

Malaysia@50

Economic Development, Distribution, Disparities

Jomo Kwame Sundaram
Wee Chong Hui

Kuala Lumpur
1 October 2013

Unlikely nation?

- Sunset on British empire after WW2
→ Withdrawal East of Suez
- 1961: Ex-British territories in SE Asia
- No Maphilindo, alienating Indonesia, Philippines
- Brunei withdrawal in mid-1963
- Singapore secession in Aug. 1965
- Malaysia for emulation
- BN ruling coalition survival

Population by location, 1957-2010 (%)

	<i>1957</i>	<i>1970</i>	<i>1980</i>	<i>1990</i>	<i>2000</i>	<i>2010</i>
Rural	91.0	71.2	62.5	45.3	38.1	36.6
Urban	19.0	28.8	37.5	54.7	61.9	63.4

Output by sector, 1970-2012

	<i>1970</i>	<i>2000</i>	<i>2012</i>
Agriculture	29.0%	8.7%	10.2%
Mining	13.7%	6.3%	10.5%
Manufacturing	13.9%	33.4%	24.5%
Construction	3.8%	3.3%	3.9%
Services	36.2%	52.4%	50.9%

Employment by sector, 1970-2012

	1970	2012 ^e
Agriculture, mining	53.5%	11.4%
Manufacturing	8.7%	28.9%
Construction	2.7%	6.2%
Services	32.5%	53.5%

Employment by sector, 1970-2012 (%)

	1970	1980	1990	2000	2012 ^e
Agric, Forestry, Mining	53.5	39.7	26.0	20.0	11.1
Mining & quarrying	2.6	1.7	0.5	0.5	0.3
Manufacturing	8.7	15.7	19.9	23.9	28.9
Construction	2.7	5.6	6.3	7.4	6.2
Services	32.5	37.4	47.3	48.2	53.6

Official poverty rate declined greatly, 1970-2009

1970

1990

2009

49.3%

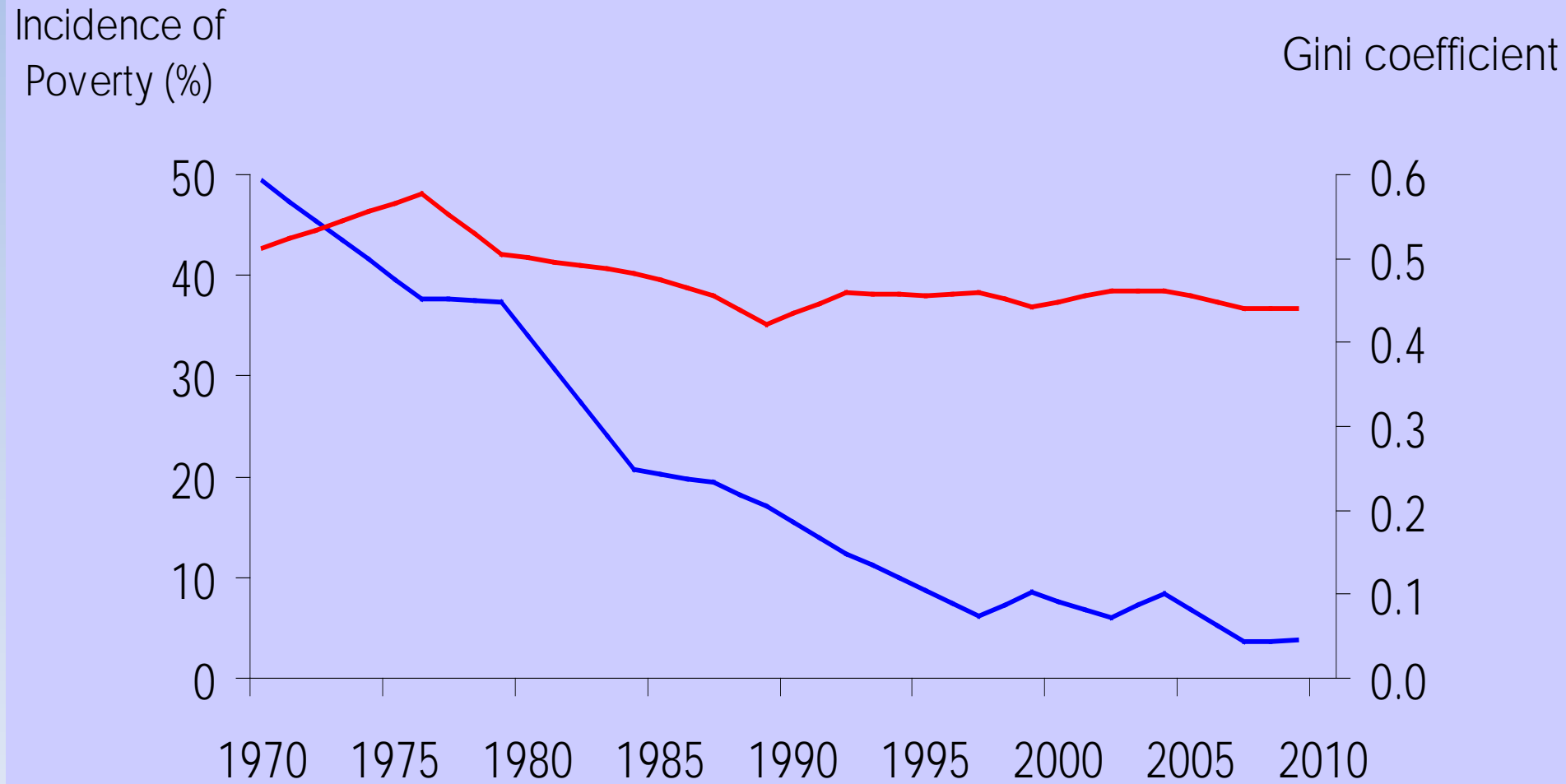
16.5%

3.8%

Poverty, 1970-2009

	<i>1970</i>	<i>1990</i>	<i>1999</i>	<i>2009</i>
Total	49.3	16.5	7.5	3.8
Rural	58.6	21.1	12.4	8.4
Urban	24.6	7.1	3.4	1.7
Poorest	-	3.9	1.4	0.7

Poverty (**b**) & Gini coefficient (**r**), 1970-2009



Employment status, 1957-2011 (%)

	<i>1957</i>	<i>1980</i>	<i>2005</i>	<i>2011</i>
Employer	35.0	3.8	3.4	3.6
Own account worker		27.0	16.6	15.6
Employee	56.7	58.3	75.7	76.6
Unpaid family worker	8.3	11.0	4.5	4.2

Inter-ethnic av. per cap. income ratios, 1970-2009

	1970	2009
Chinese/Malay	2.29	1.31
Chinese/Indian	1.30	1.25
Indian/Malay	1.78	1.04
Urban/Rural	2.14	1.85

Inter-ethnic av. HH income ratios, 1970-2009

	1970	2009
Chinese/Malay	2.29	1.38
Chinese/Indian	1.30	1.25
Indian/Malay	1.77	1.10
Urban/Rural	2.14	1.90

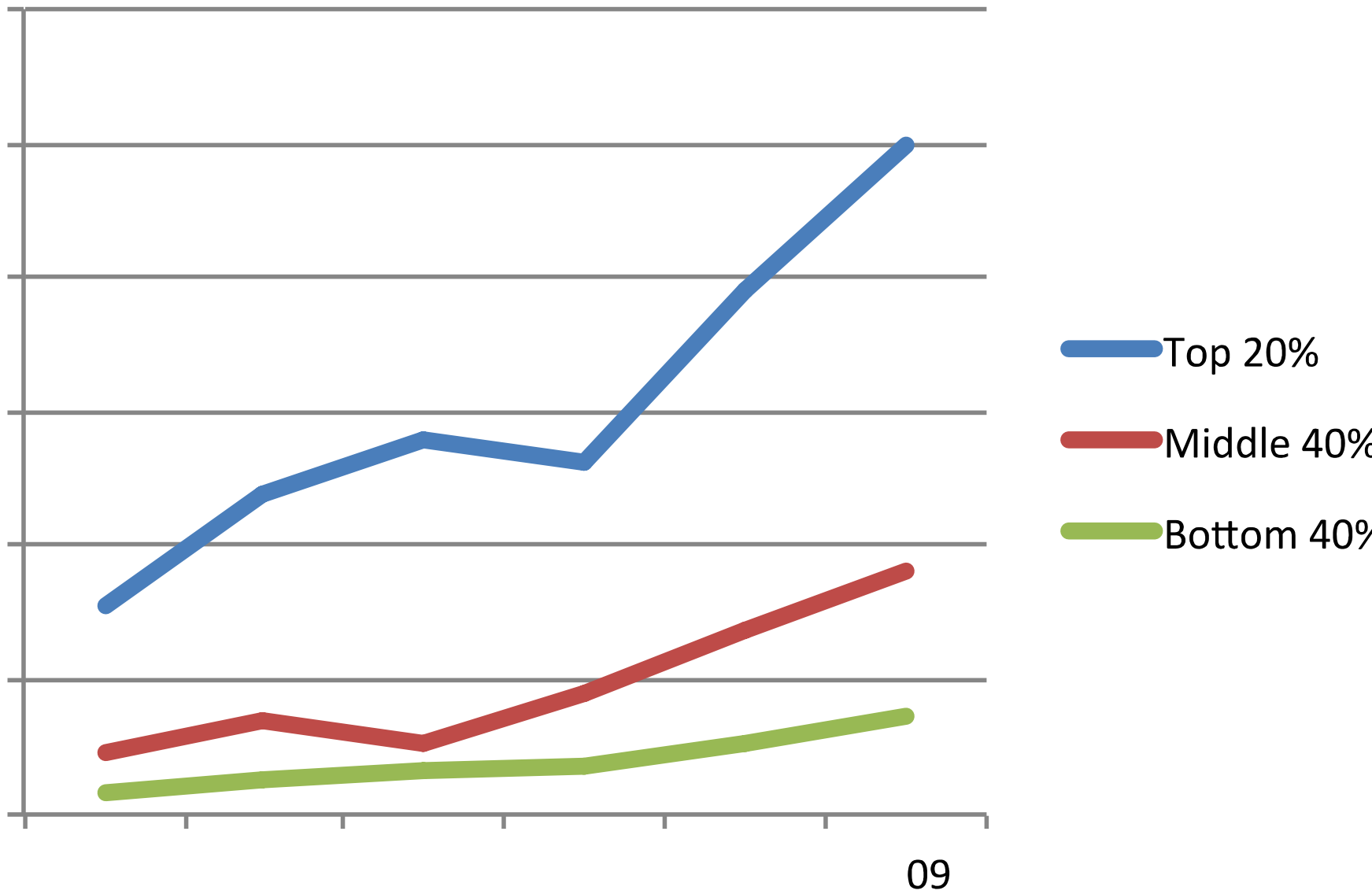
Inter-ethnic household income ratio, 1970-1987

