1. The overall condition of the Malaysian economy

1.1 Developing towards an “upper-middle-income country”

Based on per capita gross national income (GNI), the World Bank classifies countries into four categories: high-income countries, upper-middle-income countries, lower-middle-income countries, and low-income countries.\(^2\) According to this, Malaysia’s per capita GNI of $9800 (in 2012; hereinafter at the same) classifies it as an “upper-middle-income country” ($4086-$12,615). Among the ASEAN countries, Singapore ($47,210) and Brunei ($31,590) are “high-income countries,” followed by the “upper-middle-income income countries” of

\(^1\) Based on the International Monetary Fund (IMF) World Economic Outlook (WEO) database, October 2013.
\(^2\) See Chapter 2 for details. The 2013 classification standard is used below.
Malaysia and Thailand ($5210). However, the difference between the latter two is large, at over $4000, and so Malaysia is considerably in the lead.

A major factor behind Malaysia’s developmental achievement is the fact that the country put effort into opening outward, for example by actively attracting production and export bases from multinational corporations, as noted by World Bank (2010) as “promoting export-driven industrialization.” In 1971, this attracting began with the founding of the first free-trade zone in Penang to the northwest of the Malay Peninsula, and the movement gained steam from the mid-1980s. Under the fourth Prime Minister, Mahathir (in office 1981-2003), liberalization was promoted such as by permitting total ownership by foreign capitalized businesses. Coupled with the situation of accelerating overseas expansion by Japanese corporations as a result of the rapid appreciation of the yen after the Plaza Accords, Malaysia experienced an investment boom by foreign companies, and industrialization proceeded at once.

1.2 Dulling growth momentum

However, even Malaysia has been experiencing dulling growth momentum in recent years. The average growth rate rose from 5.9% in the 1980s to 7.2% in the 1990s, but then declined to 5.0% in the 2000 (through 2012). Excluding the years of 1985, 1998, and 2009 when there was negative growth caused respectively by a deterioration in market conditions for primary goods, the Asian currency crisis, and the effects of the global financial crisis, there was a transition from 6.7% in the 1980s to 8.9% in the 1990s to 5.6% in 2000.

It was during the 10 year period until 1997 when the Asian currency crisis occurred that there was real momentum. The average growth rate during that period was 9.3%, exceeding that of Singapore (9.1%) and Thailand (8.4%), and was the highest level in ASEAN. However, Malaysia stagnated after the currency crisis, and the average growth rate from the year 2000 onwards (5.0%) fell behind that of Indonesia (5.3%), Vietnam (6.9%), and the like.

1.3 Debates regarding the “trap”

In the words of Malaysian Prime Minister Najib, “Does our country have both the courage and boldness to escape from the ‘middle-income trap’?” The Prime Minister referred to the current situation of a trend towards a slowing economy in Malaysia as a “trap,” and is appealing for overcoming it, saying “reform is unavoidable.”

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3 Statement when announcing the New Economic Model (NEM) in March 2010. See section 3.1 of this chapter with regards to the NEM.
The Malaysian government is concerned by the fact that “the gap with respect to South Korea and Taiwan is broadening, despite having once been at the same level” (NEAC 2010). The per capita GDP for the three countries/regions was flat lined until the mid-1980s, but thereafter Taiwan and South Korea pulled ahead of Malaysia, and in 2012, the difference had expanded to more than a factor of two. Malaysia boasts leading wealth within ASEAN, but its growth is dulling as it falls greatly behind the NIEs (newly industrialized economies) of Taiwan and South Korea. The situation is leading to an increase in the opinion that “Malaysia seems to be caught in a middle-income trap” (World Bank 2009a), and the government of the country is also concerned.

