

RSOG SEMINAR

Economic Planning in Malaysia: Past, Present and Way Forward

with

Professor Dr. Jomo Kwame Sundaram

When : 17 March 2016
Where : Razak School of Government
Speakers : Professor Dr. Jomo Kwame Sundaram

About the Seminar

More often than not, the first lesson in economics is about scarcity. That explains why economic planning is required to find a balance between limited resources with unlimited wants and needs. Formal nation-wide economic planning in Malaysia started as early as 1956 when the first Malaya Plan was introduced. Since then, 13 economic plans have been unveiled – the latest one being the 11th Malaysia Plan on 21 May 2015. With the federal system, ethnic disparities, and urban-rural gaps remaining, economic planning in Malaysia faces many challenges. It is likely that growing affluence, rising production costs, intense political contestation, and globalisation have exacerbated the aforementioned challenges of economic planning. This seminar intends to explore, amongst others, how Malaysian economics has changed, including lessons from the past. How different should economic planning be in the current context, as well as in the future?

Summary

In “Cast Away”, the protagonist, played by Tom Hanks, had to rely on his survival skills after being marooned on an island. With his area of specialisation rendered useless, it was evident that value is highly dependent on context, especially when facing resource scarcity. The fiction depicted how he adapted to the circumstances, mostly for reasons of survival and conservation of sanity, prior to his eventual return to civilisation four years later. In reality, a country faces many challenges such as needing to balance needs with finite resources, managing value fluctuation of items or commodities, and coping with rising expectations. Thus, the complexity of economic planning cannot be more overstated. Professor Dr. Jomo Kwame Sundaram recognised this intricacy and began his session on “Economic Planning in Malaysia: Past, Present and Way Forward” by acknowledging that policymaking in a world of great uncertainty is the responsibility of public sector, and it is a heavy responsibility to shoulder.

According to the speaker, economic planning in Malaysia can be clustered into seven distinct phases with snapshots of its establishments, post-independence concerns, the role of the state in economic and fiscal direction, and further reform initiatives to address macroeconomic issues. Post-independence Malaya inherited an economic structure left

behind by its colonial masters that focused mainly on agriculture, exporting rubber and tin, and public development expenditure allocations that was steered towards business interests. The establishment of Malaysia also saw intense political rivalries which led to politically sensible drive in rural development that had important economic implications for employment, labour and agriculture.

May 1969 saw the birth of Barisan Nasional ruling coalition and its eventual survival. Through the New Economic Policy (NEP), rural development thrived further along with the introduction of industrialisation as creation of jobs has always been seen hand in hand with economic progression. Import substitution industrialisation (ISI), where foreign imports were replaced with domestic production, was an attempt by the government to reduce foreign dependency and increase domestic economic opportunity. This led to the creation of state-owned enterprises to match the drive towards export oriented industry (EOI). For instance, Malaysia became more export oriented and the Free Trade Zone Act (1971) increased female employment further. The 1970s also saw the creation of a government owned oil and gas Company through the Petroleum Development Act (1974) to manage its natural resources, leading to wider fiscal space for public investments.

In addition to NEP, there were also other economic policies that supplemented subsequent Malaysia plans, especially from 1981 onwards. For instance, the Look East Policy (LEP) attempted to focus on labour discipline and productivity, the *Operasi Isi Penuh* was a poverty reducing policy and creation of employment by the government (interestingly, austerity drive – *operasi jimat cermat* succeeded after), and Malaysia Incorporated was to introduce privatisation and contracting out services. In addition, legislations were introduced to address impact of crises such as the financial crisis in late 1980s (e.g. BAFIA 1989) and emergence of sectoral growths. While the need to be technologically responsive was acknowledged as important, but post-financial crisis of 1997-98, its subsequent political turmoil prevented government to be fully committed to it. The new millennium led to consolidation and an attempt on public sector reform with emphasis on private sector involvement. There was also renewed appreciation for agriculture but its drive was never fully matched to its initial heydays.