	<i>1970</i>	<i>1973</i>	<i>1976</i>	<i>1979</i>	<i>1984</i>	<i>1987</i>
Chinese/ Malay	2.29	2.21	2.28	1.91	1.76	1.65
Chinese/ Indian	1.30	1.31	1.46	1.24	1.37	1.31
Indian/ Malay	1.77	1.69	1.56	1.54	1.28	1.25
Urban/ Rural	2.14	2.12	2.12	1.77	1.87	1.72

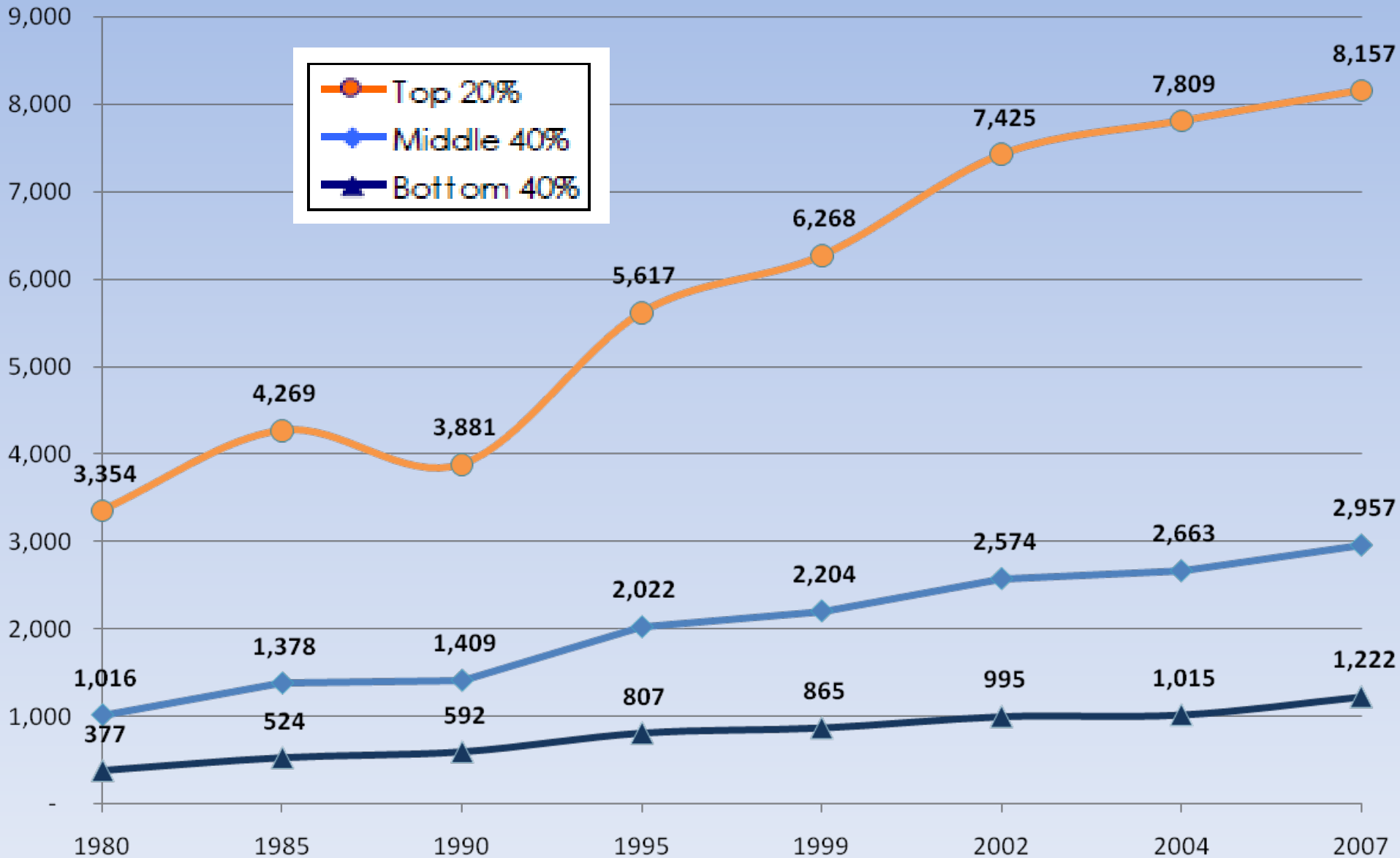
Av. HH incomes, 1970-2009

	Top 20%	Middle 40%	Bottom 40%
1970	3111	914	322
1979	4781	1411	512
1984	5610	1058	663
1989	5263	1831	750
1999	7786	2738	1074
2009	9987	3631	1440

Av. HH incomes, 1970-2009



Av. HH incomes, 1980-2007



Occupations by Ethnicity, 1970-2005 (%)

	1970			2005		
	<i>Bumi</i>	<i>Chin</i>	<i>Ind</i>	<i>Bumi</i>	<i>Chin</i>	<i>Ind</i>
Managers	24.1	62.9	7.8	41.9	50.0	7.5
Professionals	47.0	39.5	10.8	58.6	31.8	9.0
Technicians	-	-	-	64.7	26.1	8.5
Clerical	35.4	45.9	17.2	59.6	32.5	7.4
Services	44.3	39.6	14.6	59.6	33.6	5.7
Sales	26.7	61.7	11.1	-	-	-
Agriculture	72.0	17.3	9.7	84.4	11.3	2.7
Crafts & Trades	-	-	-	52.6	40.5	5.9
Production	34.2	55.9	9.6	66.5	17.4	15.2
Elementary	-	-	-	70.0	16.2	12.2
Total	51.8	36.6	10.6	62.6	28.2	8.2

Employment status by ethnicity, 1957 (%)

	<i>Malays</i>	<i>Chinese</i>	<i>Indians</i>	<i>Others</i>	<i>Total</i>
Employer & own account worker	18.9	28.3	9.8	14.5	35.0
	(66.1)	(28.8)	(4.1)	(1.1)	(100)
Unpaid family worker	14.1	4.2	0.5	4.1	8.3
	(80.0)	(17.8)	(0.9)	(1.3)	(100)
Employee	37.8	67.6	89.6	81.4	56.7
	(30.8)	(42.5)	(22.9)	(3.7)	(100)
Employed	(47.3)	(35.7)	(14.5)	(2.6)	100

Employment status by ethnicity, 1980 (%)

	<i>Malays</i>	<i>Chinese</i>	<i>Indians</i>	<i>Others</i>	<i>Total</i>
Employer	2.6	5.8	4.6	4.1	4.0
	(35.5)	(51.5)	(12.3)	(0.7)	(100)
Own account worker	32.9	24.7	8.3	32.1	27.4
	(64.5)	(31.5)	(3.2)	(0.8)	(100)
Unpaid family worker	9.2	5.4	3.3	10.1	7.3
	(67.9)	(26.2)	(4.9)	(1.0)	(100)
Employee	55.2	64.1	83.8	53.8	61.4
	(48.3)	(36.5)	(14.6)	(0.6)	(100)
Employed	(53.6)	(35.0)	(10.7)	(0.7)	100.0

Employment status by ethnicity, 2007 (%)

	<i>Bumiputera</i>	<i>Chinese</i>	<i>Indians</i>	<i>Others</i>	<i>Total</i>
Employer	2.5	8.4	3.0	0.6	3.9
	(44.9)	(49.6)	(5.3)	(0.1)	(100)
Own account worker	21.7	18.5	10.7	22.9	20.3
	(74.8)	(20.7)	(3.6)	(0.8)	(100)
Unpaid family worker	5.3	6.4	3.0	3.7	5.4
	(68.7)	(26.9)	(3.9)	(0.5)	(100)
Employee	70.5	66.7	83.3	72.8	70.5
	(69.7)	(21.4)	(8.1)	(0.8)	(100)
Employed	(69.7)	(22.7)	(6.9)	(0.7)	100.0

Employment status by ethnicity, 2011 (%)

	<i>Bumi</i>	<i>Chin</i>	<i>Ind</i>	<i>Other</i>	<i>Non citiz</i>	<i>Total</i>
Employer	2.6	7.8	3.5	2.5	0.8	3.6
Own account	18.4	14.5	10.6	18.4	8.3	15.6
Unpaid family worker	4.8	4.2	1.3	9.0	2.3	4.2
Employee	74.1	73.4	84.5	70.2	88.6	76.6
Employed	55.7	23.2	6.5	0.6	13.9	100.0