2. Analysis of the current state

2.1 An investment rate slump—A conspicuous private-sector slump

What are the reasons why the Malaysian economy slowed after the currency crisis? A decrease in labor productivity is cited as the primary factor by both the Malaysian government (EPU 2010) and the World Bank (2008). Comparing the periods before and after the currency crisis from 1987 to 1997 and from 1998 to 2007, the rate of increase in labor productivity halved from an average of 5.5% to 2.9% (Figure 1). After the currency crisis, the rate of increase slowed in other Asian countries as well, but the amount of contraction in Malaysia was larger than that in Thailand (5.2%-3.1%) and Indonesia (3.1%-3.0%). In a factor analysis of labor productivity, the level of capital contributions dropped greatly, and total factor productivity (TFP) is also sluggish (Figures 1 and 2).

![Figure 1: Average rate of increase in labor productivity](#)

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<td>China</td>
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<td>Malaysia</td>
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<td>Singapore</td>
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<td>Philippines</td>
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Source: Produced based on EPU (2010)
Figure 2: Breakdown of factors of labor productivity increase rate (Malaysia)

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<td>Labor productivity</td>
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<td>Capital</td>
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<td>Education</td>
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<td>Land</td>
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<td>Total factor productivity (TFP)</td>
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Source: EPU (2010)

Flaen et al. (2013) considers that “the falloff in labor productivity growth is largely a consequence of a decreased rate of capital accumulation,” indicating the view that a stagnation of capital is the largest problem. The Malaysian government also indicated a similar recognition that investment activity is “an urgent policy task” (Prime Minister Najib).

Figure 3 is a graph of fixed capital as a percentage of GDP (hereinafter referred to as “investment rate”) from 1980-2012. After the currency crisis, the investment rate declined, and has not recovered to the pre-crisis levels to this day. Despite exceeding 40% for three successive years until 1997 when the crisis occurred, it has consistently remained in the 20% range since plunging to the mid-20% level in 1998. This situation can be nearly completely explained by a drop in private investment. When dividing investment into public and private, the proportion of the latter halved following the currency crisis.

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4 From a speech given on June 10, 2010 when announcing the “Tenth Malaysia Plan.”

5 A relatively large increase in investment rate was seen in 2012. The background to this is touched on in section 3.2.

6 The overall total value of private investment from 2006-2010 consisted of about 70% by local businesses and about 30% by foreign firms (EPU 2010).
This decrease in investment rate is not a phenomenon unique to Malaysia. The investment rate in the other major ASEAN countries fell across the board through the currency crisis. However, the magnitude of the fall was greater in Malaysia. Comparing the investment rate in the major ASEAN countries in 1990-1997 to 1998-2012, Malaysia dropped from 39.3% to 23.4% (a 15.9 percentage point drop), which was more than the drop in Thailand from 40.2% to 25.5% (14.7 percentage points), the drop in Indonesia from 36.3% to 25.2% (11.0 percentage points), and the drop in Singapore from 34.6% to 24.7% (9.8 percentage points).\(^7\)

With respect to the current situation for Malaysian domestic investment, World Bank (2010) mentions the possibility that before the currency crisis, investments had been made in excess of the appropriate level, led by the construction sector, and so a rebound occurred after the crisis. On the other hand, it states that the drop in the private investment rate to approximately half the pre-crisis level was “too low (to an extent that cannot be explained by a rebound),” and indicates the view that a variety of structural factors lay in the backdrop, including: 1) institutions obstructing corporate competition and access, 2) insufficient skilled laborers, and 3) a paucity in motivation towards research and development.

Regarding the problems cited by World Bank (2010) listed above, what follows is a detailed discussion of 1) and 2), which are frequently noted as problems in the Malaysian economy by other international organizations and researchers as well.

\(^7\) The comparison between the countries is based on the IMF WEO Database.
2.2 The enormous presence of government-linked companies—The obstruction of competition and new access

First, the enormous presence of the public sector is often cited as a factor “obstructing corporate competition and access.” In Malaysia, the word “GLC” is often heard. This is an abbreviation of “government-linked companies.” GLCs exist in many countries, and are frequently the primary players in the sectors of resources, aviation, and communication, but in Malaysia, they have a tremendous presence.