Contributions of various sectors at different historical points (such as pre-NEP to 2012) were then compared by the speaker. While the manufacturing contribution to the economy has decreased since the financial crisis, it remains second best after services. However, he cautions on overreliance of statistics solely, as one needs to know what is being measured, what does the measurement mean, what are the parameters, and the context in which it is being measured. In addition to sectoral comparison, public short term spending was also compared with long term investments, with increase in the former and significant decrease for the latter. Where does the sources of spending and investments come from? Malaysia's per capita growth was at its peak between 1971 and 1984, the manner in which oil and gas was managed has also contributed to this. While a weak exchange rate may not be desired by certain segments, it had served its importance for growth in the past. However, conditions are becoming more complex, with various bilateral/multilateral trade agreements, fluctuation of commodity prices, and an uncertain global economic environment.

For Malaysia to sustain growth, the speaker recommends reinvigorating the industrial community in Malaysia. It is believed that premature deindustrialisation and FDI dependence has led to slowed growth as it leads to less sustainable process of industrialisation, weakened industrial class (e.g. lack of representation in bigger economic policy process), and domination of finance vis-à-vis what is really needed in the industry (e.g. increasing capacity and capability). The speaker strongly believes that redistribution and regulations are not inherently problematic. It is the collective rent-seeking that is both debilitating and wasteful, and preventing from further progression. Thus, policy must be based on pragmatism, not chastely dogmatic. He hopes that real economy will be prioritised instead of putting too much emphasis on finance. The current distribution rate is an outcome of various struggles of different periods of Malaysia's history.

As a relatively open economy, Malaysia will indefinitely be affected by impacts of globalisation and the fairly swift changes it brings, whether positively or otherwise. These changes may stem from the Fourth Industrial Revolution, coined by the World Economic Forum in January – the dominance of cyber-physical systems built from digital revolution of electronics, automation and information technology, and its earlier revolutions - the division of labour and mass production (second) and steam and mechanical production equipment (first). It is argued that the scale and complexity of changes that this revolution brings will more than likely transform system of governance, management, and production. History has indicated that Malaysia has always been able to come up with policy response. Come what may, difficult answers need to be asked and to recognise that there may no longer be any easy answers.

“Perhaps a day might come when there would be at last be enough to go round, and when posterity could enter into the enjoyment of our labours.” – John Maynard Keynes

Issues raised

1. There are many views on what stakeholder economy could mean. It is believed that the way technological change is managed and the inclusion of stakeholders in decision-making interacts with organisation of work and its impact for national competitiveness and industrial leadership.
2. In embarking on any partnership or agreement, stakeholders involved and affected must be able to make informed decisions or be informed of its consequences and avoid truncated debates.
3. A sense of ownership and deliberate, measured policymaking makes a big difference in its outcomes.
4. There is a need to look at private sector debts to identify how much it affects publicly.
5. Public service reform would be a welcomed initiative however the details and what sort of reform is needed must be reflected thoroughly to ensure we recognise what is needed.

6. Gaps in educational system, specifically educational spending, need to be addressed as it appears that current workforce skills are inadequate to address employment. Policies that move in tandem with education must complement education plans.

About the Speaker

Professor Dr. Jomo Kwame Sundaram was Professor at the Faculty of Economics and Administration, University of Malaya until August 2004. Since then, he has led many intergovernmental processes at the United Nations, specifically at the United Nations' Department of Economic and Social Affairs (DESA) and the Food and Agriculture Organisation (FAO). He was the (Honorary) Research Coordinator for the G24 Intergovernmental Group on International Monetary Affairs and Development. He has authored and edited over a hundred books and translated 12 volumes besides writing many academic papers and articles for the media. His extensive writings cover development economics, political economy, macroeconomic policy, international economics, economic ethics, and ethnic relations, among others. In 2007, he was awarded the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought. He has been British Academy Visiting Professor, Visiting Fellow at Cambridge, Fulbright Visiting Professor at Cornell and Visiting Senior Fellow at the National University of Singapore. He is currently the holder of the Tun Hussein Onn Chair in International Studies at the Institute of Strategic and International Studies, Malaysia

Contact

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