

MALAYSIA - THE FIFTH TIGER?
INDUSTRIALIZATION AND ECONOMIC DEVELOPMENT
IN A PLURALISTIC SOCIETY

by

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TO MY PARENTS HAJI NOOR HJ. MAMAT AND HAJJAH HASMAH SULAIMAN
MY YOUNGER BROTHER AND SISTERS, AND AISYAH LEE MI-KVUNG

NOTES AND ACKNOWLEDGEMENTS

Bismillah-hirrahma-nirrahim walham-dulillah-hirabbil-a-lamin.

This thesis has come a long, long way. Initially, I wanted to write about the causes and consequences of the "excessive" outflow of money across the border from Kelantan, Malaysia into Narathiwatt Province, Thailand. The topic sprang from my observations made during my childhood and adolescent periods when, every weekend, I used to accompany my father, who taught religion, to Sungei Kolok and Kok-Thai, Thailand. I observed that Kelantanese liked to spend money in Thailand most notably on food and apparel because they were cheaper there and because the Thai baht was cheap relative to the Malaysian ringgit. But the greater outflows were caused by *peraih-peraih* (business middle-men, but in Kelantan it applies only to women because, in Malaysia, only in Kelantan where we find women dominating the market place and women are active in commerce). The *peraih-peraih* go to Thailand to buy goods and pay laborers to smuggle these goods into Kelantan for resale and distribution even as far as to Kuala Lumpur. Prof. Bennett Harrison made an inspiring comment about my observation. Prof. Eckaus (Head MIT Economics Dept.) told me that unless I conduct a field research the topic would not be doable because the outflows were "not in the book." The topic is being abandoned for now. But it will be an interesting research subject for my future endeavor.

The thesis title "Malaysia: The Fifth Tiger?" is a product of my earlier attempt at learning from Korea even before Prime Minister Mahathir's call in late 1981 to "look east" (specifically to Japan and Korea). The articles "The Koreans are Coming" (*Business Week*, Dec. 23, 1985) and "The Next Japans" (*The Economist*, July 30, 1988) which reiterated the success stories of the *4-Dragons* prompted me to ask who would be the fifth. My using the label *tiger* has to do with the common trait which I found exist between the Korea and Malaysia, namely the symbolism of national pride with tigers. I acknowledge that my writing on the *4-Tigers* has more detail on Korea because of my knowledge of Korean language, culture and history. Many people asked me "why Korea and Malaysia?" I have come to realize that it is because of my love for both Korea and Malaysia and their people that I chose the topic.

I thank my advisor Dr. Alan M. Strout for his patience in reading and commenting my numerous thesis drafts. Professor Alice Amsden of Harvard Business School, a member of this thesis committee, helped refine my point on why trade subsidies (which are practiced in many countries) work well in Korea. I am grateful to Professor Ralph Gakenheimer who examined the final draft, who rendered his signature as thesis supervisor and in effect approved the thesis on behalf of Dr. Strout who was on an assignment overseas.

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It goes without saying that any errors that readers may detect in this thesis are solely my responsibility.

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ABSTRACT

The emergence of the so-called *4-Dragons* (namely South Korea, Taiwan, Hong Kong, and Singapore) has spurred a renewed interest in East Asia. Many development economists and business writers from the West have looked at the success stories of these economies. In this thesis I shall make a case that the selection for research and the assembly of the four economies into a group (to the exclusion of others in the region) may have to do--besides their economic success--also with the convenience and the suitability of grouping the four together based on the common traits which exist among them. It is striking to ask how today's "success story" would have been told if Bangladesh (which, unlike Korea, has little in common with "oriental" Singapore) were also a subject of admiration in international trade. Can *dragon* be applied to Bangladesh?

This thesis seeks to present Malaysia as Asia's next newly industrialized country (NIC). As in the Bangladesh case, the label *dragon* is not applicable to Malaysia. Since Malaysia and Korea have something in common in tigers (Malaysia's national emblem includes two tigers and *Hodori* [a tiger cub] was the Seoul Olympic Games' official mascot), and since tigers are, to some extent, also a ceremonial animal in Chinese culture, the label *tiger* is used throughout this thesis. In addition, when it comes to trade, *tiger* is an appropriate choice because it symbolizes fierce competition and aggressiveness in exports.

This thesis also makes a case that Western researchers of the "East Asian success stories" may have overlooked Malaysia. The two root causes worth noting here are Malaysia's relatively low profile on the international scene and the lack of emphasis on geography and foreign affairs in the education system of many Western countries. The U.S. is cited because it has a dominant position in the world and it is also a center for intellectual and communication exchanges. But most of its school children are geography-illiterate.

There are fundamental differences between Malaysia and the *4-Tigers*. Malaysia has rich natural-resource endowment. Helped initially by commodity exports, Malaysia has become relatively prosperous. As a result there was no urge to industrialize. In addition, the British colonial policy had caused what is termed "delayed industrialization." For the *4-Tigers*, their lack of natural resources prevented them from becoming commodity exporter in the first place. With their then abundant labor supply it was logical for them to specialize in labor-intensive activities while their relatively small domestic market dictated to them the need for exporting. Another main distinction is the society. Each of the *4-Tigers* is a relatively homogenous society. For Malaysia, its multiracial character has a profound impact on the development policy. The May 13 (1969) Incident led to the adoption of the New Economic Policy (NEP). Achieving national unity was recognized as the overriding goal of the country. Industrial and commercial development have been geared toward restructuring the society so as to eliminate the identification of race with vocation and location of residence. In order to ensure that no particular group will experience any loss or feel any sense of deprivation, the restructuring is to be achieved within the context of a rapidly expanding economy.

In early 1985 Malaysia was considered to become the next *Tiger*. But the 1985-86 recession did the damage. Within Southeast Asia, Thailand stood out as an attractive investment market after its economy (helped by the strong tourist sector and well diversified exports) had weathered the impact of the worldwide recession. Investment by capital surplus Japan led to the robust growth in Thailand. In Malaysia, the relaxation of the equity requirement of the NEP in late 1986 triggered increased Japanese investment that paved the way for the recovery in 1987 and for the robust growth in 1988-90. The *5th-Tiger* question became a choice between Thailand and Malaysia. Thailand receives high marks for its national cohesiveness and success in integrating the dynamic Chinese minority. Malaysia continues to have a bad image overseas just because she is multiracial. Foreign analysts point to ethnicity as her long-term liability. But Malaysia has been relatively peaceful and as a result she has been a rare newsmaker Western mass media. By late 1990, Thailand's robust growth was halted (among others) by infrastructure bottleneck. Malaysia is expected to become Asia's fastest growing economy. If Malaysia became a NIC, she would be the first multi-ethnic and predominantly Muslim NIC.

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CHAPTER 1 INTRODUCTION

1.1 OVERVIEW

The world observed the downfall of Western imperialism and the decline of old industrial countries with the rise of the United States of America as a superpower, both in military strength and economic influence. By the late 1960s America's dominant position in the world's economy was challenged by Japan. Although Japan lost the war in 1945 and therefore fell short in fulfilling its goal to maintain control over the territories in East Asia and perhaps to conquer the world, today Japan may have already partly accomplished that goal in the sense that it has become a key player in the world's economy. The economic influence that Japan currently has is an attainment, though to a lesser degree, of the economic control that its military conquest had sought or would have facilitated. The Japanese challenge was so felt in America that, by the early 1980s, labor economists Barry Bluestone and Bennet Harrison (1982) wrote The De-industrialization of America. The rise of Japan to the front ranks of industrialized countries was later followed by the emergence of the newly industrialized economies (NIEs) in East Asia.¹ The East Asian NIEs [hereafter EA-NIEs] have established reputations as major exporters of manufactures on a global scale. Many U.S. exports have lost their competitive edge to exports from the relatively low wage EA-NIEs. Our observation with particular reference to the U.S. can be simplified under a two-phase description as follows.

First, we observe the structural adjustments initiated by American manufacturers as evidenced by cases of layoffs of workers. The layoffs inevitably reduce the level of capacity utilization. The excess capacity in turn reduces the rates of return on investment. This in effect puts pressure on American manufacturers to seek out manufacturing opportunities overseas (i.e., to establish branch plants or satellite factories overseas) while having to maintain domestic plants in hope of not losing them all together. The satellite factories are normally subcontractors to parent companies. They work on an OEM (original equipment manufacturer) basis under which finished articles bear the trademark of the foreign buyer rather than their own, but with a less conspicuous label indicating the country of origin. In the U.S., most articles on display may show

¹ Whenever Taiwan and Hong Kong are directly mentioned or indirectly included in the context, the author avoids using the acronym NIC (newly industrialized country). This is because by the United Nations' definition, Taiwan is a province of China. Meanwhile Hong Kong remains as a British colony until 1997. However, when addressing Malaysia and Thailand as potential NIEs, the more conventional label, i.e., NIC, will continue to be used.

American brand-names, but a careful inspection will show that they were imported. The average consumers may think that they are buying made-in-America products. As a result, protectionist sentiments, which initially arose within the ranks of labor unions, did not diffuse to the massive number of average consumers whose consumption ultimately determines the demand for such products. When protectionism in the U.S. was still at a minimal level and when trade liberalization was an aspiration in academia and in world economic discussion (when the Kennedy Round [1964-67] of the General Agreement on Tariffs and Trade was being negotiated), manufacturers from the (presently labeled) EA-NIEs enjoyed a long period of relatively easy entry into the American market before their presence was felt. We have observed that Americans are buying American brand-names merchandise ranging from textiles and footwear to consumer-durables with a less conspicuous label such as "Made in Korea." Many of us in the U.S. "walk on" Korean-made shoes, are warmed by Korean-made coats, type with the made-in-Singapore typewriters, and have our youngsters play with the made-in-Hong Kong toys, just to give some of the most notable examples. Further influxes of imports while domestic plants were incurring losses would inevitably give rise to cases of plant closing (one of the symptoms of Bluestone and Harrison's de-industrialization of America).

In the second phase, we observe that when the EA-NIEs had acquired manufacturing know-how through joint ventures with foreign firms, and more importantly when they had been able to accumulate start-up capital which is now being partly provided by export earnings and domestic savings (in addition to that provided by foreign investors), they began to manufacture by themselves or at least in the beginning they began to acquire a greater share of equity in the joint ventures. They started by manufacturing articles which required less technological sophistication and later articles of higher technological contents. We have seen nowadays that the Koreans are exporting Hyundai cars and Samsung video cassette recorders which have taken up the Japanese share in the U.S market for products at the same level of technological sophistication, not to mention a serious blow that they have given to the sales of American-made articles.

In short, a story that is parallel to (or on the other side of the coin of) the de-industrialization of America might have been a story on the emergence of the NIEs in East Asia.

Despite the "oriental challenge," the U.S. remains a dominant force in the world's economy. Developments in the U.S.--such as the boom and bust of its stock markets, the valuation and devaluation of the dollar--are watched closely by the rest of the world. Economic growth in developing countries, especially those with small and open economies, is dependent heavily on the growth and openness of the markets in industrial countries such as the U.S. Owing to its size and wealth, the U.S. has been one of the largest markets in the world. Yet the trading climate in the U.S.--especially in the years before the 1973 oil crisis--had been favorable for international trade. Free trade was a major aspiration in business and intellectual circles, and protectionism was not yet on the rise. The NIEs took considerable advantage of this including the Generalized System of Preference (GSP), and they found their biggest market in the U.S. Today, in the wake of rising protectionism in the U.S., the NIEs (especially Taiwan which, among them, runs the largest trade surplus) have become a scapegoat, along with Japan, for the U.S. trade deficit.

It is ironic that despite the deficits, the U.S. remains a sought-after investment market by foreigners. For example, take the Japanese who invest in U.S. government bonds and real estate. This has provided the U.S. government and firms with re-investable capital which, among other uses, may flow to less developed countries in the form of foreign aid and foreign direct investment, respectively. All of these illustrate the workings of international economic integration.

Of the integration, the most dynamic links are occurring across the Pacific. The links have spurred a new interest in East Asia within the framework of economic integration with the U.S. via and/or over the Pacific Ocean. A new era has begun. A well-known saying now is that this is the emergence of the Pacific century.

With the new interest in Pacific Asia, an increasing number of development economists and writers of business and trade publications from the West have looked at the success stories of East Asian export-oriented economies: South Korea, the Taiwan Province of China, Hong Kong, and Singapore.

One can make a case that the selection for research and the assembly of the four economies into a group (to the exclusion of other economies in the region) may have to do--besides their economic success--also with the convenience and the suitability of grouping the four together based on the common traits which

exist among them. First, South Korea may be identified together with the Chinese nations of Hong Kong, Taiwan, and Singapore through the Confucian heritage that they possess and by the prominence of dragons in the oriental culture. Second, the appearance of the people in all of the four nations is similar as seen in the eyes of most Westerners who often cannot readily distinguish a Korean from Chinese. As a result, in the West, the four economies have been nicknamed the "Four Little Dragons." Other countries in the region tend to be excluded from the research list. The most notable in this regard is Malaysia. She has had an impressive economic performance and is now industrializing. But the country has been relatively neglected in Western writings because of her generally low profile on the international scene. In recent years she has not been widely known to Westerners. The amount of research conducted by Westerners on Malaysia is relatively small compared with that on her neighbors despite the fact that her citizens have enjoyed a living standard that is better than those of her neighboring countries (except the "dragons" and oil-rich Brunei) which, unlike her, often make news (and thus are relatively better known) in the West.

1.2 PURPOSE OF THE THESIS AND ITS TARGETED AUDIENCES

With this as a background, this thesis seeks to present Malaysia, a rare news maker internationally, as a potential NIE.

The target audience of the thesis is, first, development economists from the West. For a reason associated with educational system in many countries in the West (particularly regarding geography and foreign affairs), these development economists tend to conduct research mainly on countries that make news in the Western media (i.e., on countries that are already well-known to them). Some of these countries make news not because of economic success stories but mostly because of political chaos, communist insurgency, and close military ties with Western nations.² In fact development economists from the West are the ones who

² The most notable example is the Philippines which makes news in the American media not because of economic success but mostly because of the close military ties with the U.S., political chaos, guerilla wars and economic difficulties. I call the Philippines the "Asian Latin America" because of the problems it faces that are similar to those in Latin America. Concerning trade strategy, if Latin America became the early adopters of import substitution policies, the Philippines was the first Southeast Asian country to follow Latin America as early as 1949. Furthermore, the Philippines is the only Asian country whose citizens have the Spanish-sounding last names and where more than 80% are Roman Catholic--a common religion in Latin America.

In the case of South Korea and Taiwan, even before they were successful and labeled "Asian dragon," they had made news because of wars and military ties. Today South Korea makes news not only because of economic success but also because of the political problems and student demonstrations (especially during the authoritarian rule by Chun Do-Hwan), and because of the newly found

have initiated the "miracle" research.³ They have popularized such a label as the "Gang of Four" as a common sobriquet exclusively for the four East Asian nations,⁴ which according to them, are "miracle" economies.⁵ They are so influential that their findings are also read by people outside of "their" world. How can their findings be conclusive if their choice of countries for research is pre-selective?

The second audience consists of financial and business communities in the West who have or have been misinformed about the social and political nature of some nations in East Asia. Their rankings and even naming of East Asian countries attractive for investments have often excluded Malaysia (despite her political stability, her relatively impressive economic performance, and her relatively advanced financial sector),⁶ again, because of the geography-related reason implicitly mentioned earlier.

The third audience is writers and publishers, especially those who are involved with dissemination of news and publications of tourist, trade and business magazines in countries where Malaysia is relatively unknown. Finally, the fourth audience is the Malaysians themselves.

1.3 REASON BEHIND THE PURPOSE OF THIS THESIS

Various authors have written about the success stories of the EA-NIEs. These authors seem to be fascinated with the impressive economic performances achieved despite the relatively unfavorable initial

democracy. Korea has just entered her "golden age" commemorated by the 1988 Seoul Olympics which not only gave her substantial international exposure but also a sense of recognition of her economic success. After the Olympics, President Roh, in looking for a greater role for a new Korea in the world, made a speech at the United Nations and traveled to Southeast Asian countries.

Hong Kong which is a city-state is a special case. With virtually no agriculture, its prevailing comparative advantage has been in labor intensive industries. In addition because of the small domestic market, Hong Kong had no choice but to be an exporter. Today many of its exports are in daily use throughout the world. Its entrepot trade was not only aided by the natural advantage (i.e., location) but was also aided by geo-political circumstances, i.e., the closed-door policy by China (which lasted until the early part of the 1980s). The People's Republic of China's shore was sealed from direct trade. Therefore tradeables would have to go through Hong Kong, not even through Taiwan (whose constitution still claims the mainland as part of the Republic of China). The entrepot trade has helped turn Hong Kong into a "capitalist paradise" to the extent that if Tokyo's Nikkei is Asia's Wall Street, Hong Kong's stock market is next to that of Tokyo's.

³ What is meant by "miracle" research is the kind of research which attempts to tell a success story of a group of economies which are considered "miracle" economies. By definition, a miracle is exceedingly rare and is impossible to replicate. Therefore, the danger is that "miracle" is an overblown expression which precludes any possibilities for repetition, implying that the success of these economies will not be matched by others.

⁴ The "Gang of Four" label implies exclusiveness, denying entry by others.

⁵ Such as described in Asia's "Miracle" Economies, Woronoff (1986).

⁶ We will deal with data and explanations that support the claim much later in the discussion.

conditions (e.g., the lack of natural resources). Here there is a tendency on the part of these authors to make a grouping of countries that they call the "gang of four" (in search of a pre-conceived Asian development model)⁷ until they forget or do not discover another country in the region that has undergone through an industrialization process that is more "real" than that experienced by the two city-states which they have included in the short list of the EA-NIEs.⁸ Some of them have attempted to generalize development processes in the EA-NIEs as a model thus ignoring their differences. Aren't these authors exaggerating a notion that only resource-poor economies are worth studying in order to show the world how they have succeeded?

1.4 OUTLINE AND DESCRIPTIONS OF CHAPTERS TO COME

A brief introduction to Malaysia will be given in chapter 2. Chapter 3 deals with the factors for the success of the Tigers and the myths that accompany their success. A presentation of Malaysia as a case of industrialization in a pluralistic society will be given in chapter 4. This is followed by chapter 5 which describes the phases of industrialization in Malaysia. Chapter 6 compares Malaysia with the Tigers. As a transition, chapter 7 will define growth and development, words that are often confused and used interchangeably. With this definition, in chapter 8 we seek to answer whether Thailand or Malaysia is a better candidate for the Fifth Tiger title. Chapter 9 presents Malaysia in a story of the little-known. Chapter 10 concludes this thesis and give an answer to the question posed by the title, "Malaysia: The Fifth Tiger?"

⁷ Such as that found in In Search of an East Asian Development Model, Berger and Hsiao, eds., (1988).

⁸ The two city-states, Hong Kong and Singapore, did not industrialize, but rather, they modernized. Admittedly, there exist manufacturing activities, but the service sector have been predominant ever since their early history. Both have grown from small harbors to become entrepot centers. Nowadays they are the financial center of Southeast Asia. According to data from the World Bank, in 1985 the share of the service sector in GDP of Hong Kong and Singapore were 68% and 62%, respectively (while the share for manufacturing was 24% in each country). Their service sector's share in GDP were relatively high compare to those of the other NIEs (42% in Yugoslavia, 45% in South Korea) as well as that of the average for all developing countries (47%).

In Singapore, the relatively modern service sector along with the relatively skilled labor (at relatively low wages in the 1970s) were responsible for the growth in manufacturing activities which remain to be led mostly by multinational corporations.

In Hong Kong, its financial sector had grown primarily because of its (regional) role as the financial arm for the overseas Chinese (in Southeast Asia). For example, one of the biggest banks in Malaysia is Hong Kong-based. The service sector along with the relatively cheap labor have transformed Hong Kong into a capitalist heaven. After all, a service sector does not industrialize, but it modernizes.

CHAPTER 2 INTRODUCTION TO MALAYSIA

Malaysia may not be well-known in the Western world, but it offers particularly interesting lessons in a development study of a small, open economy within a pluralistic society. A lack of emphasis on world geography in the education system of many countries in the West may be a root cause for Malaysia's being relatively little-known in the West. The sole exception may have been the Germans. For instance, it is striking to note that the pioneers of economic geography--Von Thunen (1826), A. Weber (1909), W. Christaller (1933), and A. Losch (1939)--were Germans. Today thanks go to another German, Wolfgang Kasper for his "discovery" of Malaysia as manifested in his 1974 book, Malaysia: A Study in Successful Economic Development. He acknowledged that:

Malaysia's economic history offers particularly interesting lessons. It shows a combination of a reasonably high growth rate (real GNP went up by an estimated 6 to 7% annually during the 1960s) with an exceptionally high internal price stability (retail prices went up by about 1% per annum during the 1970s) and a comfortable stability in the external balance of trade. Malaysia has a more or less open economy, which year by year depends less on supplying raw materials to the world market... [I]ndustry has taken over the role of the growth engine from the traditionally leading primary sector. This change seems to have been less painful in Malaysia than in many other developing countries. The infrastructure and social services have reached quality levels that are rarely attained elsewhere in the tropics. If such exceptional cases as the city-states of Singapore and Hong Kong are left out, Malaysia relates to the surrounding countries almost as Switzerland did to its neighbors in the 1950s: a well-to-do, politically stable, neutral, and rather conservative country with a *laissez-faire* economy (Kasper, 1974:2).

The publisher, the American Enterprise Institute for Public Policy Research, noted on the back cover page that Malaysia had been relatively neglected in western writings:

...Kasper draws attention to a frequently overlooked developing economy. Malaysia has achieved above average economic growth, exceptional price stability, and a stable balance of payments, but has encountered some difficulties in attaining full employment, equal income distribution, and cyclical stability. It is a case where dynamic development has been possible without deprivation of the masses, runaway inflation, political xenophobia, or recurrent balance-of-payments crises.

The publisher continues:

This book is not only a source of statistical information on Malaysia but also a contribution to development economics, showing how price stability, external equilibrium, and an open and competitive economy can stimulate growth by leading the country to emphasize those industries that have the greatest comparative advantages in the long run. On the whole, the Malaysian experience should add an optimistic strain to the frequently pessimistic tenor of development economics.