Figure 4: The share of the Malaysian government-linked companies (GLCs)

GLCs employ approximately 5% of the total domestic labor force, and constitute approximately 36% of the total market value of listed companies (Khazanah 2013). Also, they are estimated to constitute 44% of total assets, 32% of sales, and 35% of pre-tax profits (Menon 2012, Figure 4).

GLCs have an oversized presence in the major sectors. The GLC share of sales by industry (among listed companies) is a majority across the board leading with 93% of electric/gas/water, in addition to 80% of transportation/storage, 68% of retail, 62% of banking, and the like. These fields are “mostly neither natural monopolies nor of strategic (state) importance” (Menon 2012). The prominent share held by the GLCs has been referred to as being "extremely
unnatural for a country (such as Malaysia) that regard itself as an open, modern market economy” (Menon 2012).

The fact that the GLCs have overwhelming domestic strength and a stranglehold over the industrial sector “obstructs healthy corporate competition, and distorts the economy” (OECD 2013). The empirical analysis by Menon and Ng (2013) comes to the conclusion that industries with a larger GLC presence (in terms of share of sales) in Malaysia have less private enterprise investment, and that in industries where GLCs do not have a dominant position, no negative effect is seen on investment by private companies. With respect to the reasons why GLCs obstruct private investment, the paper notes that GLCs have a “special relationship” with the government, obstructing competition and new entry. The paper proposes that an accelerated privatization of the GLCs would improve the investment environment, and activate private investment.

2.3 A severe “brain drain”—Unceasing “education refugees”

Next, there is the problem of the lack of skilled workers. According to a World Bank survey (2009), at least 40% of businesses in Malaysia’s manufacturing industry face a shortfall in skilled labor, a fraction exceeding that in Thailand (30%) and Indonesia (25%). The fraction of companies reporting unfilled “professional” posts was also higher in Malaysia (27%) than in Thailand (20%) and Indonesia (17%).8 When further asked how much time was necessary to fill empty “skilled labor” positions, the result in Malaysia was approximately 4 weeks, longer than the within two weeks in India and within one week in Indonesia.

With respect to this problem, World Bank (2011) performs a detailed analysis of the “brain drain” phenomenon. The situation of human resources with at least a college education moving abroad is defined as a “brain drain,” and in an estimate of the number of people involved, there were over 335,000 people in 2010 (as a stock), which was approximately 50% more than in 2000. During this period, the total number of emigrants overseas increased by over 30% to 1.02 million people, but since the fraction constituting a “brain drain” was 28%, this rose to 33%. As a flow, it was discovered that there was a brain drain occurring at the rate of two people in 10 among skilled workers in 2000, which was a much higher fraction than the global average of 0.5 people.9

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8 As a result of surveying Malaysia and Thailand in 2007 and Indonesia in 2003.
9 Although lower than the three people in 10 in Hong Kong for the 1.4 people in Singapore, both of these countries/regions are “small and open economies,” and so a simple comparison is considered inappropriate. For the record, South Korea is at 0.8 people, China is at 0.4 people, and Japan is at 0.12 people.
As a brain drain destination, the neighboring country of Singapore has the overwhelmingly largest share at 54% (in 2010), followed by Australia (15%), the US (10%), and the UK (5%). However, when considering the brain drain phenomenon from the multiethnic country of Malaysia, the ethnic share of outgoing human resources is considered important. On this point, World Bank (2011) reports, as the result of examining statistics on the Singapore side as the largest drain destination, that 88% of the emigrants from Malaysia are ethnically Chinese.  