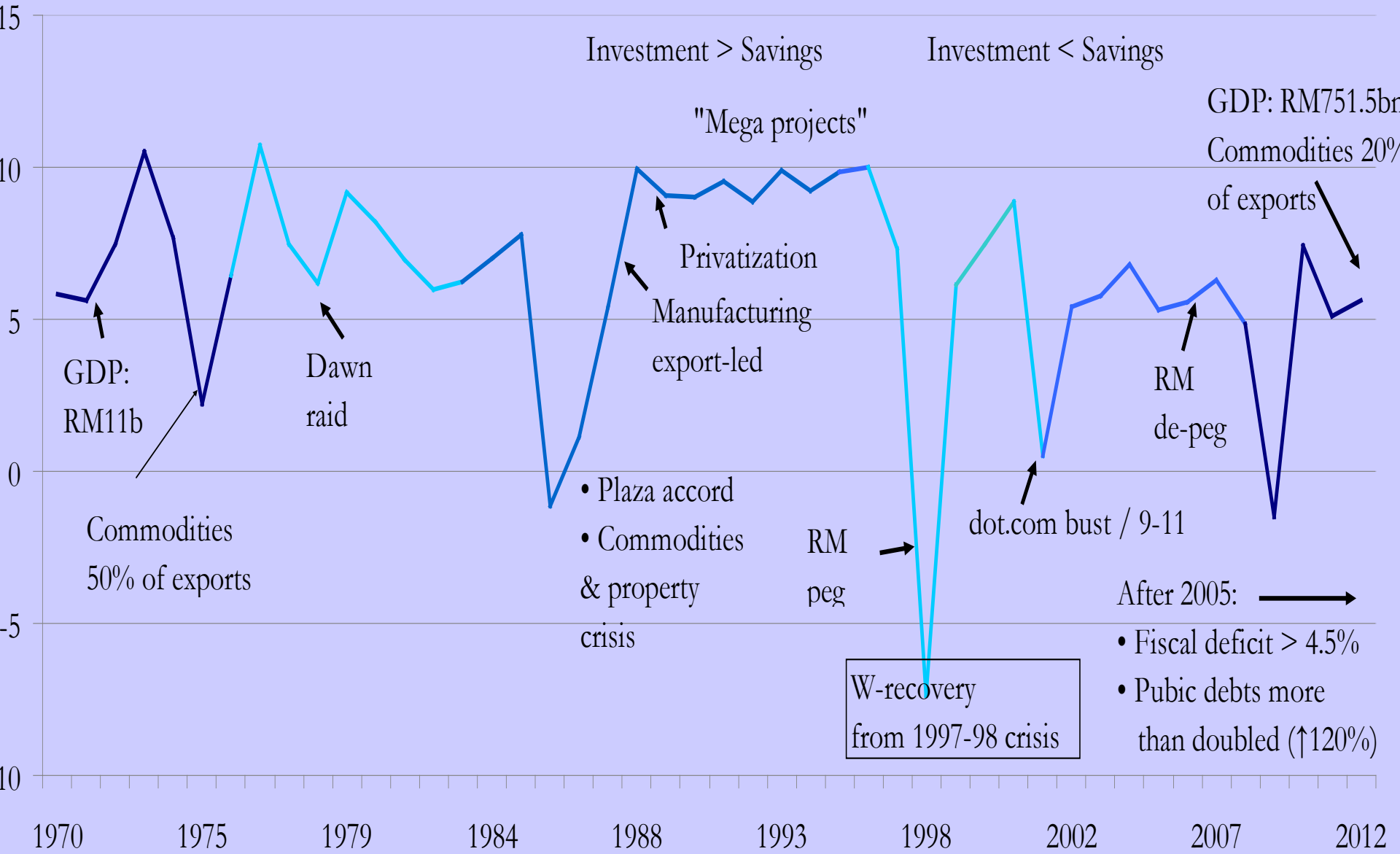
Share ownership @ par by ethnicity, 1970-2008 (%)

	<i>1970</i>	<i>1985</i>	<i>1990</i>	<i>2008</i>
Bumiputera	2.4	19.1	19.3	21.9
Chinese	27.2	33.4	45.5	36.7
Indian	1.0	1.2	1.0	
Foreign	63.4	26.0	25.4	41.4

Bumiputera ownership of share capital, 1970-2006(%)

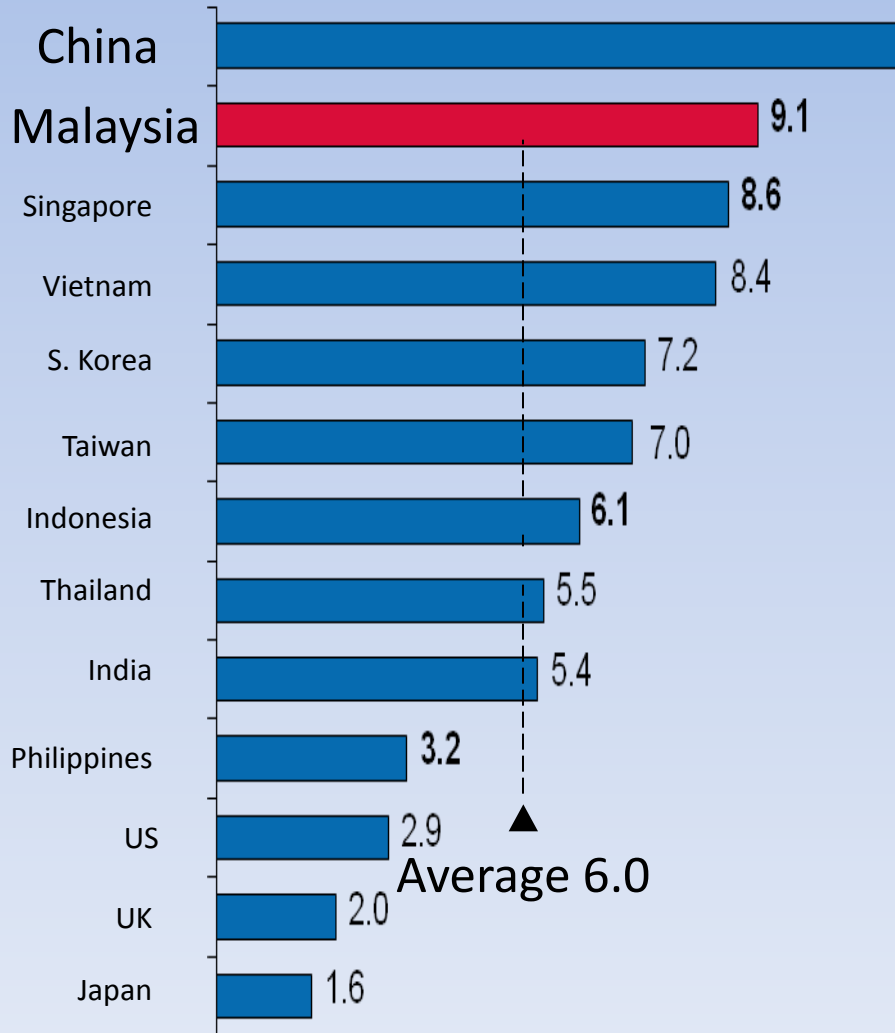
	<i>1970</i>	<i>1985</i>	<i>1990</i>	<i>2000</i>	<i>2006</i>
Total	2.4	19.1	19.3	18.9	19.4
Individuals	1.6	11.7	14.2	14.2	15.1
Institutions	0.8	7.4	5.1	3.0	2.6
Trust agencies				1.7	1.7