Today the little book by Kasper may be considered a classic. According to our literature survey, he is the first and only Westerner to choose Malaysia as a case study of successful economic development. Even today, within the success story literature, his book is the only one that is exclusively on Malaysia. Many of the lessons and the specifics of Malaysia's success that Kasper wrote over fifteen years ago may still be valid today with a major exception regarding the role of the government. He pointed to *laissez-faire* capitalism as the key to Malaysia's success while noting that, beginning in 1971, there had been a gradual shift toward a greater role

for the government in the economy. Taking up from where Kasper had left off, this thesis attempts to provide later accounts of Malaysian development experience. But before we proceed, for readers who are unfamiliar with Malaysia, some basic information on the country is given in the rest of this chapter.

2.1 BACKGROUND INFORMATION ON MALAYSIA

Malaysia is a federation of thirteen states--eleven in Peninsular Malaysia, and two in the northern part of Borneo Island (or East Malaysia). Kuala Lumpur, which is located on the Peninsula, is Malaysia's capital city. Peninsular Malaysia achieved its independence from the British on August 31, 1957, with the name Malaya. On September 16, 1963, Malaya and Britain's Crown Colony of Singapore merged with the British territories of Northern Borneo (Sabah and Sarawak) to form a federation, known as Malaysia. However, on August 9, 1965, Singapore separated from the federation.

2.1.1 GEOGRAPHY

Peninsular Malaysia and East Malaysia are separated by more than 400 miles of the South China Sea. Peninsular Malaysia borders Thailand on the north; it is linked to Singapore by a causeway south across the Johore Strait. To its west across the Strait of Malacca lies the Indonesian island of Sumatra. East Malaysia (Sabah and Sarawak) borders the Indonesian territory of Kalimantan on the island of Borneo. To the northeast of Sabah is the Philippines.

2.1.2 SOCIETY: POPULATION, LANGUAGE, AND RELIGION

Malaysia, a nation of 17.4 million people, is multiracial with three major races: 57% Malay, 32% Chinese, 10% Indian, and 1% others.⁹ The formal form of the Malay language, known as *Bahasa Malaysia*, is the country's official language. Among many of the Chinese languages, Mandarin is the main one used by the Chinese. Tamil is the language used by most of the Indians. In Sabah and Sarawak, the majority of the population are the indigenous people from different sects that have different languages of their own. The Kadazan and Iban are the main groups in Sabah and Sarawak, respectively. In Malaysia, English is widely used in government and business as a second language.

⁹ The figures are official estimates for 1990 (in Economist Intelligence Unit, *Country Report: Malaysia and Brunei*, No. 1, 1991). Others include (i) the indigenous peoples of Sabah and Sarawak, (ii) "Orang Asli," the aborigine people of different sects in the central part of the Peninsula, and (iii) Eurasians of Portuguese descent, mostly in Malacca.

Though Islam is the country's official religion, the Constitution provides the freedom to practice any religion. All Malays by definition are Muslims while most Chinese are Buddhists and most Indians are Hindus. The indigenous peoples of Sabah and Sarawak have different religions of their own; but conversions to either Islam or Christianity have become a trend in the past decades.

2.1.3 ADMINISTRATIVE SYSTEM

As a former British colony, Malaysia has a system of administration which bears an imprint of the British system: a two-chamber parliamentary democracy under a constitutional monarch. The nation is headed by the *Yang Di-Pertuan Agung* (the King) whose constitutional role, similar to that of Britain's monarch, is symbolic. The actual, day-to-day process of governing is carried out by the prime minister. The *Agung* is elected in rotation for a five-year term by and from among the nine hereditary rulers (sultans) who each represents one of the nine sultanate states in the Federation.¹⁰ Under the Constitution the power of the government is divided into the executive, legislative, and judicial branches. The chief executive officer is the prime minister (PM) who is concurrently the leader of the dominant party in the parliament. The PM presides over his cabinet of ministers who may, with the consent of the *Agung*, be appointed from either chamber of the Parliament.¹¹ At the state level, the chief minister is the head of the executive council in each state.

2.1.4 GOVERNMENT

Malaysia offers an exceptional example of a successful democracy in a pluralistic society. Since independence, it has been governed by a coalition government which is made up of political parties that each represents its race or political group. The coalition government of Parti Perikatan (the Alliance Party) governed Malaysia first under the leadership of Malaysia's first PM, Tunku Abdul Rahman until his retirement in 1970 and later under Tun Razak. In 1974 Tun Razak renamed the party Parti Barisan Nasional (the National Front Party). The National Front Party remains to this day the ruling party. There have been peaceful transfers of power from one premier to another. Dr. Mahathir Mohamad is the fourth and the current prime minister.

¹⁰ Of the thirteen states in Malaysia, nine are ruled by their respective "Sultan" or "Raja." The remaining four states including Sabah and Sarawak are each headed by their respective governor who is appointed by the "Agung" on nomination by their respective elected state chief ministers.

¹¹ The Parliament consists of two chambers: the upper chamber, "Dewan Negara" (Senate); and the lower chamber, "Dewan Rakyat" (House of Representatives).

CHAPTER 3 THE 4-TIGERS

3.1 WHY DO WE USE "TIGERS" INSTEAD OF "DRAGONS?": A CULTURAL EXPLANATION

In late 1981, Prime Minister Mahathir urged Malaysians to "look east" (specifically) to Japan and South Korea "for inspiration, methods, and skills" and "to emulate and learn...[their] work ethics and attitudes" in order to further the country's economic progress.¹² The prime minister aims to stimulate value and behavior change by bringing Malaysians into close association with Japanese and Koreans in educational institutions, in management training programs with Japanese and Korean firms, and in vocational training in factories in Japan and Korea as well as in those countries's enterprises and construction projects in Malaysia. As a secondary school student at that time, I responded with blanket approval to his idea, with blind admiration of Japan, but with curiosity about South Korea. From my understanding, the purpose of these trainings is to learn the *industrial culture* of these nations. I personally felt that Malaysians had had more cultural contacts with Koreans than with Japanese, principally through sport. Since the late 1950s, at least twice a year, Malaysians and Koreans have put their national pride at stake on the soccer fields of Kuala Lumpur's Merdeka and Seoul's Tongdaemun Stadiums. Malaysians look at Koreans (and vice versa) as their traditional enemy in the world's most popular sport. Having had a half dozen Korean soccer players as admired stars (whose posters hung on the wall during my childhood), I have welcomed the call to "look east" with the obsession (of wanting to learn anything) about Korea, a nation which (in my opinion) is not merely one of, but is the most dynamic in modern economic history.

I have found that despite huge cultural differences between Koreans and Malaysians, they have two things in common. First, as mentioned above, is their mutual love for the game of soccer. Second is their pride in tigers.

Tigers are often associated with strength and fierceness. In Malaysia, tigers may also be attached to national pride. The country's official emblem consists of two fierce tigers guarding and supporting the shield in the middle. The national soccer team is often officially named *Harimau Malaysia* (the Malaysian Tigers).

¹² Address at the 5th ASEAN-Japan Symposium in Kuala Lumpur, August 24, 1982, in Foreign Affairs Malaysia (September, 1982:228). It is possible that the prime minister had made his idea public earlier than the above date.

The Koreans also seem to take pride in tigers. The official mascot for the Seoul Olympics was *Hodori*, a male tiger cub. In contrast, for the Chinese in Hong Kong, Singapore, and Taiwan, instead of tigers, dragons are the more celebrated animals.

As a matter of convenience, Westerners (many of whom would have difficulty distinguishing Korean from Chinese by facial appearance, and quite a few of whom are amazed by the wisdom of Confucianism) tend to use "dragon" as a label for the four successful economies which includes South Korea. Ironically, when Korea was once considered a hopeless basket case, "development consultants" from the West were quick to diagnose that the so-called "yellow peril" was taking root from the purportedly passive traditions of Confucianism which allegedly had inhibited development. Today, that same "ism" is being re-examined as one of the probable factors for their economic success to the effect that South Korea along with the three economically successful Chinese nations are often called the "Gang of Four." It is striking to ask how today's "success story" would have been told if or suppose, Bangladesh (which unlike Korea has little in common with the Chinese) were also a subject of fascination and admiration in international trade. Can "dragon" be applied to Bangladesh?

This thesis seeks to present Malaysia as the Fifth Tiger. As in the Bangladesh case, the label "dragon" is not applicable to Malaysia. Since Malaysians and Koreans have something in common in tigers, and since tigers are, to some extent, also a ceremonial animal in Chinese culture, this thesis uses "4-Tigers" as the label for the four successful Asian economies. That usage is justified because when it comes to trade, "tiger" is more appropriate than "dragon" or "lion" (another celebrated animal in Singapore) because "tiger" symbolizes fierce competition and aggressiveness in exports.

3.2 COMMON CHARACTERISTICS OF THE 4-TIGERS

A common feature of the 4-Tigers is the open, export-driven, outward-oriented type of economy which has experienced a rapid growth particularly through exports of manufactures. Other characteristics which may vary among the Tigers but still can be generalized are that they have relatively poor natural resources endowments, and their societies are relatively homogenous.

3.3 ON THE THEORY OF INTERNATIONAL TRADE AND THE 4-TIGERS

A general process of economic development (in the Hollis Chenery tradition) yields relatively predictable patterns of **internal structural change**. Developing countries are generally seen as following the predictable patterns that the "now" developed countries once went through.

In order to explain the trade patterns of the EA-NIEs and how they have become the so-called Tigers, it is helpful to refer to the Heckscher-Ohlin trade theory. The theory suggests that the area of comparative advantage for an economy changes over time as the relative availability of factors of production changes. This results in changed factor proportions in production, and in the product composition of exports. Bradford (in Bradford and Branson, eds., 1987:173-204), empirically reaffirmed that product composition of exports of all economies can take a range of concentration from natural resource-intensive to unskilled-labor-intensive to skilled-labor-intensive and/or technology-intensive depending on the level and nature of comparative advantage. Bradford (ibid:175) noted that this view of the development process yields a concomitant view of trade adjustment in which countries move through different "stages" of comparative advantage such as that suggested by Balassa (1977). Economies move up the "stages" (or rungs of the ladder) of comparative advantage as their product composition of exports shifts along a spectrum of factor intensities. Since many countries are moving along the same spectrum, movement by countries further along the scale makes "room" for countries down the scale (Bradford, ibid:175). Among the countries that have been able to refill the "room" previously vacated by the "now" industrialized countries are the 4-tigers. This has brought about the emergence of the 4-Tigers as major producers and exporters of consumer manufactures, the kinds of goods which were then produced only by the "now" developed countries. Similarly, in the tradition of Colin Clark, economies are seen to move from primary products to manufacturing and to services in domestic output, and from natural-resource-intensive to unskilled-labor-intensive to physical- and human-capital-intensive in the product composition of exports.

Another theory related to this is the product-life-cycle theory which holds that new products pass through the phases of maturing products and then standardized products. New goods tend to be developed by and for high income, high-labor cost countries which have a brief monopoly in their production and exports.

As markets develop in countries of lower income levels and the technology of production become settled, the location of production may move to these countries to take advantage of lower labor cost and to meet domestic demand. When the product has become widely known throughout the world and its technology standardized, the location of production may shift to less developed countries to benefit from the low wages and be exported from there to the rest of the world. Thus articles once produced only in developed countries are now produced in developing countries. All the above theories are applicable to the explanation of the de-industrialization of America that was discussed earlier in chapter 1.

As a summary up to this point: The rise of the 4-Tigers as super-exporters of manufactures is part of the general process of upward movement of economies on the ladder of comparative advantage which accompanies the process of structural change. Having mentioned structural change, two relevant theories from economic geography or spatial economics may be added.

3.3.1 TWO THEORIES OF REGIONAL DEVELOPMENT: SECTOR THEORY AND EXPORT-BASED THEORY

Export-base theory emphasizes extra-regional factors while sector theory considers mainly intra-regional factors. Even though they were developed with a regional perspective, they may also be applied to a country situation.¹³ With modifications (in order to explain development in a country) the theories may be described as follows.

Export-Based Theory (Externally Induced Development): North (1955) and Tiebout (1956) developed this theory which explains the development of a region (country) through external demand for its resources (and/or products). As a response to this outside demand, export activities will emerge. In the early stages, these activities will tend to be agriculture or mineral staples. In later stages, they may extend to processing or manufacturing activities. Administrative and economic institutions will emerge and infrastructure will be developed so as to facilitate these export-based functions. Cities will form in the production areas and at trans-shipment points. The relative growth rate of the economy of each city will depend on: (i) the access to outside

¹³ By definition, region may take on several forms: nodal, functional, and administrative. In our case, the word region applies to administrative which is defined as "country."

market within or outside the country, (ii) the magnitude of resources in the city, and (iii) the ability to attract resources into the city (usually as allocated by federal or state government from various sources including those from investments made by foreigners and residents of other cities). The national economy as a whole will grow as a function of: (i) the magnitude of external demand, (ii) the share of export-based income which can be retained in the country (after leakages such as payments for imports or remittances of profits to foreigners), and (iii) the intra-country multiplier of the retained-incomes. Along with the growth, at the city or state level, there needs to evolve a local entrepreneurial elite, intellectuals and politicians who have "the capacity to mobilize and utilize resources for self-defined objectives" (Friedmann, 1970) and who will "press the central [or federal] government for an increased...public investment [in the city or state]" (Stohr, 1974). At the national level, business agglomerates (such as the *chaebol* in Korea and the *zaibatsu* in Japan) may be forming in large cities for two reasons: (i) to benefit from internal economies of scale and also from external economies of scale (if the resulting harmful externalities are inframarginal¹⁴ or at least if a set of resulting beneficial externalities outweighs that of harmful externalities), and (ii) to establish backward linkages with smaller firms. With a continued growth, the domestic market may reach the minimum threshold size for various manufacturing sectors to become feasible within the country and to compete successfully on the international market. At this stage domestic factors may be triggered sufficiently to reduce any impacts of external conditions so as to permit self-sustained growth. General trading companies (such as Japanese-style *sogo shosha*¹⁵) may be created so as to facilitate linkages among firms as well as to provide information about foreign markets along with marketing assistance.

Sector Theory (Internally Induced Development): Hoyt (1939) developed this theory which explains the internal development of a region (country) from subsistence economy to more advanced stages of development (and a more diversified socioeconomic structure) through specialization of activities and through

¹⁴ There is a distinction between marginal and infra-marginal externalities. In the former small changes in the level of the externality-generating activity will affect the production or utility of the externally-affected party. In the latter, while the activity itself generates an externality, small or marginal changes in the level of the activity do not have any effect on the production or utility of the externally-affected party.

¹⁵ Malaysia has four Japanese-style "sogo shosha(s)." The most notable being the Malaysian Overseas Investment Corporation (MOIC) whose function, among others, is to promote Malaysian products overseas.

the formation (and modernization of physical and institutional) infrastructure. This specialization leads to higher productivity and creates a surplus which can pay for transport and marketing facilities. The emerging transport and marketing facilities will converge at points of best access to all production and consumption areas in the country and will form urban nuclei there. Political, administrative, and manufacturing functions will be attracted to these nuclei which, according to the diversification of functions and the scale of their market areas, will make up the different levels in the urban hierarchy in the country. At some stage, certain domestic activities will become competitive on the international market and will thereby create an additional export-base for the country which may accelerate its development relative to others. At that time external determinants join in with the domestic ones.

The difference between the two theories as quoted from Stohr (1974:12) which is based on J. Friedmann (1972): "Export-base theory of regional [or national] development builds essentially on industrial or agricultural location theory and the theory of international trade. Sector theory of regional [or national] development builds essentially on central-place theory and the theory of social change."

3.3.2 COMBINING EXPORT-BASE AND SECTOR THEORIES WITH THE CHENERY TRADITION AND HECKSCHER-OHLIN AND BALASSA'S EXPLANATION OF THE NIE PHENOMENON

By combining the Hecksher-Ohlin theorem along with Balassa's stages with the Chenery tradition and North-Tiebout's export-base theory and Hoyt's sector theory, I see the NIE phenomenon as part of an upward movement of economies on the "ladder" of comparative advantage whereby internally induced structural change (in the economic, social, and institutional systems) and sectoral structural change (in the domestic economy) occur with the accompanying externally induced structural change (in export composition and market orientation). Since many economies move upward on the ladder, movement by economies further up the ladder will create a vacuum (or niche) to be filled by economies located lower on the ladder. The EA-NIEs, and earlier, Japan, were among the few economies that were able to fill the niche previously occupied by then more developed countries. Where on that ladder Malaysia is located will be a subject of discussion later in chapter 8. But why are the 4-Tigers more advanced than other developing economies? Many have correctly

pointed to the outward-oriented trade orientation as a reason. They have also shown why this trade orientation is superior to an inward-oriented one. But what were the **circumstances** that contributed to their success?

3.4 FACTORS FOR THE SUCCESS OF THE 4-TIGERS

The rise of the Tigers is a matter of a relatively new discovery after a long blindness.¹⁶ The fact is, the entry and subsequent penetrations of exports from the Tigers into industrial countries' markets had already started long before there was the current awareness by consumers in the West, or perhaps before there was a willingness on the part of some Westerners to admit that there was an "oriental challenge." The Tigers, before they were noticed, were riding high on a free-trade-wagon when protectionism was still at a minimal level and when market conditions worldwide were favorable. The study of economic development will be shown to be a **study of circumstances**. If our analysis were to begin with the year 1950, we would observe that starting in 1951, commodity prices--relative to other traded goods--were on the general trend of deterioration. This proved to be troublesome for commodity exporters.¹⁷ For the Tigers, their lack of natural and/or agricultural resources had prevented them from becoming commodity exporters in the first place. With their then abundant labor supply, it was instructive, natural and logical for them to specialize in labor-intensive manufacturing while their relatively small domestic market dictated to them the need for exporting. At the same time, the rising labor costs in the industrial countries were giving the Tigers' exports a competitive edge. These factors will be examined more closely in the following sections.

3.4.1 THE END OF THE WORLD WAR II

If the study of economic development is a **study of circumstances**, much of its explanations are owed to history which the theory of comparative advantage cannot address. The end of the World War II was a turning point in the world's economic history. The postwar years were characterized by two phenomena: (i) the economic, social, and institutional reconstructions and, (ii) the resumption of normal living.

¹⁶ Such as that criticized by Woronoff (1986:9).

¹⁷ Except for oil exporters on two occasions: the first oil price shock of 1973, and second oil price shock of late 1979.

The reconstructions necessitated, among other things, the use of materials, machinery and equipments. As a result, not only did we observe a general shift in demand from war-oriented to reconstruction-oriented goods and services but also we observed an increase in international trade between the developed and the less developed countries (LDCs). The latter was a result of specialization in production and complementarity in trade. The LDCs lacked the technology to produce machinery and equipment (such as bulldozers) needed for infrastructural reconstruction. They had to export what they could produce (such as agricultural products and raw materials) in exchange for imported machinery. Industrial countries could benefit from the relatively inexpensive imported raw materials. As a result, international trade grew.

The resumption of normal living meant a general increase in demand for consumer goods and services. For example, after the war the automobile industry boomed as more people had regular jobs and income to spend plus roads were getting better and safer. Civil aviation was on the rise as more people could find leisure time to travel, and air travel was getting safer. The general increase in consumption of consumer goods and services worldwide had facilitated the general increase in international trade. If the LDCs could only produce simple consumer goods, they could export these goods along with their primary exports to the developed countries in exchange for more technologically sophisticated consumer goods and machinery. Together, the twin phenomena of the postwar years were responsible for the general increase (and in some cases, the resumption) in economic activities and trade worldwide. As a result, the world's economy was sound and growing. As stated by the World Bank in World Development Report 1987 (p. 139):

...the general trend [after the World War II] up to the early 1970s was one of liberalization of the more rapidly growing areas of international trade, particularly manufactures. Trade did not just grow quickly, it grew more quickly than world output. Liberal trade policies were not the only reason. There were other factors: buoyant demand, postwar reconstruction, a catching-up process in Europe [particularly in Germany] and Japan on American industrial know-how, and favorable demographics. [But several of these factors were also present in the period after World War I without any similar expansion of trade and growth].

While trade in manufactures on the rise, the Tigers were the few LDCs specializing in exports of manufactures. In the absence of potential competitors, they captured an increasing share of the industrial countries' market.

3.4.2 WORLDWIDE TRADE LIBERALIZATION AND DECLINING PROTECTIONISM

The foundation of today's international economic system was laid in 1944 at the Bretton Woods Conference when the World Bank, the IMF, and the International Trade Organization (ITO) were initiated.

Of the three, the ITO never materialized. Its charter was never ratified because of the objections that its enforcement provision would interfere with the autonomy of domestic policy making. Instead, in 1948, the General Agreement on Tariffs and Trade (GATT), which was drawn up only as an interim agreement until the ITO would be ratified, became the framework for the international trading system.

The main goals of the GATT are: the reduction of trade barriers and the prevention of discrimination in trade. These goals reflect the desire of the twenty-three founding countries to prevent a recurrence of the protectionism of the 1930s.¹⁸ Today the GATT's membership has grown to ninety-three full signatories. The effects of the GATT were described by the World Bank (1987: 134-5):

From the end of World War II until 1974, protectionism seemed to be in decline. Successive rounds of negotiations in the GATT had cut tariffs on trade in manufactures—from an average level of 40% in 1947 to between 6 and 8% for most of the industrial countries—even before the last round of multilateral trade negotiations [the Tokyo Round of 1974-79 which called for further tariff reductions] had taken place.

Therefore, if the postwar reconstruction and resumption of normal living had helped increase economic activities and trade worldwide, the postwar period of trade liberalization and declining protectionism helped reduce trade barriers, resulting in the growth of world trade and economy. As stated by the World Bank (1987:133), "more than twenty-five years of progressive liberalization of trade, from 1947 to 1974, saw unprecedented growth in world prosperity."

