

## **Rebalancing Growth –addressing disparities**

by

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Few countries have managed to match Malaysia's feat of transforming herself from a sleepy British colonial outpost to a roaring Asian Tiger within a few decades. She is arguably one of the poster boys of poverty eradication and wealth redistribution.

Malaysia is currently classified as a upper-middle income nation with a highly open economy. It is no coincidence that Malaysia was one of 13 countries identified by the Commission on Growth and Development of the World Bank to have recorded an average growth of more than 7 percent per year for 25 years or more in its 2008 Growth Report.

The World Bank was unequivocal in their assessment of Malaysia. According to them economic growth was inclusive, as Malaysia also almost succeeded in eradicating hard-core poverty: the share of households living below the national poverty line (USD 8.50 per day in 2012) fell from over 50 percent in the 1960s to less than 1.0 percent currently.

On the road towards achieving Vision 2020, we now reflect our previous achievements in the Tenth Malaysia Plan (10MP) while trying to realise the promises of the Eleventh Malaysia Plan (11MP). Within the larger scheme of things, the New Economic Model (NEM) was unveiled by Prime Minister Datuk Seri Najib Tun Razak in March 2010, with the main thrust of the NEM being to propel Malaysia to a high-income economy that is both inclusive and sustainable.

Incidentally the 11MP is the last of the five year plans before Vision 2020 and it is targeted that the main crux of the NEM will spill over from the 10MP into the 11MP. The three main objectives of the NEM is propositioned to make Malaysia more competitive globally and regionally, especially with the setting up of the ASEAN Economic Community (AEC) in late this year.

While it is anticipated that fulfilling the World Bank's definition of a high-income economy based on Gross National Income (GNI) per capita will not be an issue. However does historical performance predict future performance? It can be argued that past performance does not guaranty future performance. This because the cornerstone for projections is based on economic modelling. Extrapolating from current trends is only reliable when predicting growth in the next year and the following year, however once the timeline gets longer, such assumptions certainly become more questionable.

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<sup>1</sup> The views and opinions expressed herein are those of the author and do not necessarily reflect the views of MIER.

To be fair, when it comes to projecting future growth, economic modelling can offer only so much guidance. These models predict future economic outputs on the basis of projected future levels of economic inputs, but future economic inputs are impossible to predict. In the end, there is little to do but extrapolate from current inputs. But inputs, as well as other key features of any economy, change over time. Malaysia's economy has transformed rapidly but at some point in the future, high growth rates might level out and her economic growth slow down, in other words the rate of growth decelerates before eventually reaching a steady-state phase.

Fortunately, Malaysia is located in an economically dynamic region, as ASEAN has emerged centre stage in the global economy and has been recognised as one of the most dynamic regions in the world. All the countries in our region adopt open economic and social systems that encourage trade, investment, travel and communications. Right now, our region is the fastest growing in the world. Thus we can benefit by riding on ASEAN's intrinsic strengths and prospects. In that way our economic performance would be vastly better than that of the world average.

However, looking inwards, an introspection will reveal that there are regional disparities. Philosophically we can argue that some regions are at a disadvantage due to geographical reasons and historical legacy. In addition to poor physical connectivity (i.e. road networks, railways and ports) that will also impede economic growth.

Have we done enough to correct these imbalances? Make no mistake that national integration would be a futile endeavour should there exist glaring disparity. What the statistics tell us is that while some states will definitely achieve developed status and enjoy a high income-economic within the set timeframe, others will take a much longer time. These states need assistance to help them develop at a faster pace. All of these bear implications for economic development policies both at the Federal and State levels.

Malaysia is more blessed than other countries in terms of its development potential. We have a favourable resource base because our land area relative to population is favourable. We are geographically situated safe from frequent natural disasters like earthquakes and typhoons. We have a multicultural population with the diversity that facilitates the absorption of the best values from each community. We have the legacy of a colonial administration from the British with their high sense of law and order. We are situated in a region where our neighbours are progressive minded, an attitude of mind which transcends boundaries and gives energy to our development.

In the final analysis, if we were to achieve regional economic integration in ASEAN, we must first put our house in order. There should be seamless connectivity underpinned by strong institutions in Malaysia.