Malaysia's open economy

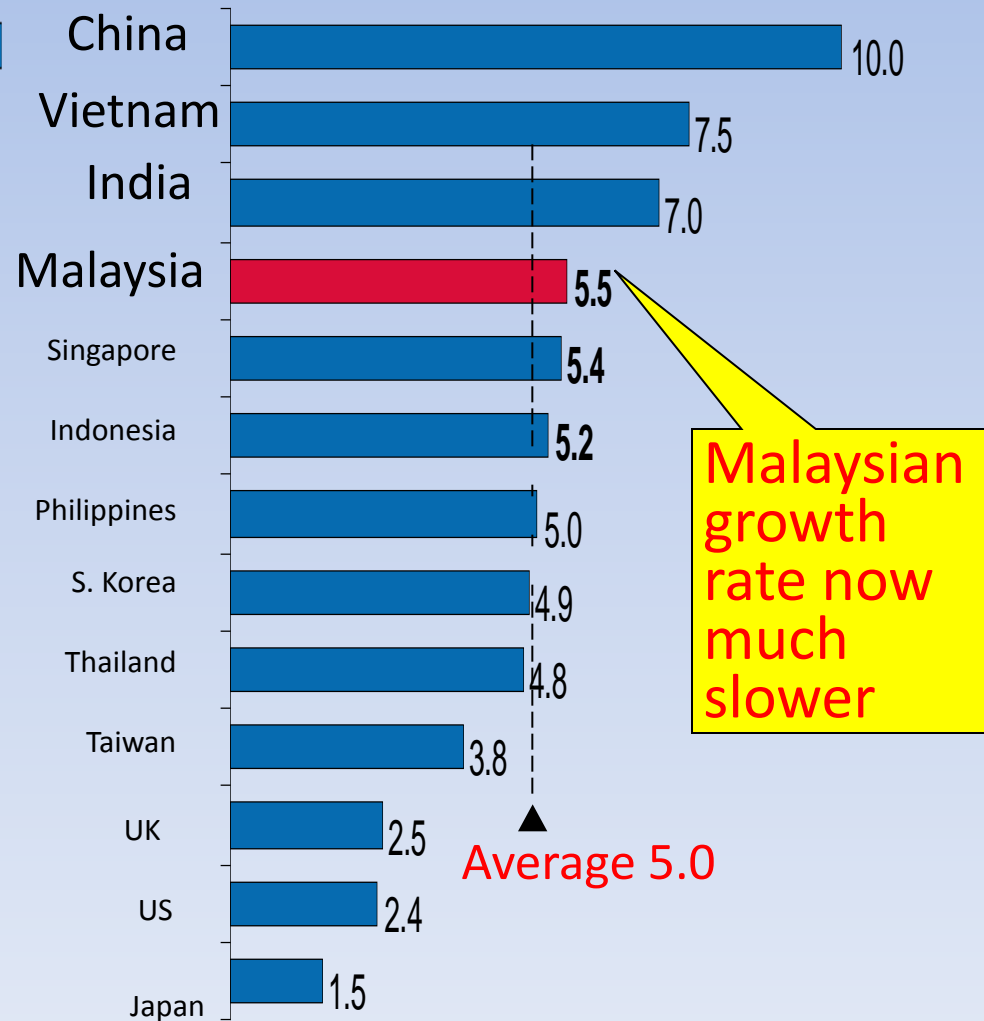


Post-Asian crisis growth slower

Pre-crisis, 1990-97

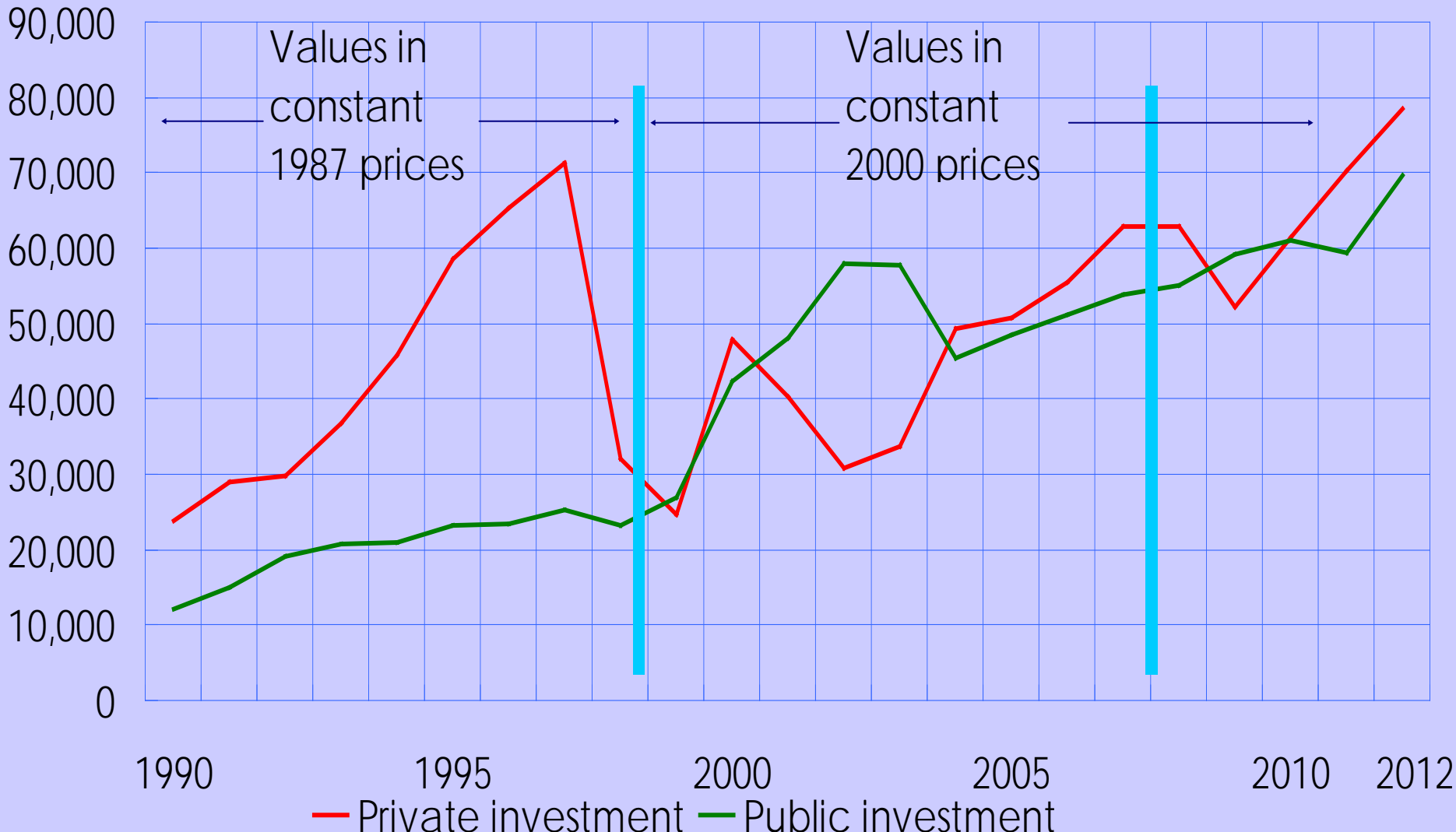


Post-crisis, 2000-08



Since 1997, private investment lower, government investment still rising

RM million

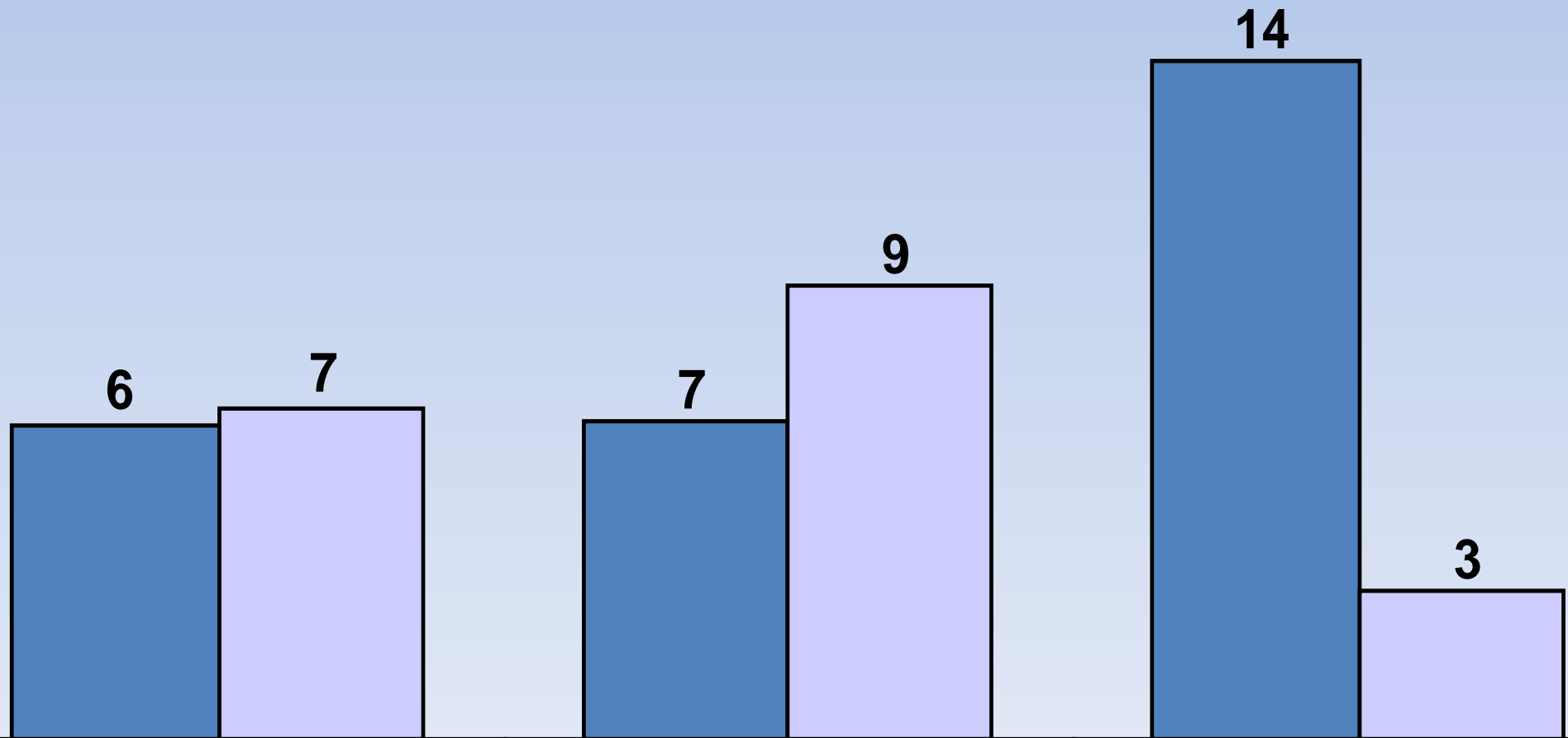