3.4.3 CHANGING CLIMATE IN INTELLECTUAL OPINION

The trade literature and intellectual discussions of the 1950s were preoccupied by thoughts from the "export pessimism" school which were very much responsible for the adoption of import substitution that entailed protectionist policies. The late 1960s saw the emergence of the "new-orthodoxy" school which rallied to a free trade slogan. Not only did we observe that protection was on the decline as a result of successive GATT negotiations, but also we felt that free trade and trade expansion were major aspirations in academia (and in other intellectual circles) and within the international agencies such as the World Bank and the IMF.¹⁹

¹⁸ They believed that the protectionism of the 1930s hastened the spread of unemployment from one nation to another, deepened the Great Depression, and helped give rise to World War II.

¹⁹ The World Bank initiated the Structural Adjustment Loan Program which requires countries to adopt long-term adjustment policies in order to qualify. The IMF, on the other hand, is concerned with short-term adjustment related to, for example, current account balance.

It was during this period that the industrial countries's markets became quite receptive to imports. As noted by Gerardo Sicat²⁰ in the Asian Development Review (ADR), vol.1, no.1, 1983:54-5):

The [Tigers began to] achieve their [currently often-cited] success when world trade barriers were at a minimal level. They devised and put their export-led growth development strategies into operation at a time when trade liberalization and expansion were major aspirations [in academia and] in world economic discussions, when the Kennedy Round [1964-67] was being negotiated, and the Generalized System of Preferences (GSP) in the United Nations Conference on Trade and Development (UNCTAD) was gaining acceptance.

It was during this period that Korea and Taiwan were phasing out their import substitution (IS) policies and shifted toward an export-promotion (EP) strategy. In addition, the failure of IS experienced by Latin American countries became a lesson for other countries to discontinue IS.

But in practice, a change in the conventional wisdom has **no immediate** effect on policy-making. Conventional wisdom or more precisely in this case, intellectual opinion, is likely to have an eventual influence; but it takes time for it to be translated into policy-change. Moreover, any decision is in the hands of one who has the final say. This is especially true in a country ruled by an authoritarian government such as Korea (until 1988). With this as a background, it is arguable that the change in intellectual opinion was not the factor that **immediately** triggered a policy-change in Korea or Taiwan. In addition to economic reasons (such as a response to the limitations of IS), there were **external** political reasons which will be discussed in the next section. But before we proceed, I would like to summarize the factors that we have discussed up to this point. While not denying prudent macroeconomic management by the Tigers, my abstract sees the Tigers and their success as follows: The 4-Tigers were free-riders on a free-trade-wagon during a crusade for liberalized trade which **coincided** with the Tigers' shift of policies. The shift was also **executed in a timely manner** after the War. The end of War gave birth to the venue in which all nations could confer for the common good (i.e., within the UN). This made the crusade even more possible while trade liberalization were becoming an aspiration. Postwar reconstruction and resumption of normal living stimulated international trade by virtue of a technologically determined international division of labor.

²⁰ Chairman, Philippine National Bank and Visiting Senior Fellow, Philippine Center for Economic Development, University of the Philippines.

3.4.4 EXTERNAL PRESSURE

It was in Korea, as mentioned above, that the shift toward an outward-oriented strategy "coincided" with the "free-trade crusade" launched by intellectuals, particularly those with the international agencies which demanded reforms if Korea were to get aid. The credit however should go to Korean economists who had to convince the strong-headed, conspicuously corrupt, keen import-substituting, controls-prone, inflation-bent regime of Rhee Syng-Man.²¹ But the more effective role was played by the U.S. government. It had grown thoroughly frustrated with the Rhee regime over the matter of stabilization. It was perhaps "coincidental" that there was a coup in 1961 which put the reformer regime of Park Chung-Hee in power. When Park took power, there was a brief honeymoon between the White House and the "new" Blue House. But soon afterward the U.S. government imposed a set of harsher macroeconomic policy conditions for the continuation of its annual aid allotments. This is a case where a donor provoked a recipient into adopting constructive policy changes (J. P. Lewis, 1987:33). Park felt an urge for Korea to graduate from U.S. government surveillance and to reduce dependency on U.S. aid. While courting multilateral aid "processors" such as the World Bank and the IMF, in 1965 Park decided that Korea must adopt the conventional wisdom of the time, namely, outward-orientation and import liberalization. It took a bloody coup and U.S. pressure for Korea to reform. In Taiwan, the refugee Kuomintang government was similarly pressured to undertake reforms by the U.S. government as a condition for continuing aid.

3.4.5 HISTORICAL COINCIDENCE AND GEO-POLITICAL REASON

It was mentioned that in Korea the policy-shift was also executed in a timely manner. Park's decision to orient Korea outwardly came at a time described as possibly the most favorable in the recent history of the world. The end of the war gave birth to the United Nations (UN). The UN, dominated in vote count by the so-called Third World, became a champion for the causes of developing world. The Generalized System of Preferences (GSP) provision was introduced under the UN Commission on Trade and Development (UNCTAD) to help developing countries' exports.

²¹ Pronounced Eee-Syng-Mon. Rhee and Lee are actually the same (pronounced Eee). In a Korean name, as in a Chinese name, family name comes first.

At the same time the so-claimed First World and the so-labeled Second World were involved in the "Cold War." The world was divided into two: the Western Bloc, and the Eastern Bloc. The still fragile world peace faced the rise of many enclaves of nations associated with one or another Bloc. World military and economic cooperation (which practically are not distinguishable) were polarized at two centers: the U.S. and the U.S.S.R. For geo-political reasons it was in the interest of the Superpowers to help the economies of their Third World cousins. And this was the case with Korea and Taiwan.

The city-states were special cases. Hong Kong never went through an IS stage. It has virtually no agriculture and natural resources to begin with. It was apparent that from its small domestic market size Hong Kong had to resort to exports. Its "more than" natural advantage²² has helped its *entrepot* trade. Singapore went through a brief period of IS during its short stay in the Federation of Malaysia. It adopted an outward-oriented strategy following the failure of negotiations for a common market after its separation from the Federation in 1965. It was clearly for Singapore's own survival as a small country to opt for the strategy.

3.4.6 FAVORABLE CONDITION IN THE INDUSTRIAL COUNTRIES

Today there is more interdependence among nations. Some developing countries can set and control their own course of actions, others have some degree of control, but most have little control over their own destinies; they have to react to or depend on the policies of the industrial countries. Export and economic growth in small and open developing economies are dependent upon the conditions and performance of the industrial countries. As the World Development Report 1981 states:

In both trade and capital flow there is an asymmetry between industrial and developing countries... [Industrial countries'] adjustment and growth are mainly determined by their own policies...The developing countries' adjustment is more constrained: they depend heavily on the growth and openness of industrial country markets for their exports, and on the aid and credit institutions of the industrial countries for their external financial needs. The main force of world growth still flows from the developed to the developing world, even if today the new trade and financial links made the transmission of economic activity in the reverse direction ever more important (World Bank, 1981:2).

The postwar years before the 1973 oil crisis saw high growth and low inflation in the world's economy. As noted earlier, the industrial countries were entering a period of mass consumption which helped increase

²² Natural advantage implies the location of Hong Kong, a port on a shipping line. "More than" a natural advantage implies its location and the unique relation with China. China opted for a closed-door policy until the mid-1980s. Direct bilateral trade with other countries was rare. Therefore, commodities had to go through Hong Kong, thus intensifying Hong Kong's "entrepot" trade.

complementary imports from the developing countries. Unemployment, and consequently protectionist sentiment, were not yet on the rise in the industrial countries. World trade grew at an average of 8.8% a year during 1965-1973. Trade in manufactures (which grew at an average of 10.7% a year during the same period) was the highest compared to trade in other commodity groups.

While the two city-states were special cases, the other two Tigers which were guided by their prevailing comparative advantage, were already in a position to satisfy the rising demand for consumer goods in the relative high wage developed countries. With an export-oriented strategy already in place, they had taken advantage of the favorable market conditions in the industrial countries. As put by Sicut (in ADR:55):

International trade was...growing at a rapid rate and there was a high demand for the inexpensive labor-intensive goods in which the early NICs were specializing. This and the fact that their potential competitors, the other industrializing developing countries, were then concentrating on inward-looking industrialization strategies help explain the success of the early NICs.

The Tigers made a welcome addition to world trade; "the goods they were putting on the world market--inexpensive textiles and garments, footwear and other labor-intensive products²³--reduced the cost of consumer items at a time of moderate inflation in the industrialized countries" (Sicut, *ibid.*). Moreover, because the Tigers' exports at that time formed an insignificant share of the industrial countries' markets, there was room for expansion and their exports continued to grow without causing any protectionist alarms to be sounded. Manufacturers in developed countries did not feel threatened. In fact, "the growth in [the Tigers'] exports was seen as a natural consequence of a growing world economy based on liberalized trade and specialization..." (Sicut, in ADR:55).

But the years beginning with the first oil price shock of 1973 saw a period of turmoil and transition for the world economy. GDP growth in the industrial countries became generally more erratic. The 1973-80 average was 2.8% compared to 4.5% during 1965-73. Inflation, which averaged 6.1% annually during 1965-73 and was relatively lower than that in the developing countries, jumped to 10.1% during 1973-80.

The year 1979 saw another oil price shock. Inflation increased to nearly 10% in 1980 from 8% in 1979. In reaction, starting in late 1979, the industrial countries turned to strict anti-inflationary monetary policy.

²³ Even wigs which may be regarded both labor and human intensive--as a matter of trend in fashion--were then South Korea's major export.

For the seven largest countries (G-7) the rate of growth of narrow money (M1) declined from 10% in 1979 to 6% in 1980. Together with the second oil shock this helped trigger a severe recession in 1981-82. Although the Tigers were also affected by the recession, they already commanded a greater range and share of export markets. The hardest hit were the developing countries which had just turned to export-oriented strategies (the "late-comers") and were counting on growth in the industrial countries. The recession speeded up the rise of unemployment. This contributed to wage restraint which, in due course helped to restore business confidence and corporate profitability. However, unemployment showed no sign of declining; in Europe it has stood at above 10% since 1983. This contributed to a resurgence of protectionism.

The highly indebted countries faced a much bigger problem. Domestic political tensions (in the industrial countries) associated with high unemployment may account for the industrial countries' reluctance to expand their aid programs (official transfers). Moreover, the industrial countries' switch to anti-inflationary monetary policy raised interest rate sharply, especially in the U.S., where it coincided with fiscal expansion. The developing countries' accessibility to concession transfers declined. In addition, the volatility of exchange rates following the collapse of the Bretton Woods exchange rate system in 1971 added to the financial tensions.

3.4.7 THE TIGERS WERE LUCKY

The two oil shocks were followed by stagflation and high unemployment in the industrial countries, swings in exchange rates and interest rates, (and more painfully for new exporters) the growth of protectionism. Ironically, while the GATT's Tokyo Round (1974-79) which called for trade liberalization was proceeding, protectionist measures in industrial countries increased.²⁴

The extremely high rates of growth achieved by the Tigers before the oil crisis may not be easily repeated. This is especially true for the "late-comers" whose growth is being restricted by quotas and surveillance in the developed countries. The Tigers expanded their markets at a time when trade regimes were more liberal. The "late-comers" entered the world trade picture in which quotas and other restrictions are much more prominent features than tariffs. Instead of tariffs, which are now very low, the main instrument

²⁴ This helps explain the limited success and disappointing results of the Tokyo Round. The current round, the Uruguay Round which past its mid-term point in December 1988, remains to be evaluated.

of recent protection have been the non-tariff barriers (NTBs).²⁵ Ironically, the NTBs discriminated against the lowest-cost suppliers of imports (i.e., the "late-comers").

Among the commodities in the industrial countries for which protection has been increased are textiles and garments. These commodities are labor-intensive and are therefore critical for economic growth of the NICs and the would-be NICs which, by comparison with the industrial countries, still have a labor cost advantage. Managed trade in textile under the Multifiber Agreement (MFA) is a prominent example of today's protectionism.²⁶

The fact to be pointed out is that the Tigers were lucky that the Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA) placed quota restrictions only on large exporters such as Japan. Less conspicuously to begin with, the Tigers were coming from behind to take advantage of the LTA provisions to progressively enlarge their market shares before the alarm of protectionism was sounded. The most recent version of the MFA (MFA III [1982-86]) had a "surge mechanism" which limited growth of new entrants and medium-size exporters. In addition, it had the "call" system (initiated by the U.S.) which allows the restriction of exports not covered by any specific bilateral agreement. It maintained the status quo in both the industrial and newly industrialized countries at the expense of the newer, and probably more efficient, textile-exporting countries. The Tigers which had already made a substantial penetration into the industrial market "have been able to hold on to a larger share of it, and are insulated from competition from newer, low-cost suppliers" (Sicat, *ibid*:57). Furthermore, the levels of quotas for the Tigers and other early NICs allowed under the MFA by the developed countries are higher by virtue of their established market shares. This high volume of output

²⁵ The NTBs include: (a) the use of voluntary export restraints (VERs) and orderly marketing arrangements (OMA) by putting pressure on exporting countries to enter into bilateral agreements to restrict their exports. The Multi-Fiber Arrangement (MFA) is the most prominent example of the use bilateral arrangements (because textile industries in developed countries were very much affected by the surge of export of clothing by low-wage developing countries), (b) the use of post de facto measures such as the anti-dumping and countervailing duties (CVDs), and (c) the use of stringent safety, health, and environmental requirements.

²⁶ The evolution of managed trade in textiles is as follows:
 1935--The U.S. negotiated the first voluntary export quota on Japanese textile export.
 1961--The Short Term Cotton Textile Arrangement was negotiated under the GATT auspices at the request of the U.S.
 1962--The Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA) was agreed.
 1974--The Multifibre Arrangement (MFA), the current worldwide system of managed trade in textile, replaced the LTA.
 The MFA, far from being temporary, has evolved into four successively tougher versions:
 MFA I (1974-77), MFA II (1978-81), MFA III (1982-86), and MFA IV (1986-91).

makes a large degree of backward integration in their production viable (Sicat, *ibid*:57-8), thus offsetting the restrictive effects of NTBs.

Because the Tigers already had relatively large markets they have many other ways to offset the restrictive effects of NTBs. They can raise the values of exports through quality improvement and market reorientation, i.e., by shifting to higher value goods. Another way is to transfer operations to non-quota countries. As reported by the World Bank (1987:133), "many trade barriers have proved porous: businessmen in the Republic of Korea and Hong Kong, for example, have overcome the restrictive effects of NTBs, and their exports of manufactures have continued to grow."

Today, while the blame for the Western industrial countries' trade deficits is generally on Japan and the 4-Tigers (e.g., in 1987 the U.S. terminated the latter's GSP privileges), the harshest impact of protectionism was felt by the developing economies who were just entering the trade race but who had to face quotas and surveillance. As Sicat (*ibid*: 58) puts it:

The [would be] NICs have been checked early in their efforts. They have had to accept voluntary quotas before they could reach an optimum level of market expansion; the avenues for the expansion of the production of commodities for which their comparative advantage was highest--labor-intensive manufactures--have been blocked, while as newcomers, their market penetration costs were higher. Moreover, the [would be] NICs faced the threat of countervailing action by developed countries and this limited the domestic measures that they could adopt to reduce their disadvantages.

Moreover, the Tigers have reaped the most benefits from the Kennedy Round trade liberalization and from the GSP.

As already mentioned in chapter 1, most of the imported articles in the developed countries bore these countries' brand names with a less conspicuous label such as "MIT" (Made in Taiwan). Policy makers in the West did not "look east" as they do now in searching for scapegoats for their trade deficits. In the U.S., Asian countries are an easy target as a scapegoat such as manifested by the rise of Japanese-bashing. The American perception that Japan, and more recently, Taiwan and Korea are largely responsible for the trade deficits obscures two facts. First, a large proportion of U.S. imports still come from the European Community. Second, import substitution policies and economic difficulties in many Latin American countries, which had been traditional markets for U.S. exports, meant a significant loss of export markets for the U.S., thus worsening U.S. export shortfall. The implications for the U.S. are two-fold. First, Japanese-bashing will not resolve the problem. The U.S. must go to the source: why American-made products are not competitive in

the European Community, Asia, and locally. Second, the U.S. must first help Latin American countries out of their debt crisis in order for the U.S. to re-capture these traditional markets.

By now we should realize that the new interest in the Pacific Asian region, which resulted from the rise of EA-NIEs as super exporters, is more a curse than a blessing for other Asian economies. As more and more analysts write about success stories such as the "Korean miracle" or "Korea: New Japan"²⁷ more and more protectionist sentiments are provoked in the developed countries.

3.4.8 AID FROM THE SUPERPOWER

U.S. economic and military aid also helps explain the success of South Korea and Taiwan. U.S. economic aid actually put the war-torn economy of South Korea onto its feet, otherwise Korea would have had a little chance of succeeding. Until today the U.S. keeps pumping huge amounts of resources into Korea just to run the military bases there.²⁸

3.4.9 THE THREE "BUSINESS-CYCLE BLESSINGS"

More recently, the 4-Tigers were recipients of the three "business-cycle blessings." These blessings were: the worldwide decrease in interest rates, the plunge in oil prices, and the appreciation in the value of the Japanese yen.

The worldwide decrease in interest rates was a major relief for Korea. Its industrialization has been financed largely by the borrowed money from overseas. We often hear that the Philippines is troubled by its huge debt. Korea had accumulated a debt twice bigger than that of the Philippines. But Korea is still a sought-after investment market because of the confidence in Korea's ability to turn these debts into profits. Korea's credit worthiness enabled it to borrow more. The decrease in worldwide interest rates helps Korea to repay its old debts relatively more easily.

²⁷ The Koreans express an anger over the label. They assert that Korea is not a new Japan. Because the Japanese had marched on and conquered Korean soil twice in the early 16th century and had annexed Korea in 1910, subscribing to this label is degrading to Korea's self identity.

²⁸ The U.S. ran a military government from mid-1945 to August 1948 in South Korea, spent some \$300 million doing so, put in another \$100 million of Economic Cooperation Administration (Marshall Plan) money and pushed through a thorough land reform, as it was doing in Japan itself (J.P. Lewis, 1987:22).

The plunge in oil prices worldwide, especially in 1986, was a big help for resource-poor countries such as the 4-Tigers which depend heavily on imported oil for energy. With the much cheaper oil prices, their balance-of-payment accounts contain smaller oil bills. Energy costs of manufacturing also decreased. This could help offset the decline in competitiveness of their exports resulted from the recent rise in wage rates.

The appreciation in the value of the yen makes the Tigers' exports more competitive relative to Japan's. Japanese manufacturers are forced to produce for the higher price-segment of market, thus leaving the lower price-segment to be captured by the Tigers. For instance, in the U.S. electronics market, Korean-made Samsung VCRs with prices as low as \$150 have pushed Sony to produce only for the upper price-segment of the market, \$300 and over. Similarly in the U.S. automobile market, the Hyundais with prices as low as \$5000 have undercut sales of Japanese compacts, sending Toyota for example (who has already faced with U.S. quota on total vehicles) back to the drawing table (just as the company aims to advance its technological capability) to come up with more luxurious and profitable models such as the Lexus.

3.4.10 SOCIAL AND CULTURAL FACTORS

Many of the social and cultural explanations for the success of the Tigers are myths and stereotypes. Westerners are more prone to lump the Chinese look-alike nations (which geographically run from Japan and Korea southwardly to Burma, skipping the Malay stocks in parts of the Philippines, Malaysia and Indonesia) into a group called the "orientals" which are perceived as hardworking. The myths and stereotypes will be discussed later in this chapter.

3.4.10.A CONFUCIAN ETHIC

Confucian values have had a profound impact on the societies of the 4-Tigers. Their way of life, thinking, and work ethics are shaped by confucian values of hard work, respecting older people or leaders, self-responsibility, discipline, motivation, and more philosophically important, full commitment to what is being done (because it is believed that we live only once and must get the most out of this life). Motivation and the positive work ethic are the cultural factors that have contributed to the success of the 4-Tigers. It is not the culture alone that was responsible for a nation's success, but also circumstances which we will deal in the two following sections.

3.4.10.B THE CHINESE FACTOR?

The Chinese are among the success stories of emigres in faraway lands. Singapore, is clearly a showcase for the success of Chinese immigrants. The success of Hong Kong and Taiwan were in part due to special circumstances because of the inflow of experienced industrialists from mainland China after a new regime came to power. Economic history has shown that immigrants strive and work very hard in their new lands.

But there is no special reason why what has been accomplished by the Chinese should not be equally possible for Malays, Indians, Africans or Latin Americans. All development will after the fact be seen to have been the result of **special circumstances**. What makes them special is not their existence but that they were perceived and acted upon. But the success of the NIEs in the export race obscures one fact which is true today as it was more than twenty years ago: A much larger percentage of world exports of manufactures still originates from the industrial countries, 82.3% in 1963 and 78.8% in 1985 as opposed to 4.3% and 12.4%, in the respective years, from all developing countries (data from WDR 1987). Yet it is the study of circumstances in an export trade in manufactures (which has been successfully developed) that is instructive.

3.4.10.C THE WAR FACTOR AND ECONOMIC RECONSTRUCTION

Strife and hard work may also have been a factor in South Korea's case. South Korea, a war-torn country, is one of the most dynamic nations in economic history. As Balassa writes in Economic Development and Cultural Change, (April, 1988):

In offering an ex-post explanation for the success of [South] Korea, people also tend to forget the dire predictions made...less than a generation ago. Cut off from industry in the North, saddled with abject poverty, it was considered a hopeless basket case in the writings of the times, including World Bank reports.

However, if we were to say that the devastation left by war has made a nation work very hard, why is North Korea not as successful as the South and why is Vietnam still a poor country? Thus, the war factor does not universally explain economic success.

3.5 THE EAST ASIAN NIE MODEL: MYTHS AND LESSONS

The emergence of the EA-NIEs as successful exporters has generated a second wave²⁹ of interests in the East Asian affair among Westerners.

²⁹ The first wave was during the emergence of Japan as an industrial country.

3.5.1 MYTH NUMBER 1: THE EAST ASIAN NIEs ARE "MIRACLE" ECONOMIES AND A MODEL FOR ECONOMIC SUCCESS.

Development economists from the West are inclined to labeling the four EA-NIEs as the Gang of Four--a label which this thesis refrains from using. Such a labeling is nothing but a "literary coup." In the process, success stories are drawn only from the four economies. In essence, other economies are precluded and even denied from entering the picture. These economists set the frame, choose the story line, attach the label, and tune the color. Today, the frame of that picture is occupied by the four economies, thus forming a club of perceived elites of development achievers among developing nations.³⁰ This has created a perception among developing countries that the EA-NIEs are a model to follow.