2.4 The effect of the “Bumiputera Policy”

Thus far, the two problems of the oversized presence of GLCs and a shortfall in skilled workers were examined among factors believed to be obstructing private investment. Below, the factors lying behind these are discussed. It is believed that both these problems are affected by the “Bumiputera Policy,” which provides preferential treatment for Malays, who are the majority ethnicity, and has been implemented by Malaysia from the beginning of the 1970s.

The Bumiputera Policy began in response to large-scale ethnic violence that erupted in Malaysia in 1969, becoming a catastrophe (“13 May Incident”) involving approximately 200 deaths. In the backdrop to the incident lay an ethnic disparity in that the Malays had less economic strength than the ethnic Chinese, and so the government judged that reducing disparities was indispensable for social stability, and launched the Bumiputera Policy of preferential treatment for Malays in a variety of different manners in the form of the “New Economic Policy (NEP)” (1971-1990). The NEP had the objectives of expanded employment and capital holdings by Malays, the nurturing of entrepreneurs and businesspeople, and the like, and implemented a preferential treatment policy based on a quota system in accordance with an ethnic ratio in a variety of fields such as stocks, employment, education, business approval, land, financing, and the like. The NEP officially ended in 1990, but the Bumiputera Policy implementing preferential treatment towards Malays itself continued, and even today is considered the most important policy in Malaysia.

The dominance of GLCs in Malaysia involves the situation that they are being used as a tool to promote the Bumiputera Policy as a national policy. The GLCs of course are companies of Malays, the majority ethnicity, and so are given preferential treatment in a variety of areas based on this policy. The GLCs have expanded the scope of their operations while enjoying favorable treatment for business approval, orders for public works, land purchases, bank loans, and the like, and have also contributed to an increase in Malay employment. In other words,

10 The figure is with respect to all emigrants. It is believed that there is no large difference when considering only skilled workers.
11 “Bumiputera” literally means “sons of the soil” in Malay. Aside from Malays, the word includes indigenous Borneans (Sabah State, Sarawak State). In this paper, these are all referred to as Malays.
the “special treatment” of the GLCs is a major component of the Bumiputera Policy, and the enlargement of the GLCs can be interpreted as a natural consequence of it.

Also World Bank (2011) mentioned above, which analyzed the “brain drain” phenomenon, considers that in the backdrop to this phenomenon lie “pull factors” such as the high level of university educations and salaries overseas, as well as “push factors” in the form of the unequal educational and employment opportunities based on the Bumiputera Policy, promoting the outflow of ethnic Chinese.

3. The efforts of the Najib administration and an evaluation thereof

3.1 A succession of “reform programs”

Above, there was a discussion of the negative effects of the Bumiputera Policy on the Malaysian economy. However, what must be kept in mind here is that this policy also had the positive aspect of promoting the inflow of foreign capital, which gave traction to growth, by giving preferential treatment to the majority ethnicity that had been placed in an economically subordinate position and guiding politics and the society in the country in a stable manner. As touched on in Section 1.1, Malaysia overall achieved steady growth during the roughly 40 year implementation of the Bumiputera Policy.

Nevertheless, the fact that international organizations and scholars have been noting the harms of this policy has been becoming more prominent because amidst the neighboring Asian countries with their cheaper labor forces launching various preferential treatment plans, together strengthening their invitation of foreign capital, “the need is arising to revise the conventional growth form (which relies on the introduction of foreign capital with low-wage workers being offered in exchange)” (Ariff 2010).

Amidst such circumstances, the sixth Prime Minister Najib, who took office in April 2009, set forward with the image of a reformer. The following year, in March 2010, Prime Minister Najib announced a new guideline for economic policy called the “New Economic Model (NEM).” His analysis of the reasons for Malaysia’s slackening growth rate included weak private investment, the large numbers of unskilled laborers, stagnating productivity, the lag in technological innovation, and the like. Eight fields including “re-energizing the private sector,” “developing a quality workforce and reducing dependency on foreign labor,” “promoting business competition,” and the like were taken to be Strategic Reform Initiatives (SRIs).
The NEM has the following two points of interest. First, it was emphasized that the per capita GNI would be increased to $15,000-$20,000 (approximately $8100 in 2010)\textsuperscript{12} by 2020, to become a high-income country. Second, among the three points of high income, inclusiveness, and sustainability, which were upheld as important concepts, there is the significance of inclusiveness for paying attention to all citizens.