Pre and post-Asian crisis

Private
consumption

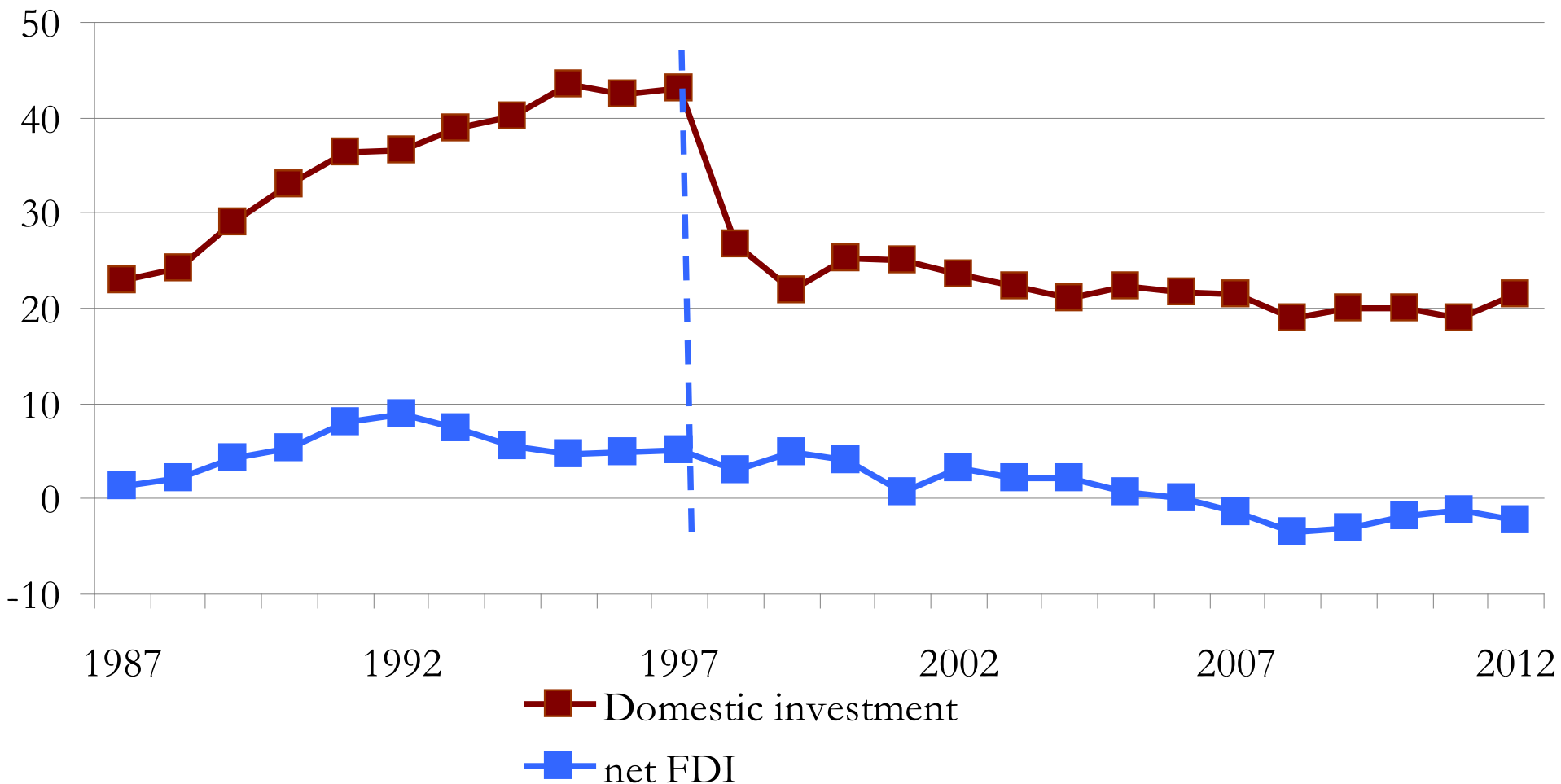
Govt
spending

Investment
down



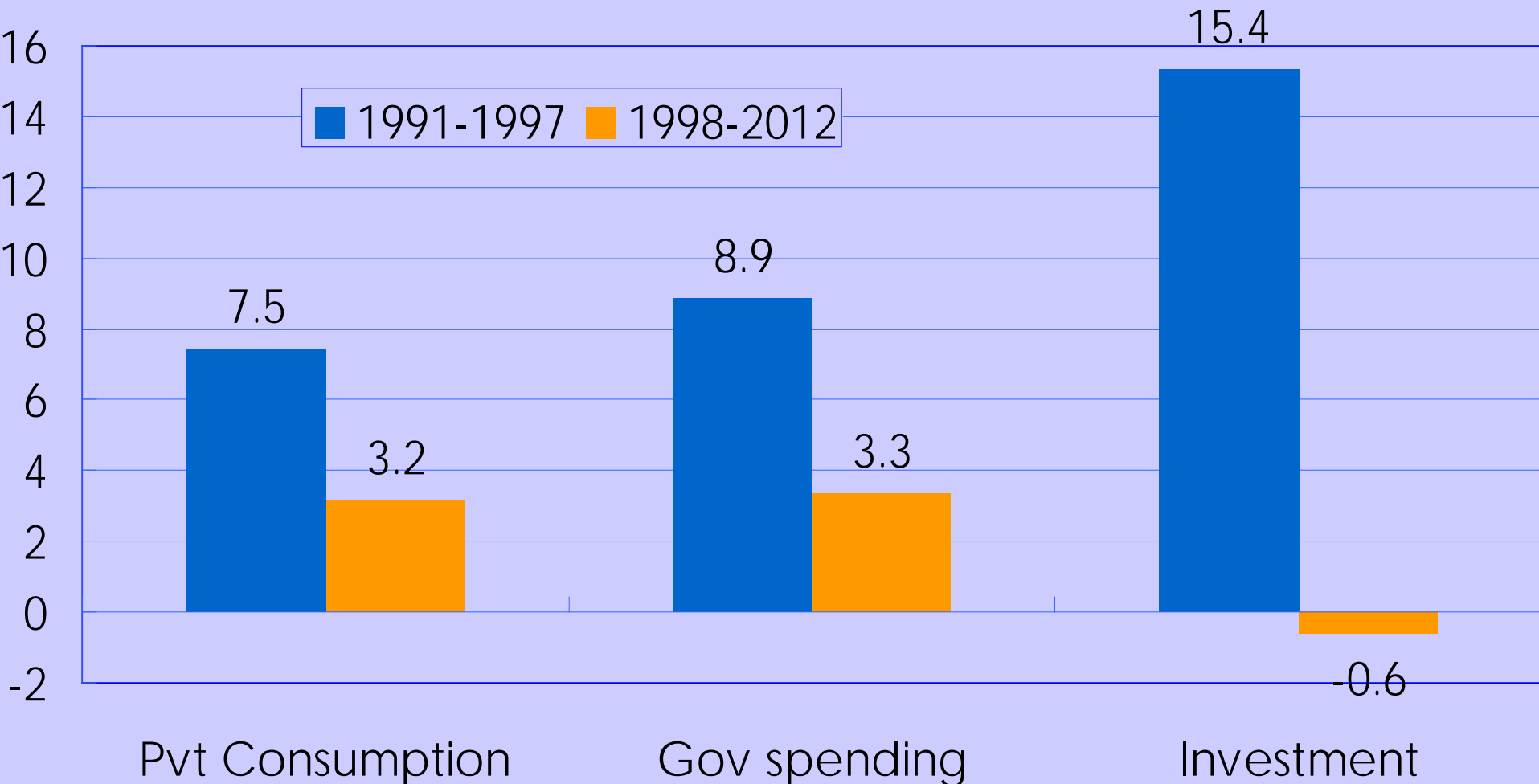
Post-crisis investment collapse

Gross Domestic Investment & Net FDI as % of GDP



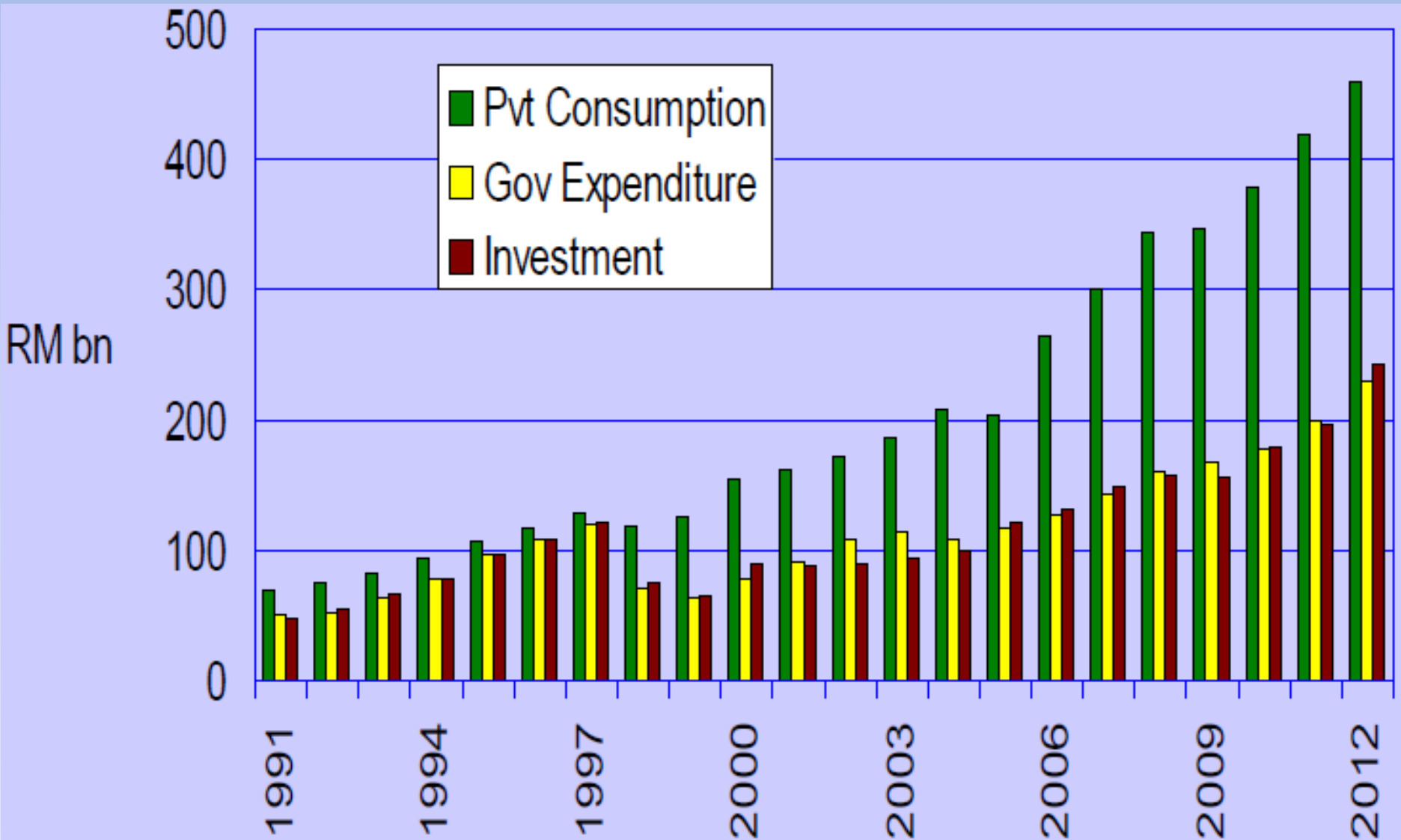
Investment still down, govt spending not really higher