The "miracle economies" label employed by some writers seems to suggest that the EA-NIEs' success is an act of God. We acknowledge that is not what these writers meant. Yet, if in the Western society, religion seems to be an improper element in economic discussion, then why do these writers use such a label? By definition, a "miracle" is rare and is performed only by or happens with the consent of God, thus implying that planning is useless because man and his policies have no control over the destiny. If it is an act of God, the end result would be pre-ordained, then--for planners--why do we need planning in the first place? If EA-NIEs are "miracle economies," then why do we waste our intellectual capacity or resources in learning the so-called model whose transferability, by definition of a miracle, is nil while eradicating hunger, say, in Sub-sahara Africa, remains an unfinished business (agenda) in development economics?

3.5.2 MYTH NUMBER 2: THE EAST ASIAN NIEs ARE CULTURALLY IDENTICAL

As mentioned much earlier in chapter 1, Westerners tend to conveniently assemble the seemingly identical four successful Asian economies as a group to the exclusion of others in the region. The "Asian dragons" label is a misconception that Westerners have about the East Asian culture which in reality is diverse. Dragon is a celebrated animal in the Chinese culture; not Korean. In Singapore, lion is the national symbol

³⁰ By definition, entry to a club requires membership.

because the nation got its name from *Singa-pura*, a Malay name in which *singa* means lion, and *pura*--in this context--means place.³¹

There is a stereotype about the East Asians. We observed that in the U.S. the "Orientals"³² are perceived as hardworking people, and successful immigrants or entrepreneurs. Oriental children are considered "smart,"³³ proficient in science and mathematics and are business-minded. Perhaps oriental invasion into the U.S. (through penetrations of manufactures) has changed the American view of East Asia. Japan which was once mocked as a producer of shoddy counterfeited goods, is today dubbed by some as "No. 1" to the extent that the word *ichiban* (Japanese for number one) is becoming a household word in America such as seen in television advertisements of Toyotas and Mitsubishis by a local car dealer in Boston. Chrysler Motors went even further. The nation-wide advertisement of Dodge Colts (made by Mitsubishi) reads "It's all the Japanese that you need to know." Orientals are viewed more favorably than the Hispanics and Blacks. Today, the oriental invasion is not limited to Hondas or Hyundais, but includes sushi and tae-kwon-do. The stereotype is manifested in the so-called "mystique of the orient"--which ranges from oriental women and their submissiveness to food, lifestyle, culture and even religion.³⁴ Many Americans are amazed by the Chinese,

³¹ This is another example of the "colonized mentality" that a nation even changes its name in order to reduce Westerners' inability to pronounce such a tongue-twisted word as "pura."

The Koreans may have given up their national pride by adopting the name "Korea," which is Westerners' mispronunciation of "Goryeo," an indigenous dynasty that once ruled the Peninsula. The mispronounced name has become the country's official name despite the fact that the nation is proud of calling itself at home with the name "Han-guk." The word "han" seems to have a special place in the Korean culture. "Hana" means one. The Koreans are proud of calling themselves "Han-gyo-re" which means "one nation" despite divided by Westerners on the 38th parallel. The river where Seoul is located is "Han-gang." The Koreans call themselves "Han-guk saram" or simply "Han-saram" (Korean people). Why did the "Han-guk" people let the mispronounced name become their country's official name? Burma, which unfortunately resorted to isolation in order to free itself from the "colonized mentality," recently changed its official name to Myanmar and Rangoon to Rangyon in order to have its own Buddhist identity because the former names were given by the British.

³² The "Orientals" include South Asian nationals as well but in the U.S. it is more associated with the "narrow-eyed" people. (Please excuse my using the term which includes the Chinese, Koreans, Japanese, and people of similar appearance or the Chinese-look-alike people such as Vietnamese, some Filipinos, even a minority among Malays as well. There is no intention on my part to ridicule their appearance. I am included in the group for many times Malaysian Chinese themselves have mistaken me as a Chinese and similarly some Malays thought I was Chinese).

³³ Smart is an Americanism for clever (which otherwise in Malaysia or England it means someone who dresses neatly, with class and pride).

³⁴ There has been a wave of mysticism about the orient in America as manifested by the spread of Moonism (or the Unification Church which is led by the Rev. Sun Myung Moon, a native of Korea. The Rev. Moon is a powerful figure; he owns the Washington Times. The other examples of the waves of oriental mysticism are the Baghwan's free-love commune in Oregon and the spread of the meditation-type religion such as Hare Krishna.

Japanese, and Korean martial arts.³⁵ Oriental food is becoming popular in America today. Then it was unthinkable that Americans would eat Japanese *sushi* (raw fish wrapped with seaweed) or Korean *kimchee* (usually cabbage pickled with garlic, hot peppers and baby shrimp paste). Some of them have emulated oriental custom by using chopsticks in oriental restaurants with a certain pride that they too can handle chopsticks while they do not dare eat with hands in Indians restaurants if they were to really follow the Indian tradition. There is even a "chopstick theory of development" (informally called) which suggests that the orientals are more dynamic economically because of their skill and productivity in turning out quality goods at cheaper cost as reflected by their ability to handle tiny food with chopsticks. The Chinese and Korean business communities have capitalized on the better perception in America about the orientals and some have become eyes and ears of marketing ideas and arms for their native countries' exporters.

Today, certain segments of Americans feel competition from the orientals. In Los Angeles, there are Chinatown and Kotown (Koreatown). In New York City, ethnic prejudice and economic competition prompted some Blacks to picket in front of a Korean grocery store last year. They urged all Blacks to boycott Korean-American owned businesses. Meanwhile, the good perception is being tarnished by crimes committed by Asian gangs in many Chinatowns. In addition, imports from East Asia have been alleged responsible for layoffs in American factories.

3.5.3 MYTH NUMBER 3: THE EA-NIEs' ECONOMIC SUCCESS IS THE RESULT OF THE COMPLETE RELIANCE ON MARKETS TO "GET PRICES RIGHT"

The EA-NIEs' economic success was welcomed by the **new-orthodoxy** economists with redoubled vigor, surer of themselves than ever, about the virtues of **invisible hands** (markets). They have celebrated the triumph of neoclassical prescriptions for success: (i) rely on markets "to get prices right" which would reflect real scarcities of factors (in order to allocate resources efficiently), (ii) liberalize imports (in order to avoid distortions in the domestic economy), and (iii) devalue currency (in order to boost the competitiveness of exports).

³⁵ The word "silat" (martial arts of Indonesia and Malaysia) are foreign to the Americans.

This celebration (of the triumph markets) has stirred up a number of responses from development economists. Colin I. Bradford, Jr. noted that:

There has traditionally been a healthy tension between economics as a discipline and development economics as a subdiscipline. With economics becoming increasingly formal, and with development economics confronting diversity in economic performance and understandably falling short of a single theory to account for differentiation, the tensions have grown. The debate has heated up in recent years as more theoretically inclined economists have celebrated the triumph of neoclassical assumptions in the development success stories in East Asia (Bradford, in Development Strategies Reconsidered, J.P. Lewis and Kallab [hereafter L&K], eds., 1986:116).

Perhaps my critical view of economics (as a discipline by itself) finds its reflection in that of Bradford's and Hirschman's. Bradford cited that the celebration is the latest manifestation of what Albert Hirschman (1981) called "monoeconomics"--the view that there is only one economics just as there is only one physics. Bradford added that "development economics seems to have suffered more than profited from development success" when quoting Hirschman who wrote:

The concept of a unified body of analysis and policy recommendations for all underdeveloped countries, which contributed a great deal to the rise of the subdiscipline, became in a sense a victim of the very success of development and its unevenness (Hirschman, "The Rise and the Decline of Development Economics," in Essays in Trespassing: Economics to Politics and Beyond, 1981:20).

Bradford seems to suggest that the new-orthodoxy has gone too far when it tries to exploit the East Asian recipe for success as somehow "universal." Bradford wrote:

The rapture with which the East Asian cases are celebrated derives from the view that they constitute proofs of the result achieved when neoclassical theory...is put into practice. It is a way for economics to take over development economics by destroying the subdiscipline's basic underlying premise: that developing countries are different from advanced market economies and require different theories and policies to promote development" (Bradford, in L&K, 1986:116).

The new-orthodoxy paradigm of reliance on market implies limited roles for the government. Today's political wisdom seems to be to "trust the government that governs least." We agree that less regulation creates incentives. But what will less initiative or promotion lead to? Discouragement!

In reality, the East Asian experience is not simply a market-driven phenomenon. Hong Kong, the world's last bastion of nineteenth century *laissez-faire* free-trading economy, is closest to the stylized version whereas Korea the least resembles that version. There is very little government intervention in Hong Kong. It has neither a central bank nor import control.

A closer examination of the other three EA-NIEs reveals a complex story in which governments have played a decisive role while the private sectors have played a positive, interactive, submissive role. In the following sub-section, due to limited space, our discussion will be only on Korea.

3.5.3.1 THE INVISIBLE HAND OR THE VISIBLE FIST?

In Korea, the successive authoritarian regimes had/have played a decisive, interventionist role with the *chaebol*³⁶ being the key export performer. The more often cited intervention is **export targeting**.³⁷ Targeting exports and/or sectors is not uniquely Korean because most other developing countries also target both productions and exports of certain sectors in their five-year plans. But in Korea, beyond export targeting, the more interesting feature is the use of **performance standards** as a criterion for economic rewards or punishments. Let me explain how that works.

In particular, during the President Park era, there were two institutional mechanisms for energizing exports. These were the export targeting system (ETS) and the practice of holding monthly trade promotion meetings (MTPMs).³⁸ These mechanisms, as noted by Rhee Y.W. (1984:65), had "made possible the use of unconventional export incentives, such as public exhortations...about the importance of exporting, public awards given to exporters who set...records, and encouraging firms to export in the early stages of production of goods for sale on the domestic market." The MTPM, first held in 1965, became a focal point in the Korean export drive. About the same time, Park became much more adamant about the need to export for the nation's survival. The ETS and the MTPM have forged a synergetic partnership between government and business united under the *su-chul ha-ne-nya, juk-ne-nya* attitude (Korean for *export or die*). The MTPM became a venue for Park's carrot and stick approach to exhortations. Some of these carrots operated through formal channels such as public awards during the Export Day.³⁹ But other carrots and sticks have operated informally, such as the president's telephone calls to the heads of the larger firms. Jones and Sakong (1980:119-20) wrote: "The story of Hyundai's reluctant entry into shipbuilding after first having balked is best known:

³⁶ "Chaebol"--whose Chinese characters are read "zaibatsu" in Japanese--refers to big business conglomerates.

³⁷ Such as in Rhee, Y.W. (1984:64), Rhee, Y.W. et al. (1984:21-8); Kim, K.S. in Corbo et al. (1985:60); and Amsden (1989).

³⁸ Chaired by the country's president, the MTPMs are select gatherings of the ministers and top bureaucrats responsible for trade and the economy, chief executives of export associations, research organizations, and educational institutions; and heads of a few firms, mainly from the chaebol.

³⁹ President Park and the heads of big firms celebrated the Export Day every year since its designation on November 30, 1964, marking the day Korea's exports passed \$100 million. Prizes ranged from tin, iron, bronze, silver, and gold medals and towers, respectively, to ministerial citations and presidential banners.

the company turned out two world-class tankers thirty months after breaking ground for the presidentially inspired shipyard in 1973.”

Two of the major policy interventions were preferential tax treatment, and the allocation of subsidies.⁴⁰ The allocation subsidies is practiced in many countries. But it works in Korea because of the ability of the Korean government to discipline big businesses. Amsden (1989:147) wrote: “The presence of discipline in Korea and its absence elsewhere does not reflect differential abilities among policymakers. It reflect differences in state power. The state in Korea was able to consolidate its strength with respect to both business and labor for what appear to be historical reasons.”

The Korean government controlled the inflow and outflow of capital and interest rates in the formal banking sector through the Ministry of Finance and the central bank. The government had controls over domestic banks to the extent that it may appoint or discharge managers.

Sectoral targeting in Korea and its tool (credit rationing) have favored such heavy industries as chemicals, and iron and steel.⁴¹ While access to bank loans for short-term working capital is automatic for export-oriented firms (see Rhee, et al. 1984:11), “the rationing of longer term domestic and foreign loans was, until the early 1980s, one of the most important instruments of government control over private firms” (Rhee, *ibid.*:14). On overall, as estimated by Hong (in Bradford and Branson, 1987:285) “the annual provision of credit subsidies in Korea amounted to at least 10% of GNP each year on average in the 1970s.

Sectoral targeting and credit rationing not only have favored heavy industries but also have concentrated on large firms. Hong (*ibid.*:285) finds that the share of the nine largest Korean general-trading-company groups in total commodity exports was only about 15% in the beginning of the 1970s but increased to nearly 50% in the early 1980s...at the expense of the share of small and medium-sized exporting firms.” Commenting on

⁴⁰ The latter includes: (i) the maintenance of extremely low or negative real interest rates on bank loans by applying fixed nominal interest rates along with high rates of inflation through expansionary monetary policy, and (ii) the rationing of these low real-interest-rate loans to preferred sectors (Hong in Bradford and Branson 1987:283). Hong (*ibid.*:284) estimated that the magnitude of loans formally designated as discretionary policy loans amounted to around 36% of total loans during 1967-81 and the rate of the subsidy element associated with rationed low-interest loans amounted to about 24% per annum on the average during 1972-81.

⁴¹ One way of showing which sector is favored is (preferably) to examine the amount of (subsidized) loan allocations for an industry relative to that industry's value added. The ratio of 1 means that there is no bias. A ratio exceeding 1 means that the sector in question receives subsidies more than proportionate to its value added. Hong's table 10.5 (in B&B, 1987:287) indicates that the ratio (of the year-end total loan balance to value added) was highest for iron and steel, steel products, and nonferrous metal products (as a group). The ratio was 4.7 compared to 2.5 for all manufacturing in 1971.

Hong's finding, Bradford argues that "[t]his is not exactly an Adam Smith world of an invisible hand operating in an atomistic marketplace of small firms" (Bradford in L & K, 1986:120).

3.5.4 MYTH NUMBER 4: THE EAST ASIAN NIEs' SUCCESS RESTS UPON THEIR ADOPTION OF EXPORT-LED GROWTH STRATEGY

A closer examination of the EA-NIEs reveals variations among them in terms of phases, levels, and types of development. Hong Kong, as already noted, never went through an import substitution (IS) phase. In Taiwan and Korea, IS is found to accompany rather than simply precede export promotion. As rightly warned by Bradford (in L&K, 1986:119), "the problem with today's success story is exacerbated...by the lags necessarily involved in publishing results of major research projects." For instance, as pointed out by Bradford, the three major studies which became available in the late 1970s⁴² actually focused on the experience of the late 1960s through the mid-1970s. The results "appear to fit the stylized version: a shift from IS industrialization to export-led growth seemingly **coinciding** with a shift from government intervention to internal liberalization." But studies published in the 1980s, based on the experience of the 1970s, generally reveal a different story involving a mix of private market forces and government interventions. According to Bradford (ibid.) "this general conclusion, too, is out of phases, because in the mid-1980s, as a more balanced story of the 1970s is only now being highlighted, a shift toward more reliance on markets is in fact occurring in several countries."

In Singapore's case, many writers tend to associate IS with the historical "accident" of her short stay in the then moderately outward-oriented Federation of Malaysia. The fact that *entrepot* trades constitute a sizable portion of Singapore's total trade should already hint or lead to an understanding of two sets of realities. The first one is the interdependence between Singapore and Malaysia that has not disappeared. A few data are sufficient to support that claim. In 1987, 14% of Singapore's exports went to Malaysia, a country which supplied 15% of her imports. Malaysia's exports to Singapore constituted 18% of the total while Singapore supplied 15% of her imports. On the financial side, Singapore might not have become the financial center of Southeast Asia if it were not because of the Malaysian-based companies who make up more than half of the 317 concerns listed on the Singapore stock exchange (SES) and who account for half of its market

⁴² Little, I.M.D., Scitovsky, and Scott, Industry and Trade in Some Developing Countries: A Comparative Study (1970); Balassa, "Export Incentives and Export Performance in Developing Countries: A Comparative Analysis," Weltwirtschaftliches Archiv, vol. 114, 1978; and Krueger, Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences, vol. 10, 1978.

capitalization of some US\$57 billion (data based on the AWSJ, October 30, 1989). The Malaysian government announced in October 1989 that, by January 1990, all Malaysian-based concerns must be delisted from the SES. It would be a tragedy for Singapore if for some reasons Malaysia closed the water and gas lines that have supplied the island with basic requirements for life and industry. The second set of realities is the size of Singapore itself. Finally, we should ask ourselves how applicable is the success story of a city-state as a medicine for underdevelopment, say in India!

3.6 SUMMARY

Economic dynamism in South Korea and the purported Chinese-business acumen in Hong Kong, Singapore, and the Taiwan province of China, which constitute part of their success stories, are worth studying for lessons which can be learned. These four economies have been as a group a subject of envy by others in the developing world and also by some in the developed countries. As demonstrated by their success stories, there is no doubt that an outward-looking trade strategy is superior to an inward-looking one. But can the medicine for success be prescribed to others? With some adaptations, they can. Any possibility for repetition of such an economic success by other economies cannot be ruled out. But these economies may not achieve the same magnitude and speed of success as did the 4-Tigers. Conditions in today's world trade are different from those during the 1970s when the Tigers began to achieve their success. It was not until the mid-1980s that their success was widely recognized. We have discussed the circumstances which had made the Tigers more successful than other developing economies. We have also shown that the Tiger's economic success has brought about not only the new interest in East Asian affairs but also the rise of myths about the East. There are myths surrounding the notion that the EA-NIEs are a model for economic success. We cast serious doubts about the EA-NIEs being a case of complete reliance on markets. We conclude that the "phenomenal" success of the EA-NIEs would not have been possible without the governments' efforts, and more importantly, without the synergetic relationship between the government and firms.

Though in reality the 4-Tigers are not culturally identical, each of the Tigers is a case of industrialization of resource-poor economies in a homogenous society. Their development experience is certainly different from that faced by a resource-rich economy or perhaps one whose society is pluralistic. The next chapter will present Malaysian development experience as a case of industrialization in a pluralistic society.

CHAPTER 4 EVOLUTION OF DEVELOPMENT POLICY AND INDUSTRIALIZATION IN MALAYSIA

Malaysian development is a continuing process of adjustments to the complex environment resulting from the remnants of British colonial policy. The environment and adjustments can be described as internal and external, political and economic, and more importantly, social--or rather precisely--ethnic. The strategic location and the Creator's blessing with rich natural resources were undoubtedly two of the major attractions which brought the colonizers there. The British, in particular, molded Malaya into a country which now bears the often used "M" words which--apart from that which initiates Malaysia--refers to multi of anything--from race, religion, language and culture to the associated (multi) problems.

How attractive was Malaya for "exploration" by the West? Note that prior to the British presence in Malaya (which began in 1874), Melaka (then a rich seaport) fell into the hands of the Portuguese in 1511 and the Dutch in 1624. But their influence was minimal. They left behind forts and buildings which are preserved today as historic sites that may help earn some foreign exchange. But the British left behind a legacy of modern physical and institutional infrastructure and the remnants of its policy of "divide and rule."

A convenient way of presenting more recent Malaysian development is to divide it into two periods: (i) the British colonial era (pre-1957), and (ii) the post-independence period. The colonial era is often mentioned as the period of modernization by the British. It could be described alternatively as the period of British exploitation which history text books (mostly written by Westerners) do not discuss. Nevertheless, upon independence in 1957, Malaysia inherited a British colonial legacy of an open economy which was well integrated into the world market (through exports of tin and rubber), of "very high quality" government services (Fisk, 1982:21), of an "extremely good" physical infrastructure by LDCs standards (Fisk, 1982:6), of advanced commercial and financial systems with a strong and readily convertible currency, and of a generally healthy economy with a commanding lead in plantation technology (which is Malaysia's best-kept secret).

4.1 THE PROBLEMS: POLARIZATIONS, POVERTY, AND RACIAL ECONOMIC IMBALANCE

Despite the positive accounts above, Malaysian development is plagued by problems which may be represented by a single word, namely, polarization. Included are two social ills: poverty and racial economic imbalance. The most prominent types of polarizations are four: polarization between rich and poor, between

the Peninsula and Sabah and Sarawak, between urban and rural communities and, more potentially perilous, between Muslims and non-Muslims (more precisely, Malays versus non-Malays).⁴³ It is beyond the scope of this thesis to discuss all of these polarizations and both of the social ills. Thus, our discussion will be limited to racial polarization and racial economic imbalance.⁴⁴ In the Malaysian context I cannot describe the concept of polarization any better than summarized by Fisk (1982:8):

...the development of differences along an axis of change, which became a source of conflict and tension to which people are forced to adjust. The source of conflict leads to action, and especially to political action, and is an engine for change. The energies developed by these tensions build up when the polarizations have been ignored or inadequately taken into account in planning, and are liable, sooner or later, to reach an explosive point, as they did with the socio-economic polarization by race in 1969.

4.2 THE IMPACT: RACIAL IDENTIFICATION BY VOCATION AND LOCATION

The colonial policy divided Malaya into compartments so that there has existed the **identification of race with economic function and location of residence.**

The Malays are generally poor. Most of them engage in the backward, low-income traditional activities such as rice farming. They tend to live in the "kampung" (villages) which were accessible only through *jalan tanah merah* (red dirt road) without electricity or telephone. Because they are indigenous and form the majority group, their power is in the political sphere.