With respect to the latter, the Prime Minister explained that at the time of the NEM announcement, the various preferential treatment plans based on the Bumiputera Policy distorted the market and detracted from economic efficiency, and so in the future, the benefits of economic development would be able to be enjoyed by all ethnicities. He declared that a variety of opportunities would be equally imparted to each ethnicity, and explained that low-income households would be broadly supported regardless of ethnicity. In response, the view that a review of the Bumiputera Policy would gain momentum spread within the country.

In October, the Prime Minister announced a plan for invigorating investment called the Economic Transformation Program (ETP). He indicated that 12 fields including finance, electric/electronics, health/medical, education, urban area infrastructure development, and the like would be designated as National Key Economic Areas (NKEA) as key investment subjects towards the realization of the goal of becoming a high-income country, and that a total of 1.4 trillion ringgit (approximately 43.4 trillion yen\textsuperscript{13}) would be devoted to these areas by 2020, promoting increased industrial added value.\textsuperscript{14}

3.2 International evaluation of the “reforms”–Ranking in the top 10 in a World Bank survey

A succession of reform programs were each announced with a flashy presentation. Prime Minister Najib gathered much of the domestic and international media, and repeatedly emphasized the need for reforms during impassioned speeches punctuated with hand and body gestures. Consistently calling for the goals of high income, increased added value, and increased productivity, he strengthened policy efforts in a variety of fields and brimmed with enthusiasm for avoiding the “middle-income trap”.

A portion of these movements have been evaluated as beginning to bring about a positive effect. For example, in the World Bank “Doing Business” rankings, Malaysia has annually risen from 23\textsuperscript{rd} place in the 2010 edition (published in October 2009) to 6\textsuperscript{th} place in the 2014 edition (published in October 2013), achieving its first appearance in the top 10. Malaysia

\textsuperscript{12} The target value of $15,000 was calculated independently by the NEAC from the World Bank standard for high-income of $12,476 (at the time of the announcement of the NEM) taking into consideration the estimated inflation rate until 2020 and the like.

\textsuperscript{13} Converted using the exchange rate of 1 ringgit = about 31 yen from early November, 2013.

\textsuperscript{14} For the details of the ETP, see Section 3.2 of this chapter.
increased its score for items such as “ease of starting a business” and “ease of obtaining construction permits,” and “progress was seen in improving the business environment” (World Bank 2013).

The ETP upheld specific numerical targets, and indicated a policy for expanding domestic investment, and so in the 12 NKEAs, a total of 149 projects and a central investment plan (Entry Point Project: EPP) to the tune of 211.3 billion ringgit were defined. During the period until 2020, the total value of investment resulting from the ETP has risen in the end to 1.4 trillion ringgit, and the government predicts that jobs for a cumulative value of approximately 3.3 million people would be created.

Investment plans resulting from the ETP are successively starting to be implemented in a manner incorporating private businesses. From the effects thereof, the Malaysian investment rate (as a percentage of GDP) rose from the most recent trough of 20.6% in 2008 to 25.6% in 2012. The primary factor behind this was an increase in the private investment rate from 11.2% to 14.9%.

However, caution is necessary in the situation of private investment beginning to expand. World Bank (2013) states that “the majority of investment is concentrated in the resource sector (oil, gas, and the like),” viewing the excessive emphasis on that sector as being problematic. A local person involved in the financial sector stated that “what happened is merely that while drawing in private businesses with deep ties to the government, the first moves were with deals that would be easy to go forward with such as already-decided projects in the field of resources, urban development, and the like,” and warned that in order for investment to strongly spread to manufacturing and the service industry, “it is indispensable to reliably execute structural reforms and to stimulate the investment mentality of entrepreneurs and investors.”