Growth (% p.a.) of Demand Components



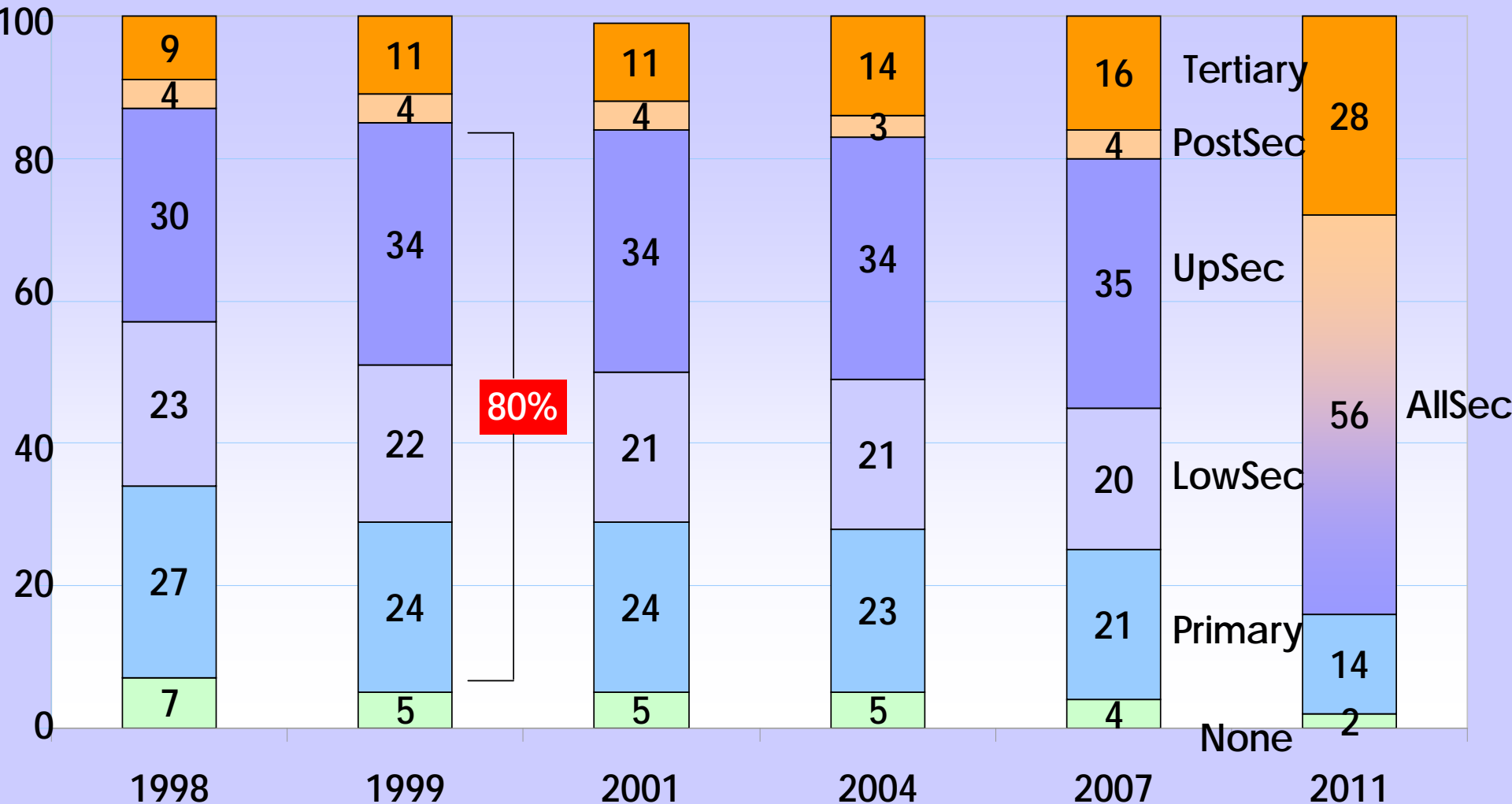
Consumption engine of growth

% Shares of Demand Components to GDP growth



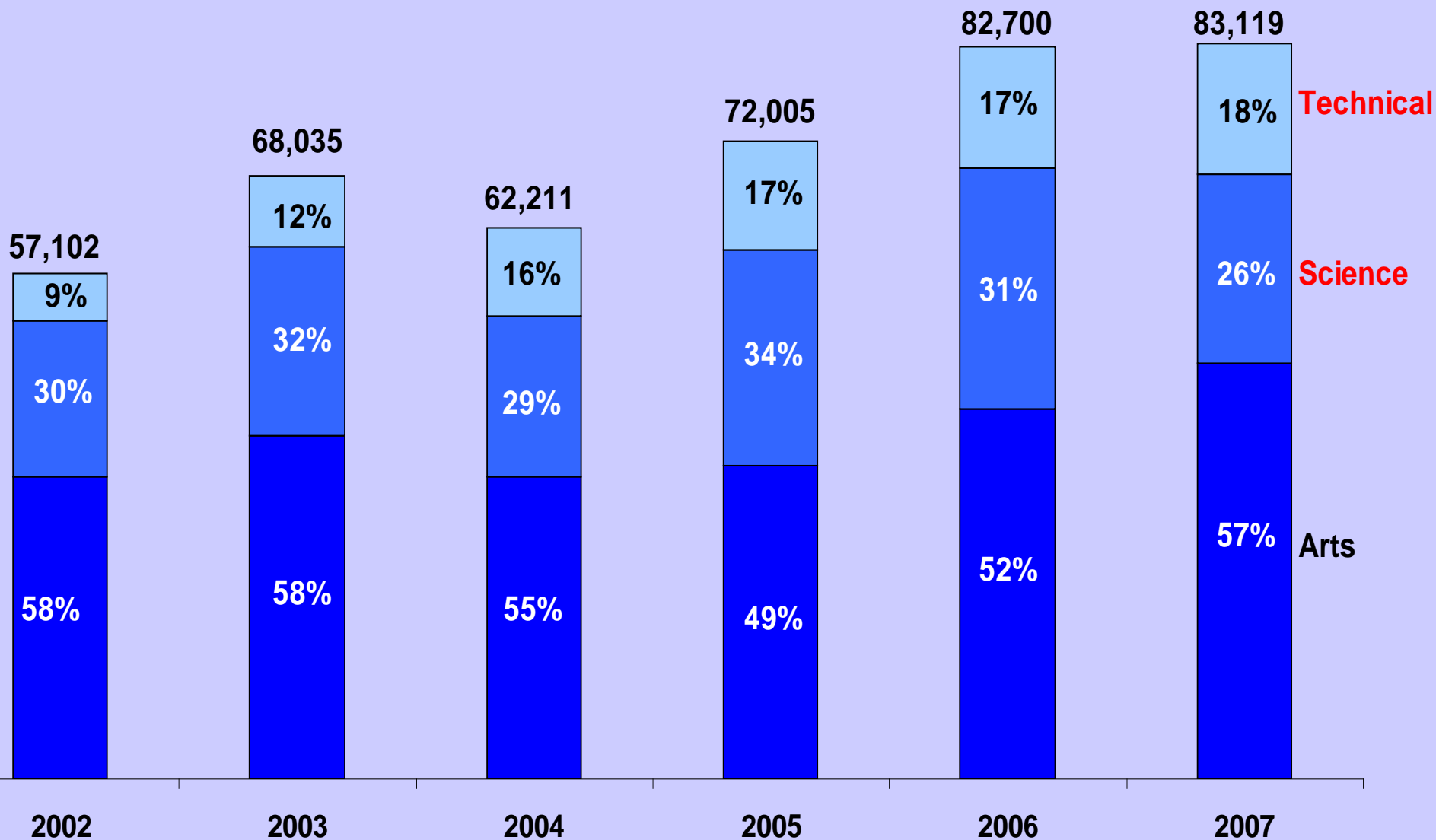
Education failure

Education profile of workforce, jobs
cause for concern



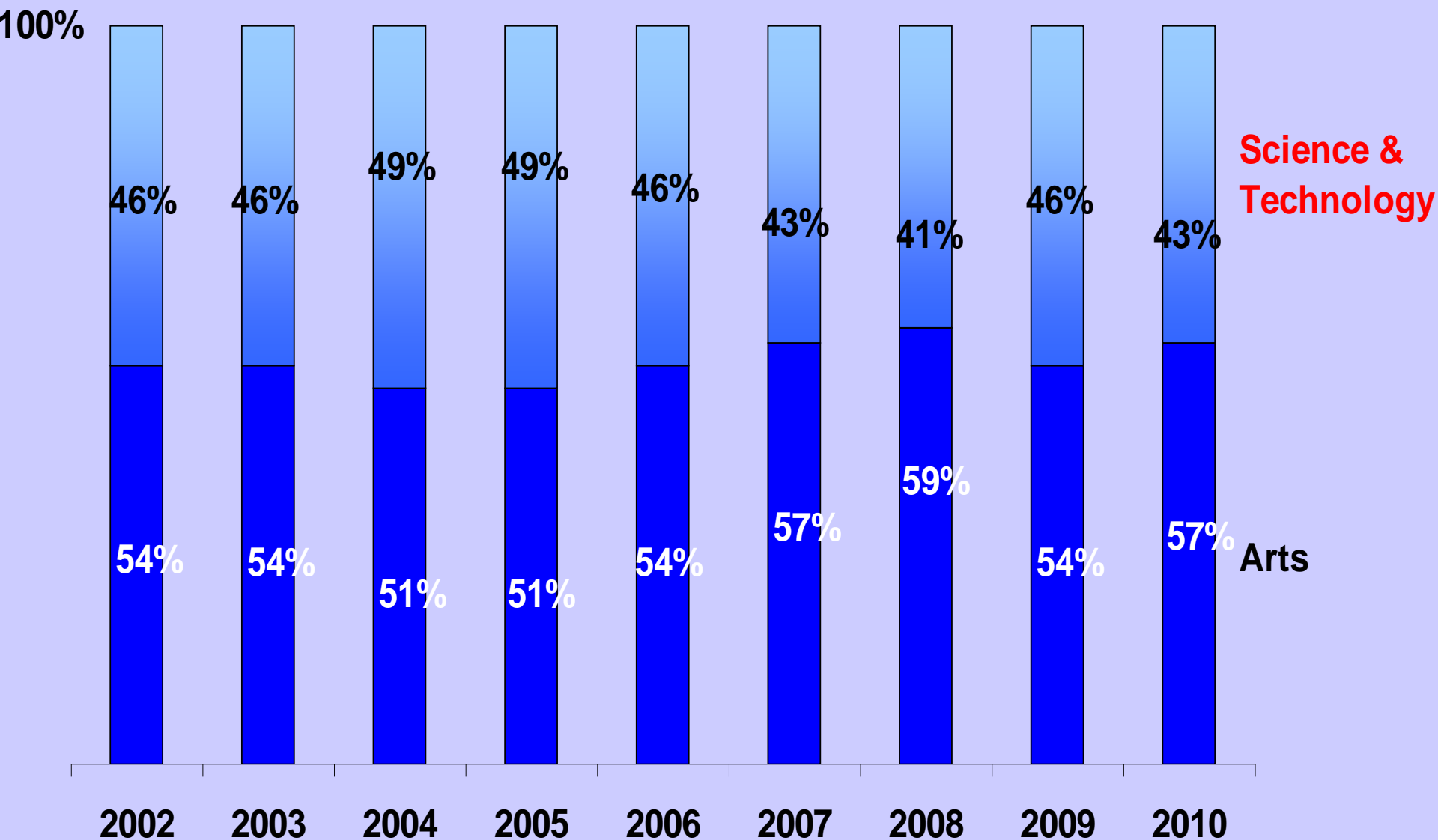
University graduate fields

IPTA, IPTS degree program graduates, 2002-7



University graduates' ratios