The Chinese were dominant in the economy--literally from factories to corner stores.⁴⁵ While tin mining has traditionally been associated with the Chinese, most of them engage in the modern sector such

⁴³ Compared with the Philippines, Malaysia might seem to have had a bigger potential for internal instability given the extent of its racial and religious polarizations. But since the occurrence of the racial riots in 1969, any serious racial or religious tension has been absent. On the other hand, in the Philippines (where more than 80% of the population has the same religion and where "Americana" is at its best in Asia, i.e., with the American-style democracy, the archipelago is characterized by coup attempts, factional wars, potentially dangerous election days, and the "Dirty Harry" culture of lawlessness and on-street violence (where human life seems just as cheap as on American television). Perhaps what saves Malaysia from ethnic violence is the understanding and acceptance among the races that Malaysia is and will always be multi-racial.

⁴⁴ I consider the polarization of Malays versus non-Malays as a hard nut to crack because it goes beyond economic parameters and I am the wrong person (or unqualified) to discuss it. This polarization may seem sufficiently diminished that today we see more inter-racial interaction at work places (especially among urban young professionals) and at public institutions. In reality, racial polarization still exists today, not so much geographically or vocationally, but sentimentally. More precisely stated, it is racial sentiment that continues to divide the Malaysian society. The sentiment is as natural as man's tendency to identifying one's self by his national origin. In Malaysia, it is difficult to find one who identifies him/herself as "Malaysian" rather than as a Malay, a Chinese or Indian. The sentiment will never change unless inter-racial marriage exists on a wide scale (which is unlikely because, in Malaysia, race bears a religious connotation). But inter-racial marriage is not the only solution and this thesis neither proposes nor opposes it. Let us leave this subject for sociologists who are better equipped to ponder.

⁴⁵ For example it was necessary for non-Chinese to buy household needs in large quantities before the Chinese New Year and the "Wesak" holiday (Buddha's birthday) because most stores were owned and operated by the Chinese and would be closed.

as commerce, banking and finance. Because these activities are available in the cities, the Chinese are mostly urban dwellers.

Most of the Indians live on rubber estates. But quite a big number of Indians are merchants in the cities. The educated ones live in urban areas and they go into professions. Engineers (notably of railway or road system) and health practitioners are usually associated with these educated Indians. Overall, the Indians are economically poorer than the Chinese but are better off than the Malays.

4.3 AN EXPLOSIVE POINT

An explosive point was reached on May 13, 1969, when racial riots broke out in Kuala Lumpur leaving more than 200 people dead. This tragedy is known as the May 13 Incident. It was the catalyst for change in Malaysian development. The government departed from the British-bequeathed *laissez faire* principles to embrace a more interventionist policy of "redistribution with growth." With this as a background, readers can now examine the evolution of Malaysian development.

4.4 THE RECORD WHICH HAS NOT SPOKEN FOR ITSELF

The most remarkable aspect of the Malaysian success story is the rapid growth and prosperity attained in the face of dire predictions by journalists and political scientists of potentially explosive and disruptive racial clashes that were viewed as unavoidable in an "extremely" pluralistic society. But their predictions were wrong. Elsewhere racial riots have a habit of recurring. In Malaysia the 1969 riots ended quickly and have not happened again since. As eloquently put by Dr. Mahathir, then Malaysia's deputy prime minister (now prime minister):

If mere religious or ideological differences are enough to cause unending and brutal civil wars,⁴⁶ the multiplicity of differences between the peoples of Malaysia should lead to even worse violence. But ...there has been only one racial clash. Even this was contained in a very short space of time. Other than this the exercise of political rights as well as the growth in the economy belie the potentials for violence that Malaysia obviously possessed. Journalists and political scientists seemed piqued by the failure of Malaysia to fall in with their favorite theories or assumptions. Since independence...they have been predicting violent upheavals in Malaysia. But Malaysia has not obliged...Not only has economic growth far outstripped that during the British regime, but democracy which has failed in so many newly independent countries has succeeded in Malaysia (Mahathir, in UMBC Economic Review, v.14, no.2, 1978:2).⁴⁷

⁴⁶ Such as in Northern Ireland and Nicaragua. In the former, civil wars are between the Catholics and Protestants. In the latter, civil wars were between the Marxist government and the US-backed Contra rebels.

⁴⁷ From an address given at the Malaysian Investment Seminar in the U.S. held in September/October, 1978. He was deputy prime minister and minister of trade and industry.

4.5 LET US FACE THE REALITY

In multiracial Malaysia, rich natural resources do not guarantee prosperity if its citizens are fighting each other over these natural blessings. If internal stability is not maintained, foreign investors and local businessmen alike will lose their confidence in the economy, thus risking a decline in domestic investment that may lead to interruptions of rapid economic growth. Social welfare will be deteriorating as the government can no longer provide social services at the same multitude as before. But luckily Malaysia has been able to maintain both economic and political stability.

4.6 LET US CORRECT THE DISTORTION

Besides exports, foreign direct investment has been instrumental in the overall growth engine of Malaysia's economy. Malaysia may be considered as one of the least risky places for investment. However, as the usual news gathering and reporting especially in the West tends to emphasize political crisis and wars, any good news from Southeast Asia will not be news (or is left out) in the Western media. In fact, because of the relative stability experienced by Malaysia, the country has been a rare news maker internationally. Therefore, when a small, isolated ethnic disagreement happened in 1987, the Western media took the opportunity to make news out of Malaysia. In taking that rare opportunity, the Western media exaggerated the news. From October 1987 to the end of summer of 1988, Malaysia, which in the past was hardly mentioned in the U.S., made news in American newspapers⁴⁸ such as the New York Times, and the Wall

⁴⁸ There were three news stories reported.

First, about the resentment by some Malaysian Chinese over the Government's appointment of non-Mandarin speaking personnel to a Chinese school. The appointment was an isolated incident and the Government immediately canceled the appointment. The resentment should have been reported as only a "mouth conflict." There was no bloodshed, not even an utterance or the taunting of racial epithets openly in public. But rather the resentment was kept within the hearts and expressed only within the political domain through the "politics of compromise."

The second news story was about the detention without trial of political and social activists under the Internal Security Act (ISA). The detention was a measure to curb the exploitation for personal goals of sensitive issues by activists which may provoke racial clashes. Singapore has made detentions under a similar Act (that bears the same name) which Singapore and Malaysia inherited from the British (initially for cracking down on the communists in the 1950s). Why was Malaysia singled out for the detentions (as a violation of human rights)? In the People's Republic of China, the government does not only detain protesters but also executes them inhumanely.

The third news was about the political shakeup in the Malays' UMNO party, the dominant party of the coalition government. It began with a contest for the presidency of the party. Such a contest was unprecedented in the history of Malay politics. Journalists referred to the contest as a decline of the "Malay way." (Some of the characteristics of the "Malay way" are: never question authority, maintain respect for and never challenge or contest a leader [i.e., maintain the political status quo], the practice of the politics of "indirection and compromise" [i.e., being impersonal, for example, never pointing a finger directly at a rival or never criticizing someone openly in public] and of close consultation for solving disputes rather than challenging in a court of law). In other developing countries a political shakeup can result in bloody coup. On the contrary, Malaysia's political shakeup is within the political framework. It is **unthinkable** that the Malays (with the "Malay way" described above) will attempt a coup (plus, unlike in Thailand or the Philippines, Malaysia has a very strict gun control law--illegal possession of fire arms is punishable by hanging). The contest should be viewed as a consequence

Street Journal. Negative stories in the latter, in particular, may effectively frustrate Malaysia's efforts to attract foreign investors by bringing a distorted idea about Malaysia's business climate. In Sri Lanka the differences between the Sinhalese and the minority Tamils have resulted in brutal civil wars.⁴⁹ Malaysia which is usually compared with Sri Lanka in development studies (notably by agricultural economist Harry Oshima⁵⁰) and by international bodies (such as the World Bank⁵¹) should have received a better review for the absence of bloodshed (except in 1969). Therefore, the task of the Malaysian government and its citizens as well is to let the world know the true aspects of Malaysia and to correct any distortion made by Western media. And this is one of the purposes of this thesis. In order to serve this purpose, inevitably our discussion will go beyond the scope that the title of this thesis might have suggested. By looking at the title, it appears that the focus is on industrialization. But in order to understand the industrialization process in multiracial Malaysia, we must first examine Malaysia's "racial" political economy. In the next section we will look at some of the characteristics of Malaysian society with comparisons to those of some selected Asian countries.

4.7 PLURALISTIC SOCIETY

Malaysia's society is diverse. No other East Asian nation has such a degree of racial heterogeneity. Malaysia may well be placed at one extreme on a spectrum of racial heterogeneity. Both Japan and Korea are at the other extreme (i.e., most homogeneous) while the rest of East Asian countries are placed in between the two extremes.

In a country which has had a significant number of immigrants, the ability of these minority groups and their descendants--provided that they are so willing--to assimilate into the culture of the majority group

of competitive democracy.

⁴⁹ The differences between the Sinhalese and Tamils, though they exist, are not visible in the eyes of most foreigners. They look very much alike. The only difference that foreigners know is religion which by itself could be a primary reason for the brutal civil war. Most Sinhalese are Buddhists and most Tamils are Hindus. Only a Sri Lankan can tell other differences between the two ethnic groups.

⁵⁰ Oshima writes extensively on the agricultural economics of the Southeast and South Asian region, referring to both regions as Monsoon Asia.

⁵¹ Two features which may provide an interesting comparison in economic development between Malaysia and Sri Lanka are: a) from a social aspect, Malaysia possesses the potential for racial violence while Sri Lanka is actually having a civil war. From an economic aspect, Sri Lanka is still a "plantation economy" while Malaysia has diversified its traditionally "plantation economy" to having manufacturing as the leading sector.

is an important factor for racial homogeneity. In Thailand and the Philippines, the Chinese have assimilated themselves relatively easily into the Thai and Filipino cultures, respectively, compared with the Chinese in Malaysia. At the outset in Thailand the Chinese presence does not seem obvious. One of the reasons is their similar facial appearance--which may be natural or a product of inter-racial marriages. Therefore, the Chinese are not as distinguishable from the Thais as they are from the Malays. Hence, it is relatively easier for a Chinese to identify himself as a Thai and to associate with the Thais. More importantly, religion is a factor. The Chinese have assimilated relatively easily into the Thai and Filipino cultures through Buddhism and Catholicism, respectively. Interracial marriages within the same religion have produced a more homogeneous new generations.

But in Malaysia, religion bears a racial connotation. As mentioned earlier, Islam is associated with the Malays, Buddhism with the Chinese, and Hinduism with the Indians.⁵² Religious polarization along the racial lines has a potential for outbursts of religious and racial clashes. For example, the Malays and other Malaysian Muslims (Pakistanis and Indian Muslims) strictly obey the Islamic prohibition of eating pork to the extent that even the smell of fried pork disgusts them and they will not come close to any Chinese restaurant because surely pork is a main dish for the Chinese. Some other Chinese practices, such as keeping dogs in homes,⁵³ and gambling are extremely distasteful to the Muslims. Some of the Indian customs such as the penchant for beer, *samsu haram* and *todi* (Indian alcoholic drinks) are also distasteful to the Muslims. During the fasting month of *Ramadhan*, the Muslims feel it to be a lack of respect if the Chinese or Indians consume food in front of them while they are fasting. In the center of many Malaysian towns (where the

⁵² This is a well accepted generalization because the number of conversions is too insignificant to alter the racial-religious connotation. All Malays, by name (i.e., by the Islamic name that they bear), are Muslims.

⁵³ In Islam, dogs and pigs are prescribed as dirty. If any part of a Muslim's body comes in contact with these animals (unless both surfaces are dry) he must "samak" (wash according to the method prescribed in Islam) that part of his body. The prescription that dogs and pigs are dirty animals affects the Malay culture. In the Malay language, the word "anjing" (dog) and "babi" (pig) are used for humiliation or degradation. For example, the phrase "dia menganjing-anjingkan saya" means "he humiliated me." And there is a type of mental disorder which is (informally) called "gila babi" (mad pig). "Gila babi" is also used as a curse or a foul language.

Chinese shopkeepers tend to live) there is a *musalla*.⁵⁴ Many of the Chinese feel disturbed by the Muslim's *azan subuh* (call for morning prayer) on loud speakers at around 5.30 A.M.

The Western idea that religion is an improper element in the formation of public policy (such as reflected by the separation of Church and State in America) would seem absurd to a Muslim. Based on author's observation, in the U.S., many court cases involving religions remain unresolved.⁵⁵ Thus it seems that religious issues must be adequately addressed in public policy so as to provide the long-term solution. The Malaysian experience shows that religion can be an intrinsic element in public policy. If religious issues are not addressed, religious differences may grow within the people and will explode like a time-bomb. Religion which is a uniting force that transcends race⁵⁶ is also a polarizing magnet that reinforces each pole that represents a religion.

However, religious differences do not break the Malaysian society apart. As noted by Fisk (1982:15), "religious polarization has not been the cause of serious political, economic or social strains." There is an absolute absence of religious warfare not so much because the Constitution provides the freedom to practice any religion, but because of the religious tolerance and the understanding (more precisely, the general acceptance) that religion will always be racially connected. The Malaysian experience clearly proves that the notion put forth by Westerners that "Islam spreads by the sword" is untrue and misleading. It is a convenient way for Westerners to attack Islam while ignoring that Muslims adhere to the teaching in the Qur'an that reads: "There is no coercion in Islam."

⁵⁴ In this case, the *musalla* is an Islamic prayer place (for travellers and shoppers) in the heart of a town. It is different from a mosque. The typical mosque is bigger in size and is located in the predominantly Malay area.

⁵⁵ Abortion has become one of the hottest issues in American courts today. The Supreme Court has legalized abortion while Catholicism prohibits it (including the use of certain contraceptive methods). Examples of other cases involving religion are: a) whether the relatives of a patient in a coma (who is dying for a long time and is not likely to recover but suffer as a result) can decide on the latter's behalf for a voluntary discharge of any life support mechanism, b) whether a guardian's insistence on not seeking medical treatment (but instead, relying on religious healing) for someone under his protection (because of his religious beliefs) constitutes a murder, c) the moment of silence (prayer) in public schools, and d) whether preaching a religion in public schools (such that disputed in the 1988 case of a school boy preacher in North Carolina) is violation to the Constitution.

⁵⁶ For example a "*musallaf*" (usually referred to a Chinese who embraced Islam) is accepted by the Malays like their own brother or sister. For Indian Muslims, the fact that they are Muslims has given them special place in their relationship with the Malays. For example, many Indian Muslims have Malay spouses.

Apart from religion, names and languages play a vital role. Almost all Filipinos, Indonesians, and Thais have their Filipino (though Spanish sounding), Indonesian, and Thai names, respectively. In Indonesia, the Chinese minority, through the illegalization of Chinese writings, have been forced to adopt Bahasa Indonesia. Most of them have even given up their Chinese name and adopted Indonesian names. The new generations of Indonesian Chinese have lost their mother tongue language altogether. In Thailand, most Malays feel that they have to adopt Thai names in order to get ahead in the Thai society. In Malaysia, the Malays have Malay names;⁵⁷ the Chinese and Indians have Chinese and Indian family names, respectively. Thus, in Malaysia we may know someone's race just from the name.

In terms of the percentage of minority ethnic groups, for example, in Indonesia, the Chinese proportion is small (except in urban areas). But this has already created uneasy racial relations despite the fact that almost all of them in recent times use Indonesian names and language.⁵⁸ Singapore is the only country in the region whose racial composition most resembles that of Malaysia. This is a product of history. But Singapore's majority group--the Chinese--constitutes 77% of total population whereas Malaysia's majority group--the Malays--constitutes only 54% of the total.

4.8 RACIAL HARMONY

Despite the racial diversity, Malaysians can boast that their country is one of the most stable and peaceful countries in the world. In other countries there are hostilities, killings, and sabotage not only among races and political groups but also among different social classes within a race.⁵⁹ We do not have to look far for this example. Take the neighboring Philippines which has a relatively homogeneous society in which

⁵⁷ Note that Malays do not have last names, but they have successive names. The structure is: B is son (or daughter) of A, C is son (or daughter) of B, D is son (or daughter) of C, and so on. For example, Ali is a son of Daud, Ali's name is Ali bin Daud. If Ali has a son that he calls Ahmad, Ali will name his son Ahmad bin Ali. Only the father's name can be at the end of the name.

⁵⁸ Foreigners cannot easily tell someone's race from Indonesian names.

⁵⁹ In Malaysia, despite the diversity and the identification of race with economic function, we do not hear references made to social class (such as the word "middle class" that we often hear in the Philippines and South Korea whose supports were important in helping the success of Aquino's people-power revolution in 1986, and in the stepping down of Chun Doo-Hwan in 1988). In Malaysia, the invisibility of social classes is probably a result of government programs. For example health care is free for all Malaysian citizens--even for medicine. Education is free (even textbooks are loaned for free to virtually all students and "pocket money" is given to selected students based on the parent's income and on academic performance). Because of these programs, the poor have the same accessibility to social services as the rich. Thus, there is relatively less feeling of association with a certain social class. Therefore there is less recognition of the conventional class distinctions.

more than 80% of the population is Roman Catholic. But the situation in the Philippines is scary from our point of view where various political factions are waging power with guns and bloodshed whilst the civilians are caught in the cross-fire and the economy is in a huge debt. In Malaysia, there was only one "black dot" throughout its history, the May 13 Incident. Nevertheless, the incident had the most profound impacts on the direction, priorities, and purpose of development in Malaysia which remains to be seen today.

In the next sections we will examine the causes of the incident, followed by a review of its impacts on development policies, and finally we will discuss how industrialization policies are shaped by the incident. But first we should be clear about the concept which is central to this thesis: industrialization.

4.9 INDUSTRIALIZATION: ITS MEANING AND PURPOSE

Industrialization is a process in which the importance of the industrial sector relative to agriculture increases.⁶⁰ Generally everywhere, the industrial sector is regarded as modern and urban whereas agriculture is considered rural.

Much of the early literature treated industrialization as the key element in economic development. The experience of the industrial economies showed close association between development and industrial expansion (World Bank, 1987:1-2). The NIEs' success stories give the governments and citizens in other developing countries the perception that industrialization is good. There is a sense of national prestige in having enlisted in the ranks of the industrialized countries. But in order to rise to the same ranks as the NIEs they too have to industrialize or to become a NIE. Here comes the danger that industrialization is viewed as essentially a good or desirable thing.

Industrialization is not an end in itself but rather a part of the development process. Therefore, the first question to ask is not how fast an economy can industrialize (e.g., how fast to become a NIC), but rather the appropriate question is how industrialization can better serve the attainment of the goals of development. These questions arise from the fundamental question: **what is the ultimate goal of development?** Once the goal is identified, the next step is to formulate policies. A policy is a set of statements that serves as a general

⁶⁰ To be precise, this description does not apply well to countries which have virtually no agriculture sector to speak of such as Singapore.

guideline for implementation, for monitoring (or review in making sure implementation is consistent to the guidelines), and for evaluation (of achievement). Within the boundary provided by the policy, strategies (or a set of best possible actions including contingency ones) are formulated. The formulation of strategies involves the setting of targets or objectives⁶¹ as a benchmark for measuring progress towards achieving the goal.

Why did we go into considerable detail concerning the definitions above? The reason is that in the 1960s, on the one hand, there was the pessimism (in the international community) about the prospect for achieving growth through exports of food and raw materials (e.g., the declining terms of trade thesis by Myrdal, Prebisch and others), and on the other hand there was the wish (or in some cases, the urge) in third world countries for a kind of industrial development which may not be in accordance with their comparative advantage. Most governments, with the view that industry would provide "automatic" spillover effects into the economy, saw industrialization as a promising avenue to development. Subsequent experience showed most of these ideas to be too simple, or even misleading. Many countries have achieved high standards of living based mainly on the production and export of food and raw materials: Australia, Canada, Cote d'Ivoire, Denmark, Kenya, Malaysia, New Zealand, Sweden, and the oil-exporting countries, to name but a few (World Bank, 1987:2). Industrialization is always associated with manufacturing, but manufacturing is only a part of the industrial sector. Industrialization has certainly been associated with growth, but it is not the only cause of growth.

The question of "efficient" industrialization deserves attention in multiracial Malaysia. The word efficient has its useful meaning only in relation to specific objectives: efficient is measured by the costs of attaining these objectives. The important question to ask is not how fast an economy industrializes, but rather how industrial policies can be better designed and implemented so that new industries will make the maximum contribution to the country's development and not become a social burden.

Having dealt in detail about pluralism in Malaysia, it should no longer be a surprise to readers that **nation-building** has been an over-riding goal in Malaysia. But before we discuss this goal, we must look at

⁶¹ Goals and objectives are two different words, but related. A goal has no measurement or quantity. Therefore it is not formulated or targeted but rather, it is identified and simply stated. Objective on the other hand can be measured and targeted. For example, if the goal is to eradicate poverty, the objective is to have the incidence of poverty decrease (as a target), for example, from 30 percent to 15 percent in the next 10 years. Note that both poverty and its eradication as a goal are identified and the objective is targeted.

the May 13 Incident. In order to understand the causes of the Incident, it is important for us to get a picture of the socioeconomic condition in Malaysia in 1969.

4.10 MAY 13 INCIDENT: SOCIOECONOMIC CONDITIONS IN 1969

Despite the rapid rate of economic growth in the years following independence, two fundamental problems persisted: (i) widespread poverty⁶² irrespective of race, and; (ii) serious racial economic imbalances to the extent that race was identified with economic function and location of residence.

While these two problems together helped give rise to the Incident, the second problem had been the major cause. Therefore, in the next section we will only examine the second problem.

4.10.1 RACIAL ECONOMIC IMBALANCES

The imbalances have occurred and continue to occur in the pattern of ownership and the control of economic activity, and in the distribution of income as well as in employment. They are more pronounced when the *bumiputra* (literally, "son of the soil," which refers to the Malays and other indigenous people) are compared with the non-*bumiputra*.

A practical way to show these imbalances is by looking at the economy in terms of the following five sectors: (i) the Traditional Rural Sector, (ii) the Modern Rural Sector, (iii) the Traditional Urban Sector, (iv) the Modern Urban Sector, and (v) the Government Sector. This classification enables us to make a general analysis of economic imbalances in terms of three variables: (a) income, (b) employment and, (c) ownership and control of wealth.

