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Book Review

Malaysia's Development Challenges – Graduating from the Middle, Hal Hill, Tham Siew Yean and Ragayah Haji Mat Zin (Routledge, London, UK, 2012), 367 pp.

Any book on Southeast Asia that has Hal Hill's name on it is likely to be interesting and thought-provoking. This book is no exception. Hal, together with Tham Siew Yean and Ragayah Haji Mat Zain, returns to a familiar stomping ground – Malaysia, its economic growth and development challenges – at an opportune time, as Malaysia seeks 'ideas and solutions' to not only move to a high income economy but also to realign the interests of its political elites with the *Rakyat*.

In the past two decades, Malaysia has received several book length treatments. Volumes such as "Industrialising Malaysia – policy, performance and prospects" edited by KS Jomo (Routledge: 1993), "Restructuring the Malaysian economy: development and human resources" by Lucas and Verry (Palgrave Macmillan: 1999), "Modern Malaysia in the Global Economy" edited by Barlow (Edward Elgar: 2001), "Malaysian Economics and Politics in the New Century" edited by Barlow and Loh (Edward Elgar: 2003), and "Sustainable Growth and Economic Development – a case study of Malaysia" authored by Mahadevan (Edward Elgar: 2007), are among notable attempts to understand, explain and possibly forewarn the country of the challenges it faces.

This volume follows on in this tradition. It is comprehensive in its scope with a strong policy dimension. There are 13 chapters written by 17 authors addressing different issues. Making a coherent argument of their causality and organising them in a particular sequence can be challenging. To address that, this book takes the following logic: Chapter 1 by Hal, identifies six facts about Malaysia's economy [rapid economic growth; rapid structural change; consistent openness; competent macroeconomic management; social progress; and institutional quality, political economy and ownership structures], and three broad and inter-related factors [microeconomic, macroeconomic and distributional] that are central to the Malaysian 'graduation' challenge to high income category. The remaining 12 chapters then speak to these six facts providing the basis for analysis, assessment and then solution within the three broad factors on relevant measures to overcome the middle income trap.

The volume begins with an excellent preface by one of Malaysia's intellectual giants, Emeritus Professor Mohamed Ariff. He provides a broad sweep of Malaysia's economic history since independence, identifying succinctly the theoretical basis to Malaysia's economic and political development strategies, the inherent problems – internal and external – faced over the years and the country's policy successes and failures. If one needed a five minute solid introduction to the Malaysian economy and its challenges, this preface would be sufficient.

Chapter 1 is the most important chapter in the book which not only provides the logic of the book, but also narrates Malaysia's economic development path, summarises the key factors that has contributed to its success, evaluates which are the factors that will continue to put Malaysia in good stead as well as identify factors that ensure the country remains trapped in the middle income category. In analysing this, the chapter brings to bear the various growth theories (e.g. evolutionary economics, convergence theory, etc.) and also compare them with the actual experience of other countries (e.g. Argentina, New Zealand, South Korea, etc.) while identifying the unique issues that Malaysia faces.

The 12 chapters that follow discuss the Malaysia's development challenges in detail. Each chapter provides a brief historical overview before identifying where policies have failed: Chapter 2 – political reforms; Chapter 3 – corporate ownership and control; (iii) Chapter 4 – economic crisis management; (iv) Chapter 5 – monetary policy and financial sector development; (v) Chapter 6 – public finance management; (vi) Chapter 7 – microeconomic reforms; (vii) Chapter 8 – services sector liberalisation; (viii) Chapter 9 – technological upgrading in the electronics sector; (ix) Chapter 10 – education sector reforms; (x) Chapter 11 – poverty and income inequality; (xi) Chapter 12 – demographic change and labour force issues; and (xii) Chapter 13 – sustainable development.

The problems identified in each of the chapter[1] appear to be many, multi-faceted, well-known and well-researched. Using's Rodrik's (Princeton Press: 2003) conceptualisation of growth factors into deep determinants (institutions, trade, and geography) and proximate determinants (factor endowments and productivity) as a way of classifying these problems, the usual suspects identified when traced to its root cause appear to be institutional in nature. The debilitating effects of political patronage; poor quality human capital development; mismatches in the labour market; protectionism in key services sector; technological level and innovation that are not keeping pace with the income level of the country; poor quality tertiary education system; underdeveloped private sector especially small and medium scale enterprises (SMEs); fiscal profligacy; mismatch between stated public policy objectives and implementation; and environmental degradation can all be classified as institutional failures.

The interesting question which this volume appears to have neglected to answer is why a government as successful as the Barisan Nasional – the worlds longest continuously elected government – has failed after more than a decade to address growth slowdown. This question is all the more interesting as it has been researched for more than a decade. The works of Professors' Gomez, Narayanan and Rasiah are illustrative as more than two decades ago they had already examined these issues and offered answers – Gomez on money politics, Narayanan on fiscal profligacy and Rasiah on technological upgrading. Furthermore, studies by individuals and institutions have identified what Malaysia needs to do, as this volume does. But nothing much has changed.

Here is where this book could have done better especially with the array of Malaysia experts at hand. The million dollar question is not *what needs to be done* but *how should it be done*. Identifying the problems is often the easy bit. Prioritising, sequencing, implementing and revising them as they unfold are the toughest parts. Intelligently, academics leave these to the politicians. However, a chapter which addressed the '*how to*' would have been most beneficial and would have made this book a stand out. Malaysia's challenges are institutional in nature implying reforms at the very top of the institutional hierarchy is needed. One academic approach comes to mind in addressing the '*how to'* question. That would be Musthaq Khan's revisit of political settlements or as he states it, finding '*growth enhancing governance*.' This growth enhancing governance is not an ideal, but a political settlement that allows for institutional stability while allowing for payments to certain powerful vested interests does not negate the overall opportunities for growth and its distribution to a majority of its populace. It is obvious that Malaysia had figured this out in the past and it is clear that this political settlement is not working anymore. It is also obvious that Malaysia needs a new political settlement to graduate into a high income country.

Malaysia can be a model for many countries for many reasons as this volume affirms. More importantly, the country's attempts to reform peacefully are a distinctive feature among developing nations. This volume is much welcomed as it is a single source which compiles in a comprehensive manner the issues, analyses them in a forthright manner, and suggests reform measures. A must- read for those who want to understand the challenges Malaysia face as a middle income country. Most importantly, it makes good reading.

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Note

[1] Those interested in a chapter by chapter analysis should read Arusha Cooray's review of the same book in the *Economic Record* (2012).

Reference:

Rodrik, D. (ed) (2003), *In Search of Prosperity: Analytic Narratives on Economic Growth*, New Jersey: Princeton University Press.