ASEAN Economic Bulletin Vol. 29, No. 1 (2012), pp. 79–83 ISSN 0217-4472 print / ISSN 1793-2831 electronic

BOOK REVIEWS

DOI: 10.1355/ae29-1f

Malaysia: Policies and Issues in Economic Development. **By ISIS, Malaysia.** ISIS: Kuala Lumpur, 2011. Pp. 693.

This voluminous book is more an economic history book rather than as its title may indicate, a book on the current economic policies and issues that impact the process of economic development in Malaysia. It was published to commemorate the twenty-fifth anniversary of the establishment of the Institute of Strategic and International Studies (ISIS), a government think-tank in Malaysia. It starts with an introductory chapter by David Lim on the economic history of Malaysia from the beginning of the colonial period in the late nineteenth century to the present and ends with a chapter by the late Dr Zainal Aznam Yusof on "Looking Forward" on the possible future trends in the Malaysian economy. In between the first and last chapters, there are twenty chapters divided into four sectors covering macroeconomic management, economic growth and transformation, growth and equity and the institutional aspects of development. However, the book does not discuss in detail the New Economic Model, the Economic Transformation Programme or the Government Transformation Programme or the Tenth Malaysia Plan, which are shaping the outcome of the Malaysian economy in the present and the near future.

The chapters do not run in sequence and there is no unified theme, and each author is left to develop his own framework and argument. The chapters are written by twenty-five social scientists and two institutions, that is, the Malaysian Industrial Development Authority (MIDA) and the Federation of Malaysia Manufacturers (FMM). Of the twenty-five social scientists, at least nine have worked at one time or another at the Faculty of Economics and Administration in the University of Malaya. Four of the authors are from ISIS and the rest come from government institutions or other Malaysian universities or have worked in these institutions in the past. Hence it is not surprising that there is a pro-government bias in several of the chapters.

In the introductory chapter, David Lim surveys the main phases of development the Malaysian economy has gone through since colonial times. He does not dispute the fact that there was an income gap between the Malays and non-Malays and endorses the view that it "was a gap that bred a lot of discontent" (p. 12). He, in fact, argues that the May 1969 racial riots was "the result of a breakdown of the unwritten agreement between the Malays and the Chinese not to challenge each other in their respective areas of dominance" (p. 12). However, he fails to mention that this so-called unwritten agreement or Social Contract has been challenged as a concept without legal substance by several groups, especially the younger group of non-Malays, who were born in Malaysia and are legitimate *jus soli* citizens.

In one of the two chapters on macroeconomic management, Thillainathan, who is also one of the two advisers of this book project, compliments the former Finance Minister Tun Tan Siew Sin

on moving swiftly to the U.S. dollar when the pound was devalued in 1967. According to Thillainathan:

> Judged against the goal of stabilizing the external value of the ringgit, the record of Tunku Abdul Rahman's administration was the best. He and his team not only embraced the pegged exchange rate regime to give the right signals to the market, they went a step further by retaining the currency board arrangement with sterling as the anchor currency. And when the sterling crisis broke out in the mid-1960s, they were quick in making the switch to the USD as the new anchor currency while retaining the peg. The key members of his economic team were Finance Minister Tan Siew Sin and Central Bank Governor Ismail Mohamed Ali. (pp. 46–47)

However, according to Schenk (2008, p. 203) the ineptness of the Malaysian Government over the sterling devaluation in 1967 caused Malaysia heavy losses, and Singapore acted much more speedily than Malaysia in moving to the U.S. dollar.

According to Schenk, Malaysia's diversification of reserves was not fast enough and was not significant, and the 19 November 1967 sterling devaluation cost Malaysia a loss of RM250 million (US$81.5 million) in reserves (Schenk 2008, p. 203). According to Schenk:

> The sense of betrayal felt in Kuala Lumpur after the sterling devaluation was intensified by the way it exposed the difference between Singapore and Malaysia in regard to their financial relations with Britain. Malaysia was revealed as having fallen behind the more entrepreneurial and self-interested Singaporean policy of secretly diversifying reserves in the run-up to the devaluation. This was politically damaging for the Malaysian government and led them into a defensive path of trying to catch up with Singapore and to identify (and act on) on Malaysia's national interests rather than taking advice from London. (Schenk 2008, p. 203).

Contrary to what Thillainathan writes, Tun Tan Siew Sin told the *Straits Times* on 20 November 1969 that he was shocked by the devaluation as he had been assured by the Chancellor of the Exchequer that the "devaluation of sterling was practically unthinkable" (Schenk 2008, p. 203).