4.10.1.1 INCOME IMBALANCES

The average incomes of workers in the five sectors can be ranked as follows:

Modern Urban Sector	- High
Modern Rural Sector	- Medium
Government Sector	- Medium
Traditional Urban Sector	- Low
Traditional Rural Sector	- Low

⁶² The word poverty owes itself to many interpretations depending on the standard of measurements used which in turn are dependent upon place and time. For example, a household below poverty line in the U.S. may be one of the richest in Ethiopia. The same household could well be above the poverty line by a standard of measurements used ten years ago. The point is, poverty in Malaysia does not mean hunger and death by starvation as we are seeing in some other countries. Neither do we see people digging into tons of garbage to find recyclables for refund or usable materials for resale or leftover food such as we see in a country that neighbors Malaysia on its east and even in the U.S.

The high income level was about one and one-half to two times that of the medium income level and about three to four times that of the low income level. About 60% of workers in Peninsular Malaysia were found in the Traditional Rural Sector and the Traditional Urban Sector. Slightly less than one-fifth of the workers were found in the Modern Urban Sector which provided a relatively high level of income, and slightly more than one-fifth, in the Modern Rural Sector and the Government Sector which provided a medium level of income (Malaysia, 1971:38). Besides the differences among sectors, there were also imbalances among races which gave rise to the identification of race with economic activity. "With the major portion of working Malays still in the Traditional Rural Sector and with a good portion of working non-Malays in the Modern Urban Sector and the Modern Rural Sector, Malay incomes are generally lower than the non-Malay incomes" (Malaysia, 1971:38).

4.10.1.2 EMPLOYMENT IMBALANCES

There was not only an identification of race with vocation but also an identification of race with location. Most Malays live in rural areas, employed in low-income activities in paddy farming, fishing, rubber tapping and livestock rearing. Most non-Malays live in urban areas employed as shopkeepers, petty traders, providers of commercial and household services and workers in organized, modern cash agriculture.

The position of Malays in the job hierarchy in the modern sectors was on the average below that of non-Malays. In industries, for instance, the bulk of Malay employment was in the lower skilled and unskilled category. A "pioneer" industry might show a more balanced employment by race. But at the managerial, professional, technical and supervisory levels, Malays were inequitably represented. Most higher positions were held by non-Malays and foreigners (Malaysia, 1971:39).

4.10.1.3 IMBALANCES IN OWNERSHIP AND CONTROL OF WEALTH

Imbalances in ownership and control of wealth and in the means of production were most prevalent in the Modern Urban Sector (such as manufacturing, banking and finance, transport, and wholesale and retail trades), and in the Modern Rural Sector (such as rubber estates, and tin mining). To help us understand the imbalances, we will divide the discussion into rural and urban sectors. First, we look at the rural sector.

4.10.1.3.A IMBALANCES IN OWNERSHIP OF RURAL SECTOR

Paddy farms were practically all owned by Malays, but many of these farms were cultivated by Malay tenant-farmers. Of the total 4.2 million acres of land under rubber including both estates and small holders in the Peninsula at the end of 1970, 37% were owned by Malays, 42% by non-Malays and 21% by foreigners. About half of the total acreage of rubber estates belonged to Malaysians, almost exclusively non-Malays. The other half was owned by foreigners. However, Malays and non-Malays shared about equally in the ownership of rubber smallholdings (defined as less than 100 acres each, and are estimated at a total of slightly over 2 million acres). Three quarters of the oil palm and coconut acreage on estates were owned by foreigners; the remainder was owned mostly by non-Malays. Although about 308,000 acres of FELDA (Federal Land Development Authority) land cultivated with rubber and oil palm had been settled predominantly by Malays, this did not significantly reduce the overall disparity (Malaysia, 1971:39-40).

4.10.1.3.B IMBALANCES IN OWNERSHIP IN URBAN SECTOR

A practical way of showing imbalances in ownership within the urban sector is to look at the ownership of the corporate sector.

TABLE 4.1
OWNERSHIP OF SHARE CAPITAL OF LIMITED COMPANIES IN PENINSULAR MALAYSIA
AT THE END OF 1969

Types of companies and ownership	Amount (M\$mn.)	% of Total
a) <u>Companies incorporated in Peninsular Malaysia</u>		
1. <u>Residents</u>		
Malays	49.3	1.0
Malay interests	21.3	0.5
Chinese	1064.8	22.8
Indians	40.9	0.9
Federal and State Governments	21.4	0.5
Nominee companies	98.9	2.1
Other individuals & locally controlled comp.	470.9	10.1
Foreign controlled companies in Malaysia	282.3	6.0*
2. <u>Non-Residents</u>	1235.9	26.4*
b) <u>Branches of companies incorporated abroad</u>		
Net investment by Head Office	1391.6	29.7*
-----	-----	-----
Total	4677.5	100.0

*These items show that foreign ownership totaled 62.1%. Population in Peninsular Malaysia in 1969: 55% Malays and other indigenous people, 34.4% Chinese, 9.1% Indians and 1.5% Others.
Source: Malaysia (1971), Second Malaysia Plan 1971-1975, p.40.

As shown in table 4.1 Malay ownership in the corporate sector was very limited. The ownership by Malays and Malay interests combined constituted only 1.5% of the total whereas the Chinese owned 22.8%.

From the numbers above, readers may not be able to fully grasp the actual condition that existed in 1969. Therefore the following section attempts to describe the situation based on the author's personal observations. But first we look briefly look at historical and socio-cultural aspects.

4.11 HISTORICAL AND SOCIO-CULTURAL DESCRIPTIONS

4.11.1 COLONIAL HISTORY

The identification of race with economic function and region of residence was a product of the colonial history of "divide and rule." The British brought the Chinese into Malaya as laborers at tin mines and the Indians as *coolies* for railroad construction and maintenance and as laborers at rubber estates in the west coast of Malaya.

Mining is a capital-intensive industry. Therefore the Chinese from the very beginning were exposed to the relatively modern activities associated with tin mining such as finance, transport, commerce, and trading. In fact many cities on the west coast of Malaya, including Kuala Lumpur, were born as tin-mining towns. The relatively modern activities (such as finance and banking) came to into existence where the Chinese happened to locate after leaving the tin mining areas.

4.11.2 SOCIO-CULTURAL DESCRIPTIONS

Individualism is virtually non-existent in the Malay culture, and the Malays from one generation to another have lived in close-family-knit *kampung-kampung* (villages) where everyone knows one another. The educated Malays hold government jobs in the cities, or become teachers either in rural or urban area. Whilst some of them live in *kawasan bandar* (town areas), most of them tend to live at *pinggir bandar* (town's periphery) thus leaving the central part of the town to be populated by the Chinese.

For the Chinese, individualism (such as competition) plays a generating force in their economic advancement. The newer generations of Chinese were not content to live in mine areas. They migrated to town centers where they found more business opportunities and also where they could take advantage of the more modern infrastructure that was not available in rural areas to start-up the more modern ventures (during that time) such as biscuit making (crackers in American English), soy sauce, and sardine factories, to name

a few. The newer generations of Indians also migrated to urban areas where they ran, notably, such businesses as bakery shops and spice stores. The educated ones went into professions to become engineers and health practitioners.

4.11.3 PERSONAL OBSERVATION AS A "KAMPUNG" BOY⁶³

The identification of race with economic function and region of residence can be explicitly described from the author's own observation in terms of what actually happened at two places, a *kampung* (village) and a *bandar* (town).

The situation in Malaysia in the late 1960s was such that in a *kampung* (village) we could see some Malay paddy farmers spending their mornings talking politics,⁶⁴ instead of farming, at a Malay-owned *kedai kopi* (coffee shop which also carries household needs). On a weekly or monthly basis, vans and lorries owned by Chinese traders showed up to supply the *kedai kopi* with processed foods (notably biscuits, soy sauce, and canned sardines) and other household needs (especially kerosene for lighting because villages were not yet electrified). Most of these goods were either imported (by Chinese-owned trading companies) or manufactured locally by Chinese-owned factories.

In a *bandar* (town) we could see Malay farmers (especially women in the state of Kelantan) came out of their villages to sell produce and seasonal fruits at open-air markets. They came home with fish and meat bought from Malay *penjaja* (hawkers) whose supplies came from *taukeh-taukeh* (usually referring to Chinese businessmen). Most consumer durables (especially electrical appliances and watches), consumer non-durables (such as footwear) and intermediate consumer goods (e.g., for construction such as cement, corrugated metal roofing, etc.) had to be bought from Chinese retailers. In a town we could also see the Malays, Chinese, and Indians flocking into government hospitals for the cure of common illnesses while those who did not want to wait in line went to private clinics usually run by Indian and Chinese health practitioners. In towns we could also see the head of villages, *imams*, and most notably Malay teachers (representing grass-root leadership

⁶³ To be precise, this description is of particular reference to the State of Kelantan as a result of the author's experience and background--born and raised in the State.

⁶⁴ This is because Malays dominate the political sphere. The Malay politics has grass-root support from villages because Malays are predominantly rural. Farmers in villages take a keen interest with what happen in politics.

from the *kampung*)⁶⁵ flocking into the town hall for regular political conventions. Whereas for the Chinese, they had many associations and *dewan perniagaan China* (Chinese chamber of commerce) which became both the financial and political arms of the Chinese. For example, most banks and insurance companies were Chinese-owned.

In short, the situation was such that the Malays with their backward economic activities dominated the political power whilst the Chinese dominated the modern economic sector and controlled substantial wealth in the economy. The Indians were far behind the Chinese but were better off than the Malays economically. This imbalance was the root causes of the May 13 Incident.

4.12 DEVELOPMENT POLICIES PRIOR TO THE MAY 13 INCIDENT

Up to 1969, the government operated on the assumption that the trade-offs between Malays and non-Malays in the political and economic spheres of the country were more or less generally accepted (Zakaria in Fisk and Osman-Rani, eds., 1982:95). Early thinking and policy-making were dominated by considerations for economic growth with less concern on who would get what. The underlying assumption was that the newly generated wealth would have a "trickle down" effect on the poor--a neo-classical proposition which was subscribed to by many Malaysian policy makers of that time. But because the control of most of the nation's wealth were in the hands of both foreigners and the Chinese, the "trickle down" process did not occur and racial imbalances persisted.

4.13 THE MAY 13 INCIDENT: THE KUALA LUMPUR RIOT ON MAY 13, 1969

The Federation of Malaya and its successor, Malaysia, had survived the Emergency (communist insurgency), the *Konfrantasi* with Indonesia, and the separation of Singapore; however, the lack of a national consensus over the socioeconomic role of different ethnic groups posed a threat to the country's still fragile unity. The Chinese had become increasingly discontented over what was perceived as the unwillingness or inability of the Malaysian Chinese Association (MCA) to protect its community's interests. Similar sentiments were voiced by Indians about their Malaysian Indian Congress (MIC). The United Malays National

⁶⁵ Malay teachers were considered leaders in rural areas because (then) they were among the few villagers that could read "Rumi" (Romanized Malay language--using the Roman alphabet as in English) while others could only read "Jawi" (Malay language written using Arabic scripts) which, unlike "Rumi," was not always used in government letters.

Organization (UMNO) was itself exposed to criticism from conservatives both inside and outside the organization who demanded stronger pro-Malay policies.

On May 10, 1969, a federal election was held. The results were a blow to the governing Alliance Party in that it lost 23 seats.⁶⁶ Moreover, it lost the majority vote. Its share of the total vote fell from 58.5% in 1964 to 49.1%. Within the Alliance, the MCA suffered the biggest loss. It retained only 13 seats from the 27 seats it had won in 1964. "There was mutual recrimination within the Alliance over the MCA's particularly poor showing, followed by its collapse when the MCA withdrew from the government on May 13, 1969" (Bunge, 1984:61). On that very same day, jubilant opposition party supporters, mostly Chinese, held rallies and parades in Kuala Lumpur celebrating what they called *Melayu sudah jatuh* (Malay already fell). They allegedly taunted Malay bystanders with racial epithets, and consequently violence broke out, leaving more than 200 people dead.

4.14 THE AFTERMATH

The initial reaction was to regard the incident as a communist-managed affair (Zakaria, *ibid*:95). But, over the next two years, coinciding with a period of suspended parliamentary government,⁶⁷ intensive inquiries were made to find the roots of the incident, and intensive reviews of basic premises and priorities of development were undertaken.

The May 13 Incident was misunderstood by many as simply a conflict between the politically strong but poor Malays and the economically dominant Chinese. This may be true in a narrow sense. But in reality, the root causes began with the more advantaged of both Malays and non-Malays. Their discontent later infused the youths who, as generally happens in every part of the world, were energetic,⁶⁸ perhaps radical, and prone

⁶⁶ The Alliance Party (which consisted of UMNO, MCA, and MIC) was opposed by the Democratic Action Party (which were predominantly Chinese and advocated the abolition of the special status of Malays and the recognition of English, Chinese, and Tamil as official languages equal with Malay). In addition, there were two smaller left-wing parties, the Gerakan Rakyat Malaysia (People's Movement of Malaysia) and Parti Progressif Rakyat (People's Progressive Party) which had mainly non-Malay support. On the right, the Alliance was opposed by Parti Islam se-Malaysia (Pan-Islamic Party of Malaysia or better known as PAS).

⁶⁷ A special ruling body, the National Operations Council was established with the Deputy Prime Minister (then it was Tun Abdul Razak) serving as its director.

⁶⁸ Or having "darah muda" (literally means "young blood") which implies being strong physically, active socially (especially in social movements or causes), often associated with the easiness of losing one's temper.

to inciting demonstration and exacerbating riots. This is summarized clearly by a Malaysian political scientist, Zakaria Haji Ahmad.⁶⁹

Observers generally concede, even if in retrospect, that the root causes leading to [the] May 13 [Incident] were that Malays were not happy with their pace of modernization nor with the notion that their main activity was politics, whilst the non-Malays were not content to partake only in economic activities and agree to the notion of Malay special rights. More important, both the Malays and the non-Malays who were most dissatisfied with the policies and stand of the Government were those who had benefitted the most from such policies and who in fact demanded more. The Malays who seemed to complain most were those who had begun to reap the benefits of Government programmes but felt progress was slow or not enough, whilst the non-Malays who felt aggrieved were usually those who had tasted economic success but who also felt that political power should not be the monopoly of, or be dominated by, the Malays. At the same time, some of the more advantaged Malays had begun to question the rights granted to non-Malays (such as citizenship), while at the same time some of the advantaged non-Malays had begun to query the "special rights" of the Malays. In a sense, then, it could be said that the level of expectations had accelerated faster than the rate of satisfaction and attainment, and that frustration had set in, especially among the youth" (Zakaria in Fisk and Osman-Rani, 1982:95).

The incident highlighted the dangers inherent in a multiracial society when "ethnic prejudices are exacerbated by economic disparity" (Ross-Larson in Young, et. al, eds., 1980:22). It brought about a search for a national consensus.

4.15 THE MAY 13 INCIDENT: ITS IMPACTS ON DEVELOPMENT POLICIES

The government eventually realized that the primary root of the Incident was two-fold: (i) poverty irrespective of race, and (ii) racial economic imbalance. It has been recognized that "national unity is the overriding objective of the country" (Malaysia, 1971:1). The government elucidated that "while there must be no delusion that national unity can be achieved by purely economic means, eradication of poverty and restructuring of the society and economy are necessary conditions for national unity" (Malaysia, *ibid*:4). In other words, in recognizing the need for reviewing and reordering the basic premises and priorities of past policies, respectively, the government realized that its top priority was nation-building. It found that a new stage had been reached in Malaysia's economic and social development where greater emphasis must be placed on social integration and more equitable distribution of income and opportunities for national unity and progress. The ultimate goal would be to "create a united, socially just, economically equitable and progressive Malaysian nation" (Malaysia, 1971:3). The government has realized that past policies of complete *laissez-faire* had

⁶⁹ Zakaria Haji Ahmad, Ph.D. (MIT), writes extensively on Malaysian political economy and international relations. In 1982 he was the Head of the Political Science Department, Universiti Kebangsaan Malaysia (UKM). Today he is the Coordinator of the Strategic and Security Studies Unit (SSSU) at UKM. The SSSU is affiliated with the Institute of Strategic and International Studies (ISIS), a quasi-government think tank (the Malaysian version of the CIA, but without military capability) that reports to Prime Minister Mahathir. It was Mahathir's personal interest that brought about the formation of the ISIS in 1983-84.

retarded economic advancement of Malays, thus further exacerbating the imbalances. It was recognized that Malaysia was entering a new era of development which required a new strategy.

4.16 THE NEW ECONOMIC POLICY (NEP)

The new development strategy, known as the New Economic Policy (NEP) was officially adopted in 1971 concurrently with the launching of the Second Malaysia Plan (SMP), 1971-1975. In launching the SMP, the prime minister, the late Tun Abdul Razak wrote:

The Plan is the result of an intensive review, over the past two years, of the basic premises and priorities of development. The objectives, priorities and strategies of the Plan have all been shaped by the over-riding need to promote national unity...The Plan is a blueprint for the New Economic Policy (Tun Abdul Razak, in Malaysia, 1971:v).

Before 1969, the basic premises of development were that economic growth--spearheaded by the private sector through market mechanisms--would not only be growth maximizing but also would have a trickle down effect on the poor. Therefore it was assumed that the role of the government should be best limited to providing physical and social infrastructure and maintaining security in order to create a climate favorable for the development of free enterprise. The priority was economic growth but without concerns over the distribution of wealth. The May 13 Incident was a catalyst for change. For the first time in Malaysia's history, the government departed from the principles of *laissez-faire* which was marked by the launching of the NEP.

4.16.1 TWO OBJECTIVES OF THE NEP

The NEP is a two-pronged strategy aimed at promoting national unity, considered the over-riding objective of the nation. The two prongs are: (i) to eradicate poverty irrespective of race, and (ii) to restructure the society in order to rectify economic imbalance. As stated in the SMP (Malaysia, 1971:1)

The first prong is to reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race. The second prong aims at accelerating the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function [and location of residence].

The two prongs are not mutually exclusive; they are, in many respects, inter-dependent and mutually reinforcing. For example, the measures to raise incomes in rural areas, where *bumiputras* predominate, will not only help eradicate poverty but also serve the objectives of rectifying racial economic imbalance. Similarly, projects aimed at correcting racial economic imbalance by increasing the *bumiputra* participation in new urban

activities (which has traditionally been limited), will also contribute to the eradication of poverty by generating increased employment opportunities.

4.16.2 TWO ELEMENTS OF THE NEP

The two elements are: (i) the generation of employment opportunities at a sufficient rate to bring about full employment of the labor force, and (ii) growth and redistribution of the ownership of economically productive assets in the country. As detailed in the Mid-Term Review of Second Malaysia Plan (MTRSMP):

The first prong is to be achieved by programmes aimed at raising the productivity and income of those in low productivity occupations, the expansion of opportunities for inter-sectoral movements from low productivity to higher productivity activities and the provision of a wide range of social services especially designed to raise the living standards of the low-income groups...- [The second prong is to be attained through] modernization of rural life, the rapid and balanced development of urban activities, the establishment of new growth centers and the creation of a Malay commercial and industrial community in all categories and at all levels of operations. The objective is to ensure that Malays and other indigenous people will become full partners in all aspects of the economic life of the nation (Malaysia, 1973:1).

4.16.3 PRE-REQUISITE OF THE NEP

The NEP is based upon the creation of a rapidly expanding economy coupled with structural change. The basic idea is that, for the eradication of poverty irrespective of race and the restructuring of society (e.g., in terms of ownership of wealth by a particular group) to be implemented justly, the "economic pie" must first expand. As clearly stated by the government:

The NEP is based upon a rapidly expanding economy which offers increasing opportunities for all Malaysians as well as additional resources for development. Thus in the implementation...the Government will ensure that no particular group will experience any loss or feel any sense of deprivation (Malaysia, 1971:1).

4.16.4 IMPLEMENTATION OF THE NEP

The implementation of the NEP will be guided by the principles of *Rukunegara*, the principles of nationhood or the national ideology, which was proclaimed on August 31, 1970 (during the celebration of independence). The *Rukunegara* (literally translated as the country's tenets):

...declares the national objectives and values and the fundamental principles to guide the citizens and the nation...and represents a national consensus and commitment to the task of creating a united, socially just, economically equitable and progressive Malaysian nation (Malaysia, 1971:2-3).

While the NEP aims at promoting national unity through the aforementioned two-pronged strategy, the *Rukunegara* calls for the formation of the Malaysian nation by encouraging "common values and loyalties" among all Malaysians through national "education policies," by cultivating "a sense of dedication to the nation through services of all kinds," by carefully developing "a national language and literature, of art and music"

and by encouraging "the emergence of truly national symbols and institutions based on the cultures and tradition of the society" in the quest for a national identity and unity (Malaysia, 1971:3). Within the above context, the principles guiding the development of Malaysian society, as enshrined in the "Rukunegara":

...call for a new Malaysian society with a common value system which transcends existing ethnic, cultural and socio-economic differences. They provide the cohesive force for national unity and solidarity and seek the emergence of a modern socio-economic environment providing adequate opportunities for advancement of all Malaysians, irrespective of racial origin or region of residence (Malaysia, 1973:61).

The SMP, into which the NEP was incorporated, was but one in a series of five-year Plans designed to achieve the national objectives. Therefore, as the Government wrote, "to provide us with a clear perspective of the efforts which must be made and to enable us to measure and monitor our efforts meaningfully, as we move from one Plan to the next, an Outline Perspective Plan covering the period up to 1990 had been prepared and was included in the MTRSMP" (Malaysia, 1973:v).

4.17 THE OUTLINE PERSPECTIVE PLAN (OPP), 1970-1990

The OPP is a perspective planning framework for the period up to 1990 covering the output, employment and distribution objectives of the NEP. The Government recognized that, with the SMP and the implementation of subsequent plans, changing conditions would require policy modifications and flexibility to meet such changing circumstances. By working within the perspective of a consistent long-term framework, however, the Government will have greater assurance that policies and strategies will be sensitive to such changes, and the attainment of ensuring the overall long-run objectives of the NEP are ensured.