3.3 What are Prime Minister Najib’s true intentions?

The focus of the structural reforms is indeed the future of the Bumiputera Policy. Prime Minister Najib recognizes the negative effects of such a policy. However, the pace of reform is slow. The reason is clear: the conservatives who appeal for the protection of Malay rights strongly oppose. In Malaysia, the economic strength of the Malays did increase through many years of the Bumiputera Policy, but a disparity remains as their income level is

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15 The number at the end of December, 2012 according to PEMANDU (2013).
16 The breakdown of investors is presumed to be 70% private companies, 32% the GLC/GLIC, and 8% federal government.
approximately 70%\textsuperscript{17} that of the ethnic Chinese (EPU 2010). Since there was also a need to hold elections for the lower house of the national Parliament in 2013, it became difficult for the Prime Minister to perform the Bumiputera Policy review opposed by the Malays forming the base of support for the ruling party, the UMNO (United Malays National Organization).

3.4 The general election results—The ethnic-Chinese-based ruling party ebbs

The general election held in May 2013 drew international attention. In the previous general election in 2008, the ruling coalition Barisan Nasional (BN) fell below the 2/3 fraction of parliamentary seats necessary for stable government administration for the first time in approximately 40 years, and so there arose the possibility that the first change of administration in the history of the country could occur in the next general election. In the 2008 general election, the split of the ethnic Chinese and Indians from the ruling party was notable. As a result, after taking office in 2009, Prime Minister Najib raised the slogan of “One Malaysia” to explain the importance of national unity in the multi-ethnic country of Malaysia.

However, the results were poor. The BN had been maintaining a supermajority, but further lost seats, receiving fewer votes than the opposition coalition Pakatan Rakyat. This is because the alienation of the ethnic Chinese had progressed further. A policy of handouts was effective and the largest ruling party, the UMNO, gained votes centered on the rural areas and won more seats, but the Malaysia Chinese Association (MCA) which was part of the ruling coalition suffered a crushing defeat. The reason for this “ethnic Chinese tsunami”\textsuperscript{18} was that ethnic Chinese who had been living for many years with dissatisfaction with the Bumiputera Policy decided that the Prime Minister with his talk of reforms did not ultimately have the will to carry them out, and so it was significant that they thrust out their opposition.

As a result, the power distribution within the BN changed greatly. The UMNO gained many seats, whereas the ethnic Chinese MCA plunged and the BN increased in “Malay-ness.”\textsuperscript{19} This signified a reduced influence by ethnic Chinese and Indians within the ruling coalition.

How these changes would affect Prime Minister Najib’s management of the government was cast in sharp relief by new policies announced by the Prime Minister in September approximately four months following the general election.

\textsuperscript{17} EPU (2010)
\textsuperscript{18} From a statement by Prime Minister Najib during a pre-dawn press conference on May 6, 2013 when the ruling coalition secured victory.
\textsuperscript{19} The ethnically Indian Malaysian Indian Congress (MIC) gained one seat.
3.5 The Najib administration’s effect on policy management—What is the future of “reform?”

The Prime Minister stated that “the support by the Bumiputera in the general election will be rewarded,” and launched a new policy called the New Bumiputera Economic Empowerment Programmes (NBEEP). NBEEP packaged a new preferential treatment policy towards Malay companies and individuals, and consisted of: 1) strengthening human resource development, 2) strengthening equity ownership in the corporate sector, 3) expanding ownership of non-financial assets, 4) strengthening entrepreneurship and commerce, and 5) strengthening and enhancing public assistance organizations.

