

# BOOK REVIEWS

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***Tiger Economies Under Threat: A Comparative Analysis of Malaysia's Prospects and Policy Options.* By Shahid Yusuf and Kaoru Nabeshima.** Washington, D.C.: The World Bank, 2009. Pp. 281.

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This book is published by the World Bank and co-sponsoreded by the government of Japan. It is a rich study of the Malaysian economy, and notes that there are serious impediments to the next phase of evolution. Malaysia's post-independence economic transformation has been impressive, but it has fallen into a middle income rut.

It is important to start with terminology, which needs some tidying up. It is not crystal clear whether the "tiger economies" referred to in the book's title means the four East Asia economies that "followed in Japan's wake" (p. 1), or the "second cohort" of Southeast Asian "tigers" (p. 2), sometimes also known as "little Tigers" or "Tiger cubs" — or whether in fact the authors mean all of the above. Most of the comparative commentary in this book, however, seems to be about the "Southeast Asian Tigers", which the authors define as Indonesia, Malaysia, Thailand, and the Philippines. (The defining of the Philippines as a tiger economy might not meet with universal concurrence.) When the book compares Malaysia to Southeast Asia, it needs to be realized that Singapore is often (implicitly) excluded, although occasionally is explicitly included. For example,

when the reader is told that Malaysia's business climate "was equal to if not better than that of other Southeast Asian countries" (p. 7), the authors cannot mean equal to or better than Singapore. Another source of confusion is the practice here of saying "Taiwan, China" instead of just Taiwan (likewise "Hong Kong, China"), leading to some awkward punctuation to get around the problem of the reader otherwise assuming that the text means Taiwan and China.

We expect that a publication from the World Bank would have a list of recommendations, based on comprehensive economic analysis, for Malaysia to consider. There are many implied and stated options for Malaysia, but at times the book soft peddles its messages, or buries material of great significance.

At the core of Malaysia's model lie race-based privileges which were codified in the 1971 New Economic Policy (NEP) and its subsequent manifestations. To the chagrin of the Malaysian government, the World Bank has for many years noted the huge opportunity costs this imposes on the economy, and this volume is no exception if one looks hard enough. It is mentioned that Malaysia's education system has been "slow" to "construct a culture of excellence and innovation" (p. 11; a possible but by no means conclusive reference to race preferences). There is a passing reference to NEP's creation of a "Malay business elite" (p. 12). In a further reference, where it is not even clear that Malaysia is the subject of the discussion, it is noted that affirmative action

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programmes “have also distorted public investment decisions” (p. 156). The authors thought this issue was significant enough to make it the subject of the book’s closing paragraph, lauding Prime Minister Najib Razak’s “readiness to grasp the nettle” of overhauling (or, essentially, watering-down) NEP “to begin easing what some have perceived as a serious constraint on entrepreneurship, industrial change, and innovation in Malaysia” (p. 218). Not content to soften the final sentence with saying “what some have perceived”, the ideas in this sentence are then attributed to *Financial Times* journalist John Burton. This would appear to be the sum total of substantive references to NEP. This structural pillar of Malaysia’s political economy deserves an entire chapter.

This leads to the problem of microeconomic distortions. It is mentioned in a footnote that the McKinsey Global Institute notes that countries with sound macroeconomic policies often have restraints placed on productivity increases by microeconomic factors (p. 95, n 3). This volume chooses not to expand on this, despite the tremendous and growing problems that now exist around petrol subsidies in particular. Having trumpeted Malaysia’s impressive tariff reductions (replete with graphs), there is reference to, but no substantive elaboration on, the far more significant non-tariff barriers, which have, as this book notes, “reduced competition in the domestic market” (p. 92). Corruption is not mentioned in this study as far as I could tell, despite the tremendous economic and social cost that it imposes.

Where this volume excels is in identifying a host of other structural weaknesses that Malaysia ought to consider. This includes the following themes. The global recession has had a knock-on effect on the heavily trade-dependent Malaysia, coupled with competition from other Asian economies, notably China (which is competing across a range of export commodities from low through to high tech goods). MNCs have left a small knowledge footprint and the erosion of Malaysian wages since 2002 is indicative of Malaysia’s losing grip on its endeavour to achieve high-tech status. Education, while still

relatively good compared to many Southeast Asian countries, lags well behind East Asia, fails to get the right mix of skilled human capital and has not given nearly enough emphasis to English language study. A lack of entrepreneurship is seen as the result of significant barriers to entry in the form of major private conglomerates and government controlled corporations. This book notes the importance of services to the Malaysian economy and notes potential (still highlighting the hurdles, not least because of competition from other countries) in tourism, medical services, Islamic finance, halal certification and logistics services. Malaysia’s three principal logistics platforms are judged to be “suboptimal” — although one might note that they still chip away at Singapore’s port traffic and perform far better than Indonesia’s woeful port system. Malaysia’s public sector venture capital has crowded the private sector and diverted funds away from economic activity that might make the greatest return. Research and development funding is both too low and thinly spread across the automotive, electronic components and consumer electronics sectors; in contrast South Korea spends two-thirds of its R&D spend on electronics. (Are the authors hinting here that Malaysia, in choosing to underpin a domestic car industry, made a strategic error?)

This volume is a very valuable analysis of the economy, and represents a valuable mine of information that might inform other accounts of the Malaysian economy. It is hard to disagree with the overall conclusions in this volume. It is a pity, though, that this study felt it necessary to skirt around areas of substance, particularly coming at a time when Malaysian authorities have a seemingly growing acceptance of a need for fundamental change. For those within the Malaysian system inclined to ignore World Bank advice, it is doubtful that this softer line approach will convince them of the need for reform anyway.

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