The contribution by Ariff and Sankaran attributes the vibrant and sustained economic growth of Malaysia as being due to (1) liberal trade and investment policies, (2) economic restructuring and deregulation, and (3) a stable political environment. They do not discuss the relative decline in foreign direct investment (FDI) flows in recent years and the decline in total investment as a proportion of GDP since the 1997–98 Asian financial crisis. It also appears a bit awkward that that the authors recommend that Malaysia focus on the World Trade Organization (WTO) rather than the Free Trade Agreements (FTAs) when the Doha Round has come to a standstill or, in fact, has been pronounced dead by some quarters.

Rajah Rasiah's chapter on "Industrialization and Export Led Growth" focuses on the growth of the manufacturing sector since 1990. He argues that "government intervention is a necessary but not a sufficient condition for successful industrialization" because "at the heart of the problem lies the incapacity of Malaysian manufacturing firms to make the transition to higher value-added activities" (p. 149). According to Rasiah, "key sectors such as electric-electronics, textiles and transport equipment were showing either negative or very low productivity growth since 2000" (p. 173). However, he does not discuss the possibility of "importing" or attracting higher value-added manufacturing firms as has been done by other countries. He could have better articulated the relationship between the real and the financial sector when he states,

> Although the causes of the Asian Financial Crisis (AFC) that followed in 1997–98 were more a result of destabilizing currency swings that arose from external currents that ravaged stock markets … the lack of industrial deepening through institutional change has now become glaring. (p. 170)

It is obvious that the AFC was not due to "currency swings" but were more fundamentally related to the performance of the export sector.

This book highlights the fact that Malaysia has grown and developed fast since independence more than half a century ago. However, the analysis in many of the chapters could have been more objective and less biased towards the government. Similarly, Malaysia's privatization experience could be presented in a more enlightened manner rather than to suggest that the government could have built the privatized infrastructure at less cost because for about three decades after independence Malaysia was infrastructure-starved. The book needs to be updated to incorporate the New Economic Model, the Government Transformation Programme, the Economic Transformation Programme and the Tenth Malaysia Plan.

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G. SIVALINGAM
Institute of Southeast Asian Studies

DOI: 10.1355/ae29.1g

Economic Crises and the Breakdown of Authoritarian Regimes: Indonesia and Malaysia in Comparative Perspective. **By Thomas B. Pepinsky.** New York: Cambridge University Press, 2009. Pp. 326.

Thomas Pepinsky's book is focused on a simple question — why did Indonesia and Malaysia have such different political outcomes in the aftermath of the 1997-98 financial crisis? In seeking to answer it, he aims to shed light on how authoritarian regimes respond to changes in their economic fortunes and, in particular, crises.

Pepinsky contends that despite some differences, Indonesia and Malaysia make effective comparators. Up until the crisis, both countries were classified as authoritarian, and their economies were open and export-oriented, with convertible currencies, a managed exchange rate, ample stocks of foreign reserves, and no independent central bank. However, their responses to the 1997–98 financial crisis differed markedly, with dramatically distinct political outcomes.

Indonesia had an inconsistent policy response, ranging from initial acceptance of the International Monetary Fund austerity packages to rejecting them in favour of a range of often contradictory measures — ranging from reducing interest rates, providing emergency support to banks, and reinstating costly infrastructure projects. Virtually the only policy that was pursued consistently was maintaining an open capital account. The resulting turmoil resulted in President Soeharto's resignation, and an "authoritarian breakdown".

Although it also experienced a deep and traumatic economic crisis, Malaysia had a very different policy response and, ultimately, a distinct political outcome. After an initial period of uncertainty, the government consistently resisted austerity measures such as high interest rates, expenditure cuts, and currency devaluation. Of particular interest, then Prime Minister Mahathir imposed capital controls and pegged the Malaysian ringgit to the U.S. dollar. Despite considerable political unrest and a challenge to his leadership, Mahathir emerged from the crisis relatively unscathed, and the regime remained intact.

Pepinsky argues that the key to understanding the differing outcomes in the two countries is to focus on political coalitions and their economic interests. He contends this is more enlightening than studying each country's institutions, as institutions in themselves do not explain policy choices. In contrast, a focus on the coalitions underpinning the regimes provides an explanation of why particular policies were adopted.

He holds that political actors always seek to obtain beneficial outcomes for themselves, and even authoritarian regimes are dependent on support from their constituents. Thus, when confronting economic crisis, authoritarian regimes come under pressure from their supporters to implement policies in their interests. When the actors in a regime's supporting coalition have compatible interests, the ensuing policy responses will be coherent. When