4.17.1 TARGETS OF THE NEP AS OUTLINED BY THE OPP

While the NEP was to be implemented until 1990 by means of a series of five-year Plans, the OPP provides the perspective of a consistent long-term framework for the implementation of the objectives of the NEP as well as their monitoring and evaluation. The main targets, as stated in the OPP are as follows: (i) to reduce the incidence of poverty from the 1970 level of 49.3% to 16.7% by 1990, (ii) to restructure the ownership of wealth so that *bumiputra* would own and manage at least 30% of the productive assets of the economy. The Government expects that by 1990, *bumiputra* will own 30%, non-*bumiputra* will own 40%, and non-Malaysian will own the remaining 30%, of equity in Malaysian limited companies. The NEP calls for an intensification of efforts and a direct participation by the Government in commerce and industry through

close co-operations with the private sector. Prime Minister Tun Razak wrote, "For its part, the Government will take the lead in ensuring that necessary energies are generated" (Malaysia, 1971:v). He urged all Malaysians to participate in the NEP. He continued in the same document:

It is a challenge we must meet, an opportunity we must share and a responsibility we must shoulder. It requires whole-hearted effort, sacrifice and self-reliance from all of us for its success. It is the duty of all of us to understand the objectives, the policies and the programmes of the Plan in order to participate fully in its implementation and to ensure its success (Malaysia, 1971,p.v).

4.17.2 THE OUTLINE PERSPECTIVE PLAN (OPP) AND INDUSTRIALIZATION

One element of the OPP that is most relevant to our discussion is industrialization. As noted by the late Tun Razak, "the Outline Perspective Plan stresses the importance of industrialisation for the country" (Malaysia, 1973:v). While in the late 1960s Malaysia's neighbors observed that tin and rubber helped rank Malaysia after Japan as one of the richest countries in East Asia, the racial economic imbalances were presenting Malaysia with a trauma. The Government recognized the need for restructuring the society in order to rectify the imbalances. In line with this effort, the Government found that economic diversification was not only important for Malaysia's economic future but would also facilitate the achievement of the NEP's objective, especially concerning the restructuring of the society through growth and redistribution of the ownership of economically productive assets in the economy. Economic diversification in Malaysia means venturing into non-traditional sectors (such as manufacturing) while utilizing the traditional sectors or commodities (such as rubber and tin) as the foundation. Given the dominance of the exports of unprocessed and semi-processed rubber and tin in the economy, resource-based manufacturing both for domestic use and for export would be a feasible way to diversify the economy.

In the OPP, the Government expects manufacturing to play a leading role in the economy that it not only will facilitate the achievement of the objectives of the NEP but also would help transform Malaysia's economy. As quoted from the OPP in the MTRSMP:

The Government looks to the manufacturing industry to play a leading role in employment generation, bringing about greater participation by Malays and other indigenous people in modern sector activities. The potential of the industry for playing such a role is significant but production for domestic use only will yield a growth rate for the sector of a mere 6 to 7% per year. With active promotion of manufactured goods exports, however, value added by the manufacturing sector could expand by over 12% during 1971-90. Allowing for a relatively high average rate of productivity growth, reflecting a strategy of high investment in the sector, employment is projected to expand by 7.5% per year. With development on this scale, World Bank criteria suggest that Malaysia would be transformed from an "industrialising" country in 1970 to a "semi-industrialised" country in 1980 and an "industrialised" country by 1990. By that time, the share of manufacturing output and employment to the total for the economy as a whole would reach 35.2% and 21.7%, respectively (Malaysia, 1973:72).

The above quotation indicates that the Government was determined to put Malaysia on an avenue leading toward becoming an industrialized country by means of (promoting) exports of manufactures. This may well be regarded as the beginning of an export-promotion strategy in Malaysia.

The NEP and OPP officially expired at the end of 1990. The OPP's target that Malaysia would become a "semi-industrialized" country by 1980 may have already been achieved. But whether Malaysia can or should become an "industrialized" country by 1990 (as envisioned in the OPP) has been a debated issue in and out of Malaysia. This issue will be discussed in the conclusion chapter.

4.18 CONCLUSION

In multiracial Malaysia, development strategy has evolved from a *laissez-faire* approach to an interventionist policy as an adjustment to problems associated with its multiracial nature. The racial economic imbalance was the root cause for the May 13 Incident in 1969. The Incident became the catalyst for the change in development approach. Formulated in 1971 and to last until 1990, the New Economic Policy (NEP) sought to eradicate poverty and restructure the Malaysian society so as to eliminate the identification of race with vocation and location of residence. The government would take on an active role to increase employment opportunities for *bumiputra* in the modern sectors such as commerce and manufacturing, in which the ethnic group were under-represented. Thus, industrial development was seen as a vehicle for the attainment of the restructuring objective of the NEP.

Chapter 4 discussed in detail about the pluralistic nature of the Malaysian society and how it has impacted development policy in Malaysia. In chapter 5 we will describe the phases of industrialization in Malaysia from the colonial era to the present time. We will show how the British colonial policy has retarded or delayed industrial development in Malaysia. This is what will be termed as "delayed industrialization." We will also show how post-independence industrial initiatives were shaped both by the remnants of the British colonial policies and by the racial economic issues that the country has been confronting. This resulted in what will be termed "managed industrialization." Included in the discussion also is the policy shift toward heavy industrialization and the efforts later to rationalize of role and involvement of the government in industries including the privatization schemes.

CHAPTER 5 THE PHASES OF INDUSTRIALIZATION IN MALAYSIA

Malaysia is a late industrializer and obviously a "late-comer" relative to the 4-tigers. There are two major patterns that characterize the Malaysian experience: "delayed industrialization" and "managed industrialization." The former is a result of the British colonial policies, and the latter is a result of the pluralistic nature of the Malaysian society. The following section attempts to examine these patterns more closely.

5.1 PHASES OF INDUSTRIALIZATION IN MALAYSIA

These were:

- 1) Free trade era and colonial period of exploitation and modernization in the primary sector, and establishment of modern infrastructure by the British (Pre-1957).
- 2) Post-independence industrial promotion and infrastructural upgrading (Post-1957).
- 3) Adoption of a relatively mild import substitution strategy (1963-1968).
- 4) Promotion of export-oriented industries (Post-1969).
- 5) Drive towards capital and technology intensive or heavy industry (1981).
- 6) Rationalization of industrial policies (1986).

5.1.1 PHASE 1: THE ERA OF FREE TRADE, EXPLOITATION AND MODERNIZATION OF THE PRIMARY SECTOR AND INFRASTRUCTURE BY THE BRITISH (PRE-1957)

Malaysia's economy prior to 1957 was a typical dependent colonial economy concentrating on exporting raw materials in exchange for imports of manufactures. The colonial history, however, does not begin with the British. It dated back to 1511 when the Portuguese--then attracted by the abundance of spices in Southeast Asia--captured Melaka. In 1624, the seaport fell into the hands of the Dutch. However, the occupation of Melaka did not have any significant impact on the economic and social life of the village communities in the interior of the Peninsula (Khor, 1983:34). The economies in the interior were self-subsistence and village-based with few contacts with the outside world. It was only under the British that the Malay Peninsula was fully absorbed and integrated into the world market system (Khor, *ibid.*). The British

colonial policy favored activities which would not only exploit the abundant resources for their benefit, but would also complement, rather than compete, with British firms. Thus, the convenience and economic worth of Malaya to the British were two-fold: first, to serve as a captive market for manufactured exports from Britain; second, and much more important, to be a reliable and cheap source of raw materials for British industries (Hoffmann and Tan, 1980:13-4). Given such interests, the tactical strategy of the British was to encourage greater investment in the primary-based sector, and not to encourage local industries because they would have posed a threat to British manufactures and exporters (Hoffmann and Tan, 1980:14).

The British were very much satisfied that Malaya would remain a cheap supplier of raw materials. Therefore, the policy of free trade reigned supreme. "There was no protection. Any form of restriction and hindrance to free trade was incidental (Lee, in Findlay and Garnaut eds., 1986:100). Customs and excise duty were mainly for revenue purposes. In short, the colonial policy was in favor of tin and rubber exports and against industrial development. In addition, the Malayan economy had prospered from exports of tin and rubber and as a result there was no urge to industrialize.

The exploitation of Malaya's tin and rubber by the British and the opening of the Malayan market for British exports can be described as a "colonial free trade" based upon international specialization, driven by the colonial interest. This kind of free trade was less guided by a naturally realized (or prevailing) comparative advantage than it was driven by the exploitative interests of the British. It was true that Malaya had a comparative advantage in the exports of tin and rubber. But comparative advantage is not static; rather it changes over time as suggested by Heckscher and Ohlin. Malaya and Malaysia should not depend on tin and rubber totally. What the British did to Malaya (i.e., by not encouraging industries) was inconsistent with the principles of changing comparative advantage. It postponed the birth of (modern) industrialization in Malaya. This is what we have termed "delayed industrialization."

During the colonial era, on the one hand there was exploitation, and on the other hand there was also some modernization. Before granting independence, the British exploited, or appropriated as much as they could, of Malaya's resources. To exploit those resources more efficiently, the British introduced modern

production techniques. The most notable examples were the introduction of dredges at tin mines⁷⁰ and the initiation of replanting scheme in rubber estates.

While there was a full commitment on the part of the British to modernize production techniques, there was less commitment to improve transport and infrastructure. Improvement in these areas were more of unintended consequence of the exploitation drive. They were viewed as an unavoidable cost. For example, the British had to open overland routes in the case of newly explored mines and newly tapped rubber estates. Similarly, accessibility to existing mines and estates had to be improved. They had to build a network of railroads and paved roads connecting the mines and estates to the ports (which were yet to be upgraded). They would not have brought locomotives to Malaya if there were no tin to be exploited and transported.⁷¹

The institutional infrastructure also got modernized, again, both intended and unintended. As intended --in order to exploit inland funds--the British established tax collecting systems at the federal and local levels, and--in order to facilitate investment in, financing of, and repatriation from, the British-owned firms--the British established foreign exchange banks. The unintended consequence was that modernization in physical and institutional infrastructure gave impetus to growth first in tin and rubber-related businesses, then commerce, and local banks (mainly Chinese-owned) that served small business interests of certain dialect groups.

Upon independence, the British left Malaysia a colonial legacy of a relatively modern and efficient system of administration coupled with a relatively modern physical and institutional infrastructure (such as the British style banking and financial systems), and a relatively high standard of social services (especially health care and education) rarely attained in other developing countries during the time. But what was absent were industrial initiative and incentives.

⁷⁰ The first dredge was introduced in 1912. A mining dredge consists of an excavator with rotating buckets and a concentrating plant mounted on a floating barge in a pond or paddock. The structure is as tall as a two or three story house. It was very expensive to equip a site with a dredge.

⁷¹ However, one could make a case that had not there been the British, Malaya would not have become one of the first developing countries that have a railroad network and locomotives.

5.1.2 POST-INDEPENDENCE INDUSTRIAL PROMOTION AND INFRASTRUCTURAL UPGRADING (POST-1957)

Upon independence in 1957, Malaysia inherited an outward-oriented or open economy based on exports of rubber and tin and already possessing a highly productive agricultural sector. Though agriculture certainly could still improve, the government realized that the thrust of further development had to come from industry, which was insignificant at the time due to a colonial policy biased against industrial development.

With self government in 1955 (two years before independence in 1957) came the first effort towards industrial development. At the joint request of the governments of Malaya, the crown colony of Singapore, and the United Kingdom, in 1955 a World Bank mission submitted a report⁷² suggesting a two-fold role for the Malayan government with regard to industrial development. The first role was to provide adequate infrastructure, and the second was to foster private enterprise by creating a favorable climate for its development based on the principles of *laissez-faire*. Ironically, despite its advocacy of *laissez-faire*, the mission recommended the use of protective tariffs, in addition to depreciation allowances, as means of promoting industries. Though it seemed influential,⁷³ some of the World Bank mission's report faced strong opposition from the Working Party on Industrial Development.⁷⁴ The Working Party, in its Working Party Report of the Industrial Development delivered to the government in 1957, came out in favor of tax concessions for "pioneer" companies.

Though self-governing, as long as Malaya was a colony the government could not independently pursue any policy in the interest of the Malayan people. Therefore, the first official or legislative effort directed towards industrial development came after the August 1957 independence with the enactment of the Pioneer Ordinance in 1958. The Pioneer Ordinance granted tax holidays to any new manufacturing establishments approved as

⁷² The mission was that of the International Bank for Reconstruction and Development (IBRD). The report was the Report on the Economic Development of Malaya.

⁷³ In 1955 the ruling Alliance Party, in principle, accepted the mission's recommendations and incorporated them into its election manifesto (or platform as in the American politics).

⁷⁴ The Working Party on Industrial Development (hereafter the Working Party) was formed by the Ministry of Commerce and Industry in 1956 (the year following the election). The role of the Working Party was to formulate an industrial development policy for Malaysia (which at the time had yet to achieve independence).

"pioneer," regardless of whether it was local or foreign-owned. In fact, the government was keen at promoting foreign investment, perhaps in the belief that it would accelerate industrialization and would facilitate the transfer of know-how and technology.

The Malaysian government recognized that an adequate and efficient infrastructure was a "vehicle" for industrial development, and its "generators or engines" had to come from modern and efficient public and private sectors, working together (however with specialization).⁷⁵ Its "fuel" had to come from investments. Due to the limited amount of readily accessible financial resources, the investments had to come from a "blend" of domestic and foreign supplied financial resources. Therefore, investments in Malaysia were mainly supplied from export revenues of rubber and tin and by British capital. Most of these investments accrued to the upgrading of the British-built infrastructure and to the building of additional road network.

5.1.3 ADOPTION OF IMPORT SUBSTITUTION STRATEGY WITH RELATIVELY MILD PROTECTION (1968-1974)

Import substitution (IS) by definition is producing domestically products which would otherwise have to be imported. In the 1950s and early 1960s, IS was seen by developing countries as virtually the only avenue to industrialization "and this was powerfully encouraged by Lewis's influential study (1953) in which he showed how to use import statistics to ferret out feasible industries" (Elkan, 1973:93). The Latin American countries were the early adopters of the IS strategy. In Southeast Asia, in 1949, the Philippines became the first adopter of the strategy.⁷⁶

Malaysia was a late import substituter. As noted by Kasper, "Malaysia followed a conservative policy of no experiment[ation]" (Kasper, 1974:48). The "wait and see" approach by the Malaysian government gave

⁷⁵ The government took the role of providing infrastructure and maintaining security or internal stability so as to create a climate conducive to the development of private enterprises. The private sector was hoped to undertake the running of businesses (mainly by the Chinese in terms of number and by British companies in terms of size) with minimal or virtually no control. This laissez-faire attitude continued until mid-1969.

⁷⁶ This is another common trait of both the Philippines and Latin America that makes me call the former the only "Asian Latin America" (mentioned earlier in footnote 2).

an opportunity for policy makers to learn from the limited success and, in some cases, the failure of IS experienced by some Latin American countries.⁷⁷

Unlike other developing countries, in particular those in Latin America, Malaysia did not resort to heavy protection in order to get industry off the ground, but favored, at least in the beginning, various kinds of tax incentives. Until the mid-1960s tariffs served mainly revenue purposes instead of protective purposes. Only thereafter, when industrial growth had already accelerated, did tariff-making become increasingly protective (Hoffmann and Tan, 1980:3). Even so, compared with other developing countries, Malaysia's protective tariffs were relatively mild.

The passage of the Tariff Advisory Act (TAA) in 1963 which gave birth to the Tariff Advisory Board (TAB) may be regarded as the beginning of import substitution in Malaysia. The event marked the final turning-point from a tariff policy for revenue purposes to one for protection.

In Malaysia, the IS strategy was directed to labor-intensive, resource-based manufacturing establishments (hereafter, labor-intensive processing industries). There were two major reasons. First, it was hoped that these industries would generate employment for the abundant labor, and second, it was hoped that these industries would establish "backward linkages" with the primary sectors by processing the primary sectors' output rather than exporting in their raw form.

As it turned out, the IS strategy worked but with a limited success because the tariffs had a "cascaded" structure, i.e., they were rising with the stage of production (or the level of fabrication). This means that finished products (which generally are at the high level of fabrication) would be the most protected. On the other hand, raw materials (which are generally at the low level of fabrication) would be the least protected. Thus, in effect, the tariff structure worked in favor of manufacturing establishments producing consumer

⁷⁷ For example, in Chile (one of the most indebted countries in the world), the debt problem may be regarded as a result of a cycle. Chile adopted an IS strategy in the 1950s in order to maintain a comfortable balance-of-payments position and to reduce dependency on imports. It was hoped that by producing goods domestically rather than importing, expenditures on imports would be cut. The result of the IS strategy turn out to be disappointing. Not only did the balance-of-payments worsen, but dependency also increased. They happened because the protected import substituting industries (which by their nature depended heavily on imported intermediate goods) would have to pay higher prices for imported inputs than they otherwise would have paid under free trade. To protect the industries, higher protection would be needed. That meant higher import prices and more debt, and certainly more dependency on foreign capital.

durables and nondurables and against primary industries. For instance, according to Hoffmann and Tan (1980:59), primary industries, which according to Malaysian statistics exclude all kinds of processing, were the least protected (7.0%) compared to intermediates (20.8%) and final consumer goods (37.4%; all percentages are in nominal terms). Apart from the study by Hoffmann and Tan, a study in 1985 by Lee Kiong Hock (in Findlay and Garnaut, eds., 1986:121) found that the "positive relationship between the level of effective protection and the level of fabrication first found by Power [1971] seems to hold true not only in the 1960s but also in the 1970s," thus confirming that the tariffs system remained biased against the primary industries and in favor of consumer durable industries. This is not the kind of strategies or results that we want in a resource-rich country. In addition to the cascaded tariff structure that existed **across** sectors, there were variations in the effective rates of protection (ERP) **across** and **within** sectors.⁷⁸ The variations were a result of the differences in the effective (or actual) effects of nominal tariffs on value added of different industries.⁷⁹ This is also called an escalating tariff structure. Lee's study shows that between 1973 and 1978 the levels of nominal rate of protection (NRP) increased, although the levels of ERP appeared to be in decline particularly in the latter part of the 1970s. The latter reflects the rise in tariffs on imported inputs and the general policy of reducing ERPs first outlined in 1976. However, despite the latter policy, the structure of protection **within** the manufacturing sector "shows a large variation in ERP's and also moderately high levels of ERP" (Lee, *ibid*:128). The effect of the escalating tariffs, for example, within the manufacturing sector is that resources are likely to flow into the more highly protected manufacturing industries, resulting in production inefficiencies.

Furthermore, in general, protection creates distortions within any economy "because it allows domestic

⁷⁸ The two key words are printed in bold, across and within. We will see the difference.

⁷⁹ Nominal rate of protection (NRP) shows the percentage increase of domestic producers' prices; effective rates of protection (ERP) shows the increase of value added. To help us understand this, let us take a tire manufacturer whose input is imported rubber. He is concerned not only with prices of a tire, but also with the margin between the cost of imported rubber and the sale price of a tire. It is within this margin that he must pay wages, rents, and interest and then extract the residual as his profit. The larger that margin, the more room there is to accommodate higher factor cost and/or the higher the potential profit. This margin is the value added measured in domestic prices. It can be increased either by raising tariffs on competing imports of finished products (tires), lowering tariffs on imported inputs (rubber), or both. This dual effect of tariff structure is called effective protection. Therefore, a high NRP does not necessarily lead to a high ERP, and a uniform NRP does not necessarily lead to a uniform ERP. The higher the ERP, the bigger the margin (between the cost of imported input and the sale price of finished product). Because this margin determines the potential profit, investors are enticed to invest in the higher protected industries.

industries to produce goods with a higher added value and higher profits than [it otherwise would have allowed] under free trade..." (Naya, in Martin, ed., 1987:55). As a result, productive resources are attracted into the protected and but not necessarily efficient industries. The result is a mis-allocation of productive resources. In addition, an IS strategy "often discourages both export-oriented industrial production and non-industrial activities via reduced availability of productive factors, i.e., higher factor costs and higher prices of inputs" (Naya, *ibid.*).

Finally, there is a limit to IS. As understood, the whole purpose of IS is to produce domestically goods that would otherwise be imported. Assuming that all import substituting products were to be consumed domestically, the level of domestic absorption of the products is dependent upon the size of domestic market (disregarding any change in taste to make the argument simple). A certain spurt in the growth of manufacturing output (experienced in the early phase of IS) was followed quickly by a period of market saturation. Thereafter the possibilities of further IS become much more limited. In a relatively small country such as Malaysia, the period preceding a saturation point can be rather short as shown by Chee (in Bradford and Branson, eds., 1987:443) whose results are reproduced in table 5.1.

TABLE 5.1
MANUFACTURING PRODUCTION AS A PERCENTAGE OF DOMESTIC MARKET IN EACH GROUP OF INDUSTRY IN PENINSULAR MALAYSIA, 1963, 1968, AND 1973, (%)

Group of industry	1963	1968	1973
Consumer nondurables	50.7	70.5	89.5
Consumer durables	21.1	47.1	94.8
Intermediate goods	46.4	77.9	86.5
Capital goods	22.1	34.0	47.7
Miscellaneous	nc	nc	nc
All Manufacturing*	43.8	162.4	75.3

* Data for "All manufacturing" are averages of all manufacturing groups; not their totals. nc = not comparable. The higher the percentage attained by an industry, the smaller the room of expansion of that industry within the domestic market (i.e., the closer that industry to its domestic market frontier or saturation, thus nearing completion as an import substituting industry). A percentage beyond 100 means exports of the industry's product.

Source: Adapted from Chee, in Bradford and Branson, eds., 1987:444.

Chee found that in Peninsular Malaysia, "by 1973 import substitution had almost been completed in the case of consumer and intermediate goods, although there was still a wide scope for import substitution in the case

of capital goods." Consumer durables, with an output-demand ratio⁸⁰ of nearly 95%, were nearing completion as an import substituting industry.

The second limitation of IS concerns the choice of industrial mix (or product composition as opposed to the limitation within an industry in the earlier case). The basic idea is that if many products have reached a market saturation point, a country is left with few other products with which they still have comparative advantage in order to continue with an IS strategy. The limitation comes when they have exhausted all the possible options of new products suitable for or feasible with the strategy.

5.1.4 EXPORT PROMOTION

The enactment of the Investment Incentives Act in 1968 marked the adoption of an export-oriented industrial strategy. Four factors accounted for the policy reorientation.