IPTA & IPTS graduates in all programs, 2002-10



Technical, vocational education inadequate

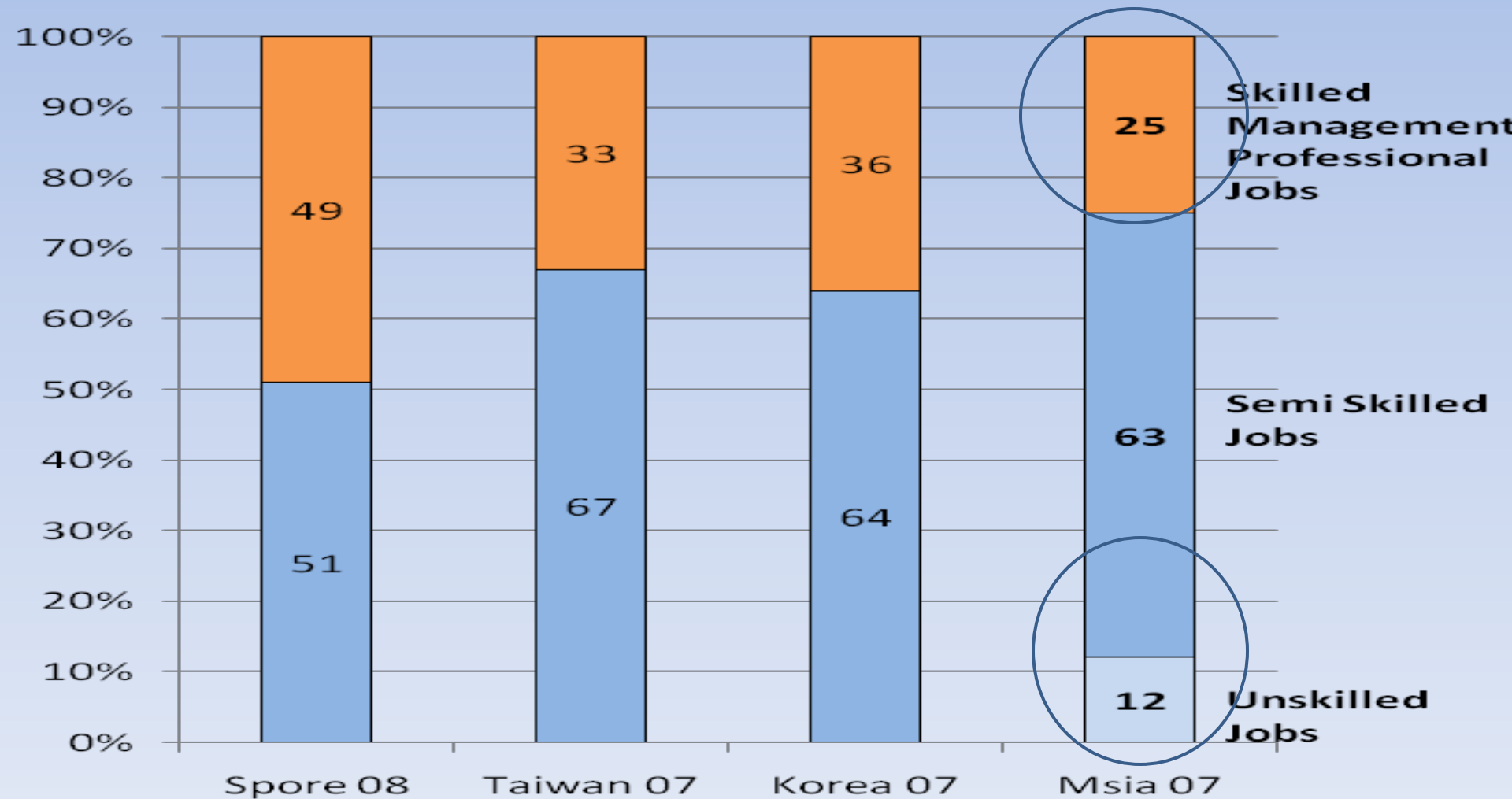
No. of graduates from technical & vocational schools, 1999-2009



Workforce skills inadequate

Educational profile of workers + jobs cause for concern

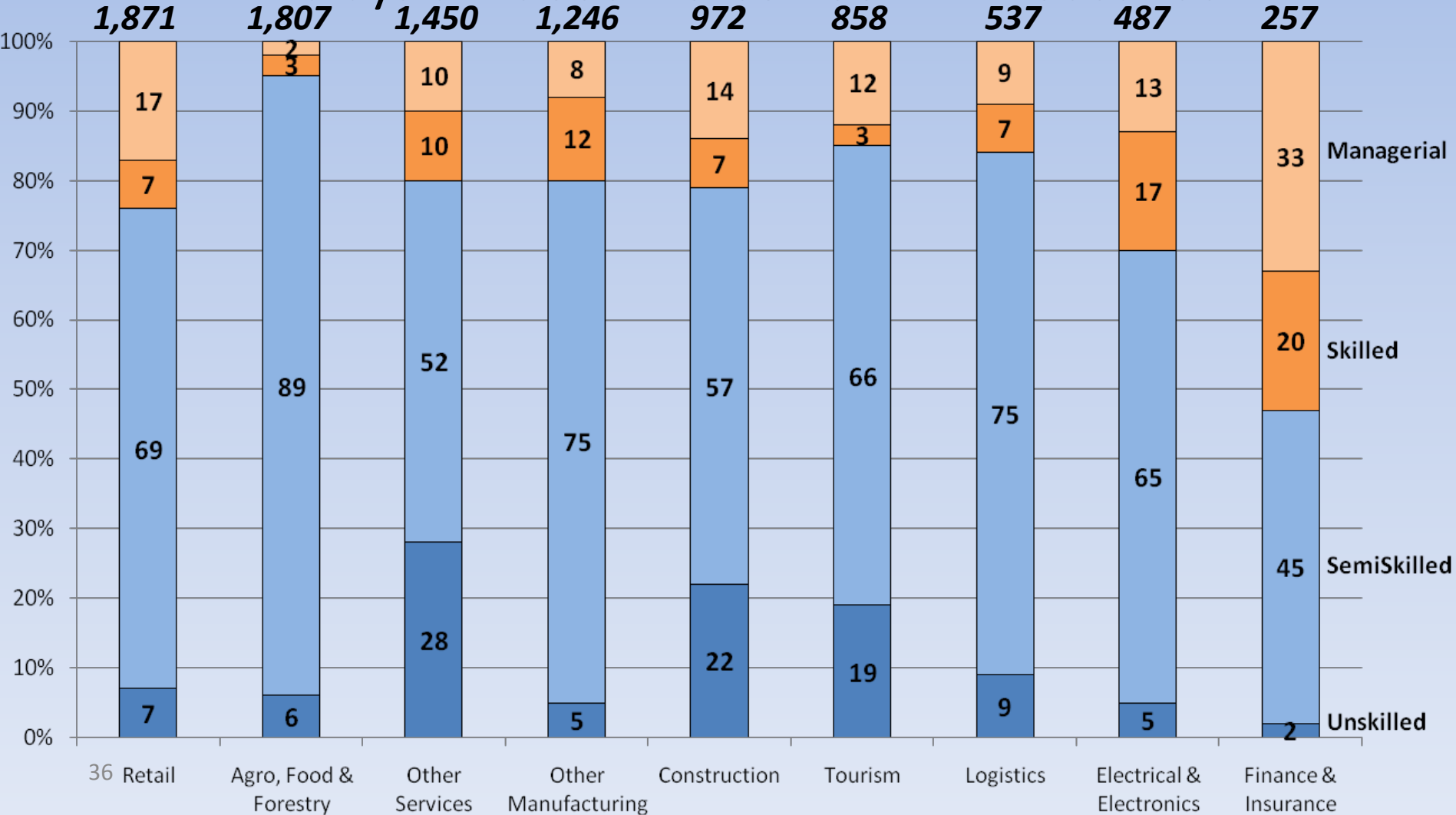
Jobs : Only 25% of Malaysian jobs are in the higher skilled bracket. Developed nations have higher proportion