Among these, the various measures contained in 4) in particular garnered attention. The Prime Minister called upon all the ministries and the GLC to expand orders from Malay businesses. The actual degree to which these orders are carried out becomes part of the performance evaluation of the GLC CEOs. He stated that in every year until 2017, the state run oil company Petronas would take orders from Malay businesses for projects to the tune of an annual 20 billion ringgit for oil and gas drilling and the like, thus going so far as to specify the monetary amount. He upheld a plan to prioritize contracts for Malay businesses for major public works projects, such as capital redevelopment projects.

Another case can be seen suggesting a decrease in Prime Minister Najib’s will for reform: the movements regarding the Trans-Pacific Partnership (TPP), towards which Malaysia is participating in the negotiations. Since participating in the 2010 negotiations, despite there being little in the way of anti-TPP movements domestically, the government hastily made a cabinet decision in August 2013 for a plan to: 1) work to continue the preferential treatment policy towards Malay businesses by means of government procurement, and 2) aim to introduce exceptions through liberalizing the service industry and the like.

The succession of cases indicates that the political influence of the Malays, who are the base of support for the Najib Administration, became stronger as a result of the general election, and so the Administration is on a political vector of putting more effort into protecting and strengthening their interests. If this situation continues in the future, there is little hope for the Bumiputera Policy to be reviewed, which should be at the core of structural reforms. This also has the possibility of decreasing the level of perfection of the TPP, which aims for high-level liberalization and has been called an “FTA for the 21st century,” and of negatively affecting the work of building the ASEAN Economic Community (AEC) by the deadline of the end of 2015.

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20 In a speech during the announcement of NBEEP on September 14, 2013.
Conclusion

Returning to the perspective of the “middle-income trap,” of course the “trap” does not have a unified definition, and there is no clear answer as to whether Malaysia has fallen into this “trap.” However, it may not be particularly difficult for this country to become a high-income country.

The government target is to raise the per capita GNI to at least $15,000 by 2020, to become a high-income country. With expanded domestic demand as a lever, the per capita GNI has already risen 49% in a three-year period from $6700 in 2009 to $9970 in 2012 (PEMANDU 2013). In the future, although the pace of increase is slackening somewhat, the government predicts that $15,000 will be reached in 2018, achieving high-income country status ahead of the target deadline of 2020. Based on this prediction, even if Malaysia is caught in the “trap”, it can escape from it in the not-too-distant future.

Malaysia has the highest income level among the four ASEAN countries discussed in this report. If the goal of achieving high-income country status is only a matter of time, it may be that there is no need to list the various problems thought to be effects of the Bumiputera Policy and to further emphasize the weaknesses of the economy. As stated in Section 3.1, the country has generally achieved steady development through over 40 years of continuing this policy.

However, the Malaysian government is now strongly conscious of the presence of the NIEs such as South Korea and Taiwan, and vocally calls for seeking further heights. If Malaysia seeks to develop to a level ranking with the current NIEs, it will be necessary to continue strong growth even after achieving the first level of being a high-income country. For this purpose, structural reforms releasing the latent potential of the domestic economy are unavoidable, and reviewing the Bumiputera Policy is a key component of that. Without venturing to this point, there will be a limit to the development of highly creative private corporations, the production of skilled workers who can contribute to increase industrial added value, and the like, and there is the risk that the “road to the NIEs” will grow distant.

The broad revision of the Bumiputera Policy would signify that the multi-ethnic state of Malaysia would be venturing into sensitive racial problems. Since this would involve reducing preferential treatment policies towards the majority ethnicity, there is no mistake that this will be a politically troublesome task. Many countries in the world seek to steer their economic policies while keeping an eye firmly on liberalization and social stability. Malaysia

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21 This figures differ from the World Bank statistics in Section 1.1.
is no exception. However, for this country, the treatment of the Bumiputera Policy as the crux of reforms is not a simple dilemma between maintaining the status quo versus carrying out reforms, but rather is a problem pertaining to the very nature of the country itself. This must also be kept in mind.

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