Need to upgrade skills

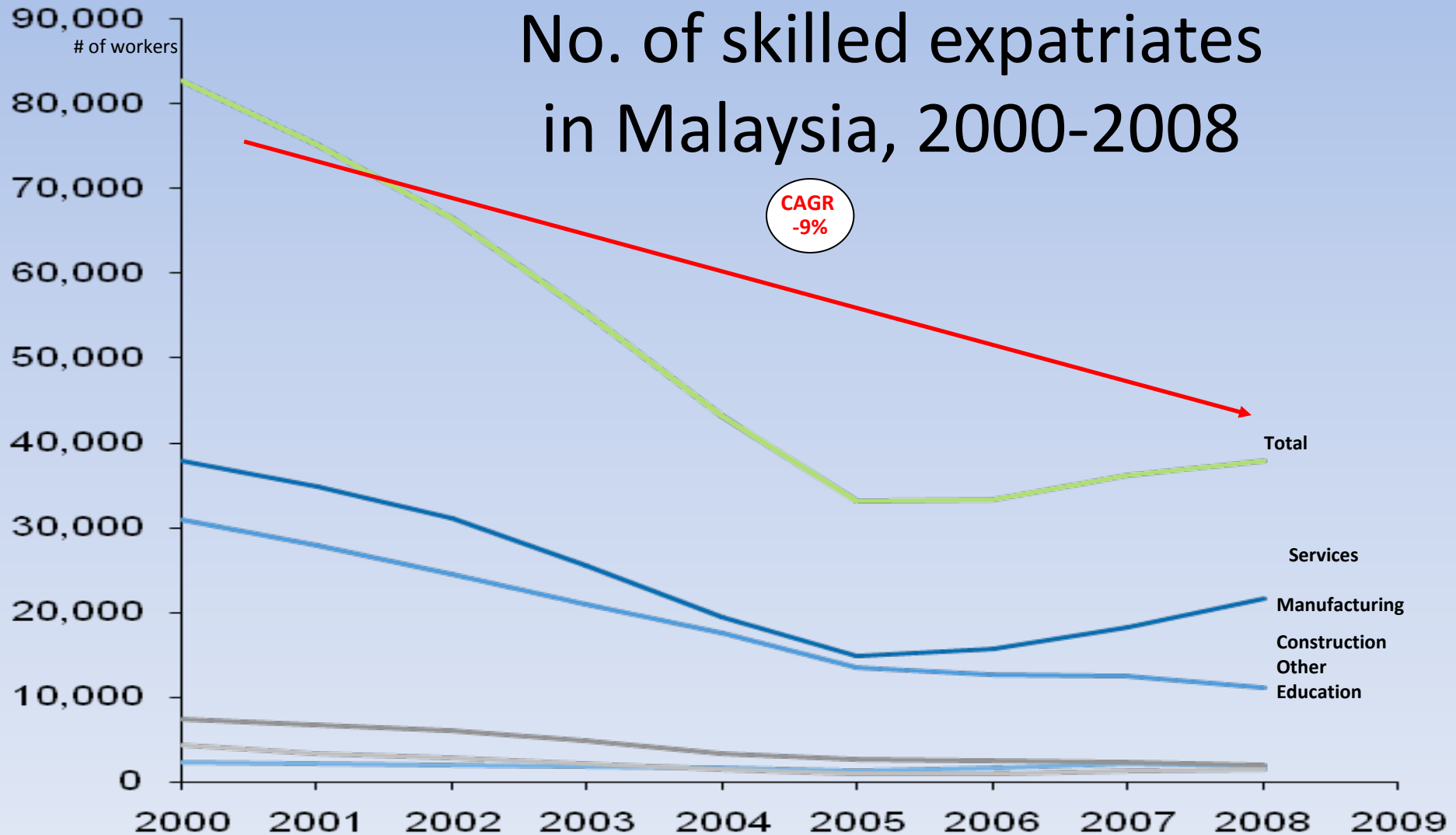
Low skills in most industries

Malaysian labour force 2007 in thousands



Skilled expatriates leaving

No. of skilled expatriates in Malaysia, 2000-2008



Science infrastructure lousy

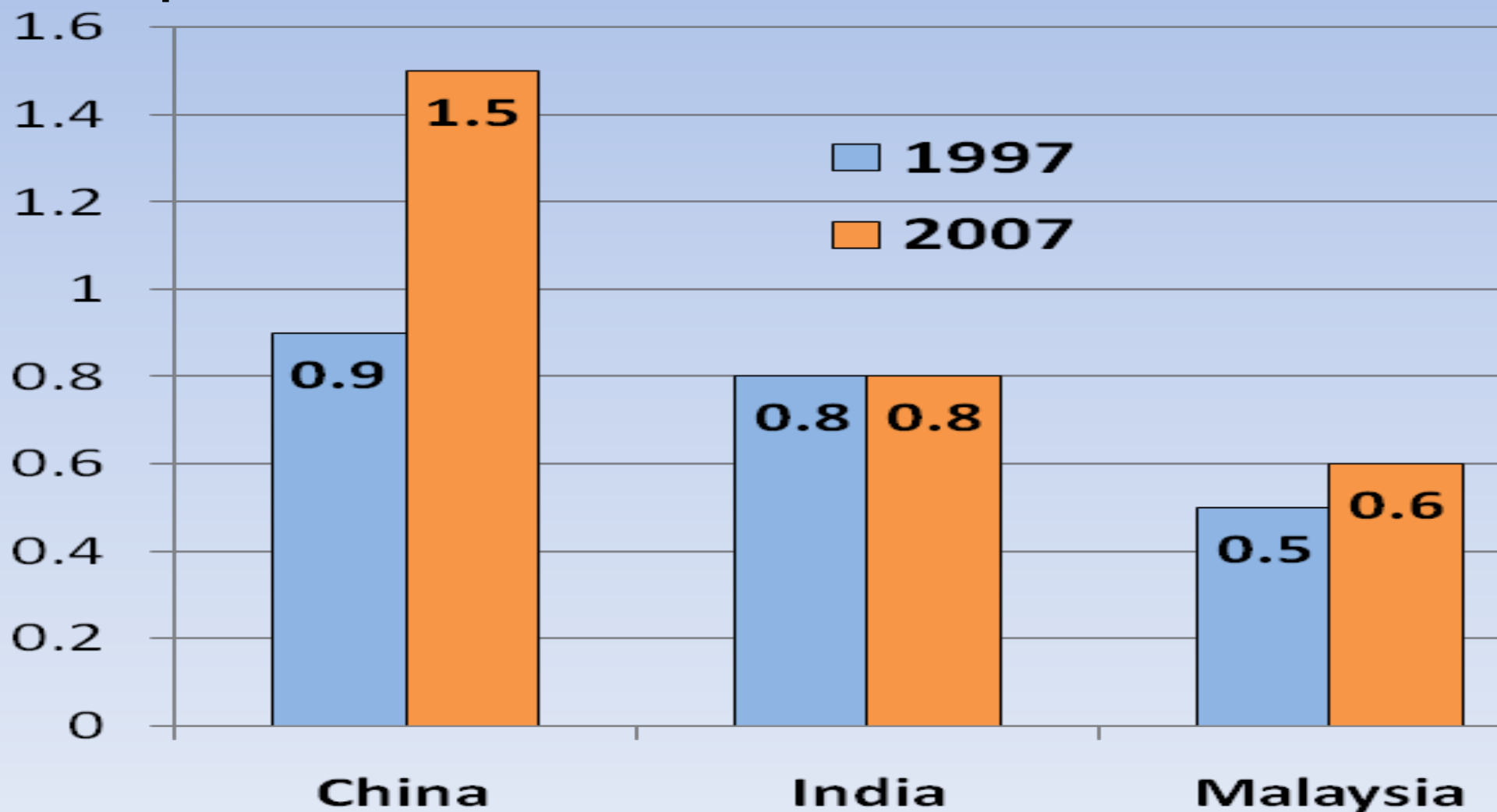
Country scientific infrastructure ranking

Ranking	1997	2008
China	28	6
Indonesia	↓ 35	25
Malaysia	24	28
India	29	29

Ranking out of 55 countries

Low R&D investments

Expenditure on R+D (% of GDP)



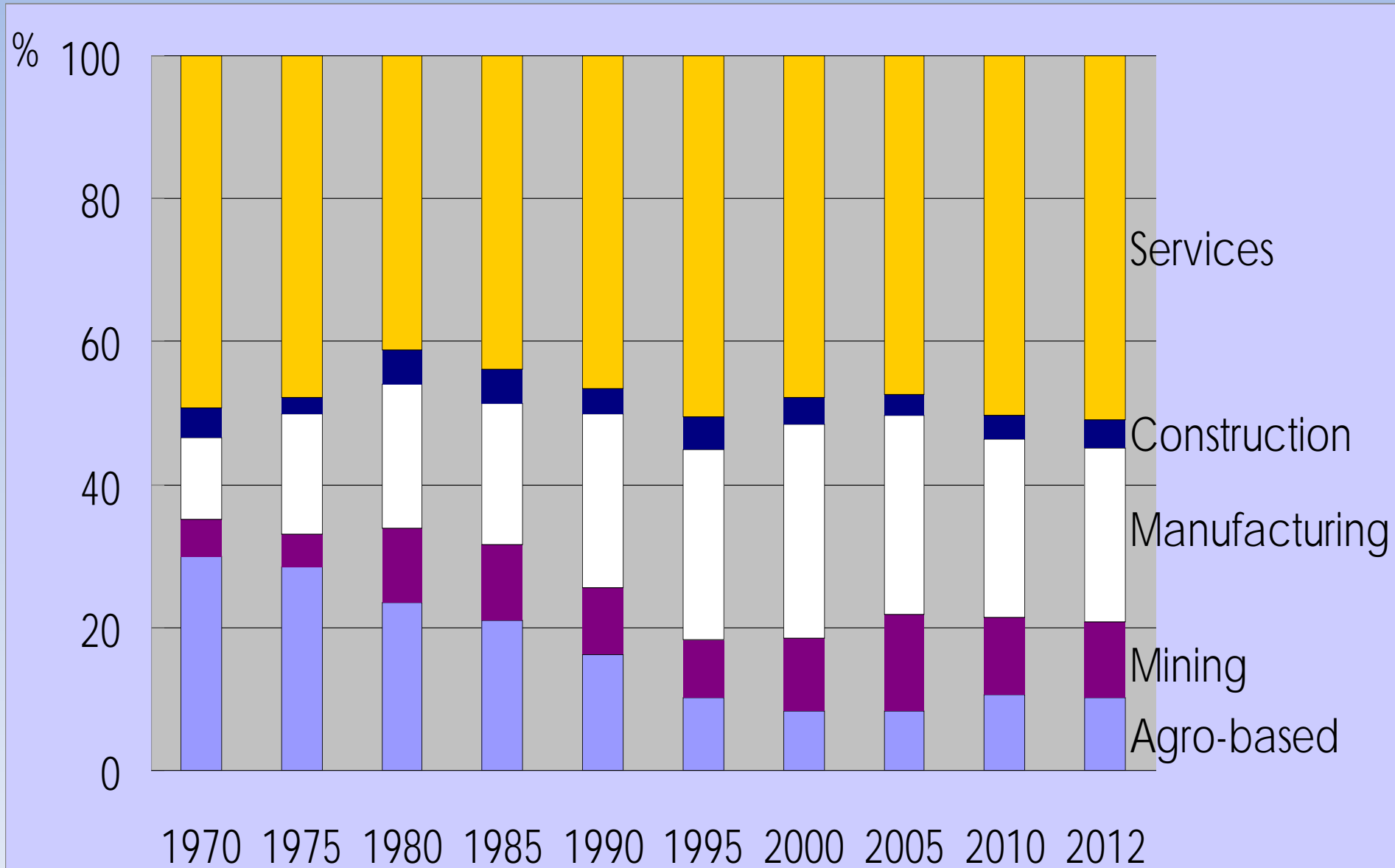
Sources of growth?

- Per capita growth highest during 1971-1984
- Fiscally sustained
(oil → fiscal space)
- Post-1984, less fiscal space
- Weak exchange rate →
1988-1997 high growth

Sustaining growth?

- Weak Malaysian industrialist class → finance dominant → liberalization → 1997-98 crisis
- Slower growth since sustained by government spending
- Recovery efforts:
mainly 'jobs for the boys'
- Fiscally **unsustainable?**

Manufacturing ceiling?



Growth v redistribution?

- Per capita growth highest during 1971-1984
- Fiscally sustained (oil → fiscal space)
- After 1984, reduced fiscal space
- Exchange rate → 1988-1997 high growth
- Weak industrial invt → finance dominant → partial liberalization → 1997-98 Asian crisis
- Slower growth sustained by govt spending, fiscally unsustainable
- Stimulus delay → weak recovery, jobs 4 boys
- Ethnic patronage problem, not redistribution

Rentiers rule

- Malay/non-Malay rent-seeking → debilitating, wasteful, not progressive
- Redistribution not problem?
- Ethnic patronage:
clientelism

SE Asia < NE Asia

SEA development inferior to NEA

- lower growth
- SEA (MIT) av. 6% vs EA NIEs av. 8%
- SEA higher population growth --
hence, difference @ 3% over 2-3
decades till 1990s
- Less industrialization
- SEA more unequal than NEA, due to
'initial conditions' (land reforms,
'stakeholder economy', etc)

FDI reliance: SEA > NEA

- NEA: FDI < 2% of GDCF
- SEA: FDI > 5-6% developing country average
 - ltd capacities, capabilities
 - less sustainable
 - less policy space
 - weak industrialist class
 - financial dominance

Middle income trap?

- WB LA fable
- 2 track recovery → crisis of globalization; size matters
- Productivity trends?
- Low cost location: < Bangkok
- Industrial policy? FDI rules
- Malaysian investors?

Industrial policy:

Needed, but unlikely

Support learning by doing; critical

support for potentially successful

Evaluate potential competitiveness

of industries, products, processes

Selectively use industrial policy tools

Maximize use of industrial policy

tools allowed by WTO

Re-subordinate finance

Thank you

For more, please see:

Jomo K. S. and Wee C. H.

Malaysia@50

Economic Development, Distribution, Disparities