First, there were lessons learned from the general failure of IS experienced by Latin American countries. The "conservative policy of no experiments" (borrowing Kasper's words) which Malaysia had followed enabled her to learn the failures of IS from its early adopters.

The second factor was the "demonstration effect." The spectacular growth in exports of manufactures from the Northeast Asian NIEs (i.e., Korea and Taiwan) was unparalleled in the recent history of economic development.⁸¹ The success of these NIEs with export-led industrialization was instructive to developing countries including Malaysia in two respects. First, it effectively refuted the "export pessimism" argument against an outward-oriented development strategy. Secondly, from the theory of "changing" comparative advantage, in the long-run the very success of the NIEs will result in rising real wages that will push their

⁸⁰ The output-demand ratio is another way of stating the same measurement as in table 5.1. The ratio measures the extent to which domestic demand, defined as domestic production plus total imports minus total exports, is met by domestic production in each industry or group of industries. Chee expresses it in percentages.

⁸¹ The reason for specifically mentioning the Northeast Asian NIEs rather than EA-NIEs is to exclude Hong Kong and Singapore from the discussion in this context. This is because while Hong Kong is a special case, Singapore's surge as an exporter is relatively very recent. The reality was that in Malaysia, before the mid-1980s, policy makers saw Singapore's progress was no greater than Malaysia's. In fact, in 1981, both premiers Mahathir and Lee launched their campaigns for learning from Japan. In Malaysia it was known as the "Look East Policy" and in Singapore, it had no fancy name but was simply referred to as Learn-From-Japan. Mahathir looked to Japan and Korea, (not even to Taiwan because at the time, in Malaysia, Taiwan was not considered as successful as Japan and Korea). He talked of "Malaysia, Inc." based on "Japan, Inc.," and personally initiated the Made-in-Malaysia car project. Lee placed emphasis on higher productivity and better labor-management relations.

comparative advantage towards technology- and human-capital intensive activities. The lesson was clear. Just as the NIEs became the "second generation" exporters of labor-intensive manufactures in the 1970s, occupying the position vacated by Japan, Malaysia could become a third generation exporter.

The third factor was the changing climate in intellectual opinion. The 1950s were characterized by "export pessimism." On the contrary, the late 1960s and the 1970s saw a shift in conventional wisdom to export-orientation. Perhaps more effectively, the winds of change were blowing through the activities of the lending agencies such as the World Bank and the IMF.

The fourth factor and the most important was the NEP which looked at manufacturing as the leading sector for employment generation (to eradicate poverty) and as a vehicle for restructuring the society. The NEP called for greater and direct involvement of the government in industries and commerce. As a result, the export-oriented policies already in place three years earlier and which had been regarded merely as an alternative industrialization strategy were beginning to be taken seriously.⁸²

The adoption of an export-oriented strategy does not mean total abandonment of the import substituting industries already in place. Export-orientation was pursued parallel to import substitution with a stronger emphasis placed on the former. The IS strategy put in place in 1963 gradually diminished in importance until it finally went out of the picture by 1973.

5.1.5 DRIVE TOWARDS HEAVY INDUSTRIALIZATION (1981)

Malaysia's drive toward heavy industrialization may be regarded as having begun only under Dr. Mahathir who assumed office as prime minister on July 16, 1981. In this regard, if Malaysia's second prime minister, the late Tun Razak, was remembered as *Bapa Pembangunan* (the Father of Development), perhaps Dr. Mahathir will be regarded as *Bapa Perindustrian* (the Father of Industrialization). His keen interest in heavy industries can be traced back to his tenure as the Minister of Trade and Industry (1978-1981). It was during his tenure in that post, on November 27, 1980, that the Heavy Industries Corporation of Malaysia (HICOM) was incorporated. But it was not until he became prime minister that HICOM fully operated.

⁸² The NEP was not responsible for the initiation of the export-oriented policies (XOPs) because the XOPs were already in place in 1968. But the objectives of the NEP helped intensify export-promotion.

HICOM, a 100% government-owned corporation, is responsible for planning, identifying, initiating, investing, implementing, and managing projects in the field of heavy industries. HICOM has undertaken large industrial projects in cement, iron and steel, automobile, and small engines.

One of the driving forces for the initiation of heavy industries in Malaysia was the desire to emulate the success of Japan and South Korea. The policy, discussed above, has become known as the *Dasar Pandang ke Timur* or the Look East Policy (LEP). Under the LEP the government has been sending public officials for mid-career training and students for higher education to Japan and South Korea. By the end of 1985, a total of 230 degree and diploma students and 1220 trainees had gone to Japan and Korea to enter programs in high priority fields such as management of technology, business, economics and engineering (Ikemoto, 1986). The Japanese government largely financed a Japanese language center in Malaysia. The Korean language is taught at Institut Teknologi MARA, one of the higher learning institutes in Malaysia.

The year 1985 saw the realization of the "Mahathir era" which was marked by a ceremony in August of that year when Prime Minister Mahathir drove one of the first production models of the made-in-Malaysia car, the Proton Saga, across the newly completed Penang bridge (one of the longest in the world--built through a joint venture with Hyundai Construction Company--another of Mahathir's "prestigious" projects).

5.1.6 RATIONALIZATION OF INDUSTRIES (1986)

HICOM lost \$4.17 million in 1985. The government initiated two studies to overcome structural weaknesses in the manufacturing sector. The Malaysian Industrial Policy Studies (MIPS) re-examined investment and export promotion incentives while the Industrial Master Plan (IMP), provided the basis for industrial policies up to 1995.⁸³ The IMP, consisting of twenty-two reports, was released on February 3, 1986. It envisaged a 6.4% annual GDP growth during the period 1986-1995 with total investment expected to grow at 5.7% per annum. The IMP looks at manufacturing as the main engine of growth with a target growth rate of 8.8% per annum in real terms.

⁸³ The IMP was based on a study conducted together by the Malaysian Industrial Development Authority (MIDA) and UNIDO under a team led by Dr. Seong Jee Yu of South Korea.

The IMP aims to make the rubber products industry one of the leading sectors and to develop it into an export-oriented one, with emphasis on tire manufacturing. The IMP lays weighty stress on the development of downstream palm oil and kernel oil-based products. Food processing also received attention especially cocoa products and animal feed. Another aim of the IMP is to transform the wood-based industry into a major resource-based activity by focusing on the production of downstream products mainly for the export market. In the case of non-ferrous metal products, the strategy is import substitution for aluminum and copper, and export-orientation for tin. The IMP envisaged employment in the electronics industry to double and exports to triple by 1995. For the automobile industry, the IMP called for a rationalization of the industry so that there will be no more than three manufacturers in the country by 1995. Heavy industries will be selectively promoted. Since heavy industries have a long gestation period and high commercial risks, private sector participation is encouraged while the public sector rationalizes its role and presence. Regarding investment guidelines, the IMP calls for a relaxation in the equity requirements (such as the 30% share of equity reserved for *bumiputra* and the employment requirement that must reflect racial composition). In early 1988 the government announced that foreign investors would be permitted to take up to 100% equity if certain conditions are met. One of them is that a minimum of 20% of total output must be exported.

5.2 NOTES ON THE LATEST DEVELOPMENT POLICY

The latest policy change includes privatization of government-owned enterprises. This followed the huge federal deficit which was found to be one of the reasons for the 1985-96 recession. To date, the Malaysian Airline System, the National Electric Board, and the National Telecommunication Board are among the large-scale enterprises which have been privatized.

The end of 1990 saw the expiration of the NEP. Earlier, in January 1989, the National Economic Consultative Committee (NECC) was formed to review the NEP and to chart its course after 1990. The 150 members of the NECC consisted of government official, political leaders from all ethnic groups, technocrats, business leaders, and intellectuals. A "new" NEP together with a ten-year Overall Perspective Plan are expected to be presented to Parliament in June 1991.

CHAPTER 6 COMPARISON OF PERFORMANCE

6.1 INTRODUCTION

The purpose of this chapter is to compare Malaysia's performance with those of the 4-Tigers in order to see whether Malaysia is on a path toward becoming a NIE. If she is on such a path, where is she located?

Why do we use the 4-Tigers⁸⁴ as a yardstick? The quick answer is because they are successful. But success is a subjective word which is more often perceived than achieved. It may be meaningful only in relation to a target. A target itself is set relative to a bench-mark which serves as a reference point for determining the position of this target, depending upon circumstances and methods of measurements. The point to be made is that there is no magic formula nor specific measurement of success. We compare Malaysia with the Tigers because they are regarded to be better economic performers.

Which countries are included and why? The likely outcome is that Malaysia is presently behind the Tigers. But we may not know how far behind them she is located. In order to provide a bigger picture, we will include Malaysia's neighbors. They are Thailand, Indonesia, and the Philippines. Thailand will receive special attention because she seems to be a fierce competitor of Malaysia for the Fifth Tiger title.⁸⁵

6.2 THE FRAMEWORK

Our premise for the comparison is that performance is assumed to be an outcome of "policy" and "structural" determinants.⁸⁶ The comparison will therefore be divided into two parts: (i) comparison of selected "determinants," and (ii) comparison of both economic and socio-economic "performance."

⁸⁴ The term 4-Tigers and EA-NIEs or EA-NICs are used interchangeably here.

⁸⁵ In 1985, many analysts predicted that Malaysia would become the "fifth tiger." But lately Thailand has become the analysts' favorite in the NIC stakes.

⁸⁶ Policy determinants are affected by decision-makers whereas structural determinants are natural and are often a product of circumstances though in the long-run they are affected by policies. An example of policy determinants is public investment in human capital. The more skilled the labor the higher their productivity (disregarding other factors). An example of structural determinants is the size and/or the growth of the labor force which is natural even though in the long-run it may be affected by family planning programs.

6.3 A GLANCE AT BASIC INDICATORS

TABLE 6.1
BASIC INDICATORS FOR SELECTED COUNTRIES, 1965-85

Countries	Population		GNP per capita		Average annual rate of inflation (%)		Total GDP 1985 (US\$bn)	Total exports as % of GDP 1985
	1985 Total (mn.)	Per thousand hectares ^a	1985 Total (US\$)	Avg. annual growth (%) 1965-85	1965-80	1980-85		
Indonesia	162.2	985	530	4.8	34.3	10.7	86.5	23
Philippines	54.7	2001	580	2.3	11.8	19.3	32.6	22
Thailand	51.7	1071	800	4.0	6.8	3.2	38.2	27
Malaysia	15.6	516	2000	4.4	4.9	3.1	31.3	55
S. Korea	41.1	4366	2150	6.6	18.7	6.0	86.2	36
Hong Kong	5.4	na	6230	6.1	8.1	7.9	30.7	106
Singapore	2.6	46895	7420	7.6	4.8	3.1	17.5	na
Japan	120.8	3275	11300	4.7	7.5	1.2	1327.9	15
U.S.	239.3	270	16690	1.7	6.1	5.3	3946.6	7

Sources: WB, WDR 1987. Data noted under ^a: World Research Institute, *World Resources 1988-89*, p.265.

6.4 COMPARISON OF "DETERMINANTS"

We have identified six "determinants" which we consider important to our discussion. They are:

(I) the size and the growth of labor force, (II) investment in human capital, (III) investment in physical capital, (IV) the ability to stimulate and to finance growth, (V) trade orientation, and (VI) the socio-political factors and the degree of government intervention.

The relevance of determinants I, II, and III needs no elaboration except a note that their impacts may only be measured in the long run. We view determinant IV, the ability to stimulate and to finance growth, as critical in the short run because economic growth is, to some extent, dependent upon the "leverage" with which the actors of production, including the public sector, can effectively speed up the growth process. For example, a government with a huge budget deficit no longer will be in a comfortable position to pursue an expansionary fiscal policy in order to stimulate growth. Similarly growth potential will be foregone if firms lack investible funds while the government fails to attract foreign direct investments. As for determinant V, trade orientation; based on the EA-NIEs' experience, it has been suggested that a strongly outward-oriented economy may achieve a high growth rate. Determinant VI, the socio-political factors and the degree of government intervention, needs an equal emphasis as do the others because economic growth is not a testament to business acumen and entrepreneurship of the private sector alone. The entrepreneurship is inculcated,

motivated and stimulated either by the government or by private institutions or both. The private sector usually acts within the limits set by the government. In other cases, the private sector is "let alone" to spearhead the running of the economy without or with little control (such as in Hong Kong). The socio-political factors influence the type of regimes which sit at the top of the power structure and also the type and degree of its intervention. The intervention itself is a signal which may override market signals. This is especially true in a country ruled by an authoritarian regime where it may pursue, for example, an export-targeting program (by forcing firms to meet certain targets) in selected industries regardless of whether the economy has a comparative advantage in the industries.

6.4.1 DETERMINANT I: LABOR FORCE

An abundant and inexpensive labor force has been noted by many as one of the contributing factors to the rise of the NIEs as inexpensive producers of manufactures. But this condition was apparent only during the early phase of that rise when the labor market was not yet rigid. But, we have been unable to compile comparable data on relative wage rates for all countries concerned. As a short cut, in table 6.2 we attempt to draw a parallel in periods between Malaysia and the NIEs based on the growth rates of labor force. Our assumption is that a labor force tends to be "abundant" and wages are likely to be inexpensive when there is a high rate of growth in the labor force.

TABLE 6.2
AVERAGE ANNUAL GROWTH RATE OF LABOR FORCE, %

Period	ASEAN-4				EA-NIEs			DCs	
	MA	TH	IN	PH	KO	HK	SI	JA	US
I 1965-1980	3.4	2.8	2.1	2.5	2.8	3.9	4.2	1.0	2.2
II 1980-1985	2.9	2.5	2.4	2.5	2.7	2.5	1.9	0.9	1.2
III 1985-2000 ^p	2.6	1.7	2.2	2.4	1.9	1.4	0.8	0.5	0.8
II minus I	-0.5	-0.3	0.3	0.0	-0.1	-1.4	-2.3	-0.1	-1.0
III minus II	-0.3	-0.8	-0.2	-0.1	-0.8	-1.1	-1.1	-0.4	-0.4
III minus I	-0.8	-1.1	0.1	-0.1	-0.9	-2.5	-3.4	-0.5	-1.4

HK = Hong Kong, IN = Indonesia, JA = Japan, KO = South Korea, MA = Malaysia, PH = Philippines, SI = Singapore, US = United States, DCs = Developed countries. p = projection

Source: WB, *WDR 1988*, table 31.

Table 6.2 shows that during period I (1965-1980), the EA-NIEs excluding Korea had relatively high growth rates of the labor force. Malaysia's rate was also relatively high. But the abundance of natural resources such as tin and the comparatively strong rubber and palm oil sectors might have delayed Malaysia from shifting to labor intensive manufacturing.

During period II (1980-1985) the rate in each country, except Indonesia, was lower than during the previous period. The decrease was more pronounced in Singapore and Hong Kong.

The projection to period III (1985-2000) yields a greater decline in the NIEs excluding Korea (based on a comparison between "III minus I" and "III minus II"). The biggest decrease is expected to occur in Singapore. It is no surprise that her comparative advantage in labor-intensive manufacturing has weakened. There has been a shift toward capital- and/or technology-intensive industries as the country's manufacturing wage rate is among the highest in Asia. For instance, the growth rates of manufacturing earnings per employee between 1980 and 1986 was 8.8% in Singapore compared to 5.8% in Korea, 5.4% in Malaysia, and 2.6% in Hong Kong. Alternatively, based on an index of 1980 = 100, Singapore's index stood at 165 compared to 138, 131, and 115, respectively for the latter three economies (WDR 1989, table 7).

For Malaysia, there has been a tendency towards changing its area of comparative advantage to skilled-labor and capital-intensive industries. This has happened for three reasons. The first one is readily seen from table 6.2, namely the decline of growth in labor force which might have pushed wage rates upward. In addition, the decline occurs to a small labor force (see item "a" in the next table). The second reason that Malaysian wages are already high by an Asian standard because the country has a relatively high standard of living (eg., 1985 GNP per capita was \$2000 compared with \$800 for Thailand). The third reason is associated with the "vigorous" investments by the Malaysian government in human capital. The government has been sending students and public officials overseas for training. The approximately 72,000 Malaysians seeking degrees or diplomas at all levels abroad as of 1987 may well be one of the largest international student contingents in

the world.⁸⁷ In fact, after launching the Look East Policy, the move towards skilled-labor and capital-intensive industries, as discussed in earlier in chapter 5, was on the way.

Table 6.3 indicates two of the features which distinguish the EA-NIEs from the ASEAN-4. First, the percentage of working age population is higher in the NIEs. This means that the dependency ratio is lower in the NIEs. Second, the percentage of labor force in the industrial sector is much higher in the EA-NIEs than in the ASEAN-4.

TABLE 6.3
CHARACTERISTICS OF LABOR FORCE

	ASEAN-4				EA-NIEs			DCs	
	MA	TH	IN	PH	KO	HK	SI	JA	US
a) Labor force (10 years & over), 1985 (mn.)	6.0	26.8	63.8	21.2	15.6	2.6	1.2	57.3	na
b) Working age population (15-64 years) as a % of total population, 1985	59	59	56	56	64	68	67	68	66
c) % of 1980 labor force in:									
agriculture	42	71	57	52	36	2	2	11	4
industry	19	10	13	16	27	51	38	34	31
services	39	19	30	33	37	47	61	55	66
d) Population, 1985 (mn.)	15.6	51.7	162.2	54.7	41.1	5.4	2.6	120.8	239.3

See table 6.2 for country abbreviation, na = not available.

Sources: Item a: Asian Development Bank (ADB), Key Indicators (July 1988) except for Japan: Far Eastern Economic Review Asia Yearbook 1985, p. 6.

Items b and c: WB, WDR 1988, table 31.

Item d: WDR 1987, table 1.

As a summary, the EA-NIEs' success (attained mainly through exports of inexpensive manufactures) may be explained by their large industrial work force and the large percentage of population economically active. But the success has its cost, namely that of rising wages.

6.4.2 DETERMINANT II: INVESTMENTS IN HUMAN CAPITAL

We consider that education is an important ingredient for the economic and social progress of a nation.

We will look at data on school enrollment in table 6.4.

⁸⁷ The number of Malaysians studying abroad increased by 97% from 36,900 in 1978 to 72,700 in 1987 (or at an average of 12% per annum). The biggest numbers were in the U.S., followed by Australia, the U.K., Canada, and New Zealand. In 1987, with a total of 23,300, Malaysian students formed the second largest group of foreign students in the U.S., behind the Taiwanese group at 23,800. The numbers going to Japan and South Korea have increased significantly under the Look East Policy. According to the Fifth Malaysia Plan, the large number of overseas students resulted in an outflow of M\$1,200 million annually (US\$461.5 million at US\$ = M\$2.60) in foreign exchange.

TABLE 6.4
SCHOOL ENROLLMENT AS PERCENTAGE OF AGE GROUP, 1965 and 1986

	Primary		Secondary		Tertiary	
	1965	1986	1965	1986	1965	1986
S. Korea	101	94 (7)	35	95 (1)	6	33 (2)
Singapore	105	115 (2)	45	71 (2)	10	12 ^a (5)
Hong Kong	103	105 (4)	29	69 (3)	5	13 (4)
Philippines	113	106 (3)	41	68 (4)	19	38 (1)
Malaysia	90	101 (5)	28	54 (5)	2	6 (7)
Indonesia	72	118 (1)	12	41 (6)	1	7 (6)
Thailand	78	99 (6)	14	29 (7)	2	20 (3)
All middle-income econ.	93	104	26	54	6	18
Japan	100	102	82	96	13	29
United States	na	102	na	100	40	59

^a In 1985 (WDR 1988), na = not available
Figures in parentheses are rankings for 1986 only
Source: WB, WDR 1989.

Primary school enrollment was reasonably high in all countries as of 1986. Thus it may not be an explanation for the divergence of economic performance between the EA-NIEs and the ASEAN-4. However, in 1965, except for the Philippines, the primary enrollment was higher in the former than in the latter.

Perhaps the secondary school enrollment better reflects the NIEs' headway in human development as shown by the ranking for 1986. The ranking (which excludes Japan and the U.S.) shows that Malaysia is ranked behind the NIEs and the Philippines. We are curious about the high percentages in the latter.

In the tertiary category, it is ironic to see that the Philippines and Thailand are ranked ahead of Singapore or Hong Kong. According to the authors' own observation (as a regular visitor to Thailand, and less frequent visits to Singapore) this is unlikely. This raises the question of whether quality or quantity that best characterizes Thai and Philippine higher education.⁸⁸

One can make a case that the lower the tertiary enrollment, the more competitive is the education system. For example, take Singapore which has one of the best primary and secondary enrollments, but its tertiary enrollment is lower than that of Thailand or the Philippines. The author has not found any support

⁸⁸ I have long been skeptical about the quality of higher education in the Philippines. Recently there was an article that supports my view. The front page of the July 6th, 1989, issue of the *Far Eastern Economic Review* reads "Philippine Education: Degree Business." The cover story is written by R. Tiglao (presumably a Filipino by name) et al. with the heading that reads "Quantity not Quality Characterizes Philippine Education."

for a skeptical view about the quality of Thai higher education as he does with the Philippine case. But consider the following: Malaysia was ranked ahead of Thailand in primary enrollment for both years. For the 1965 secondary enrollment, Malaysia's rate was twice that of Thailand (28% versus 14%). In 1986, Malaysia's rate was more than one-and-a-half times higher than that of Thailand (54% versus 29%). But Malaysia's 1986 tertiary enrollment (7%) was much lower than Thailand's 20%. Perhaps Malaysia's education system, in which advancement from a lower to upper secondary school is not automatic (see footnote 91), is more competitive than Thailand's. We also suspect that there are inconsistencies in the enrollment data.⁸⁹

One can also make a case that a low secondary or tertiary enrollment may reflect the lack of post-primary schools in a country. But a quick look at data from the UN (1989) indicates that as of 1986 the number of tertiary education institutions in Malaysia outnumbered that in Thailand (54 versus 30). Thus a low tertiary enrollment may not necessarily mean the lack of tertiary education facilities. Perhaps government expenditure on education will better reflect the educational effort. This is examined in table 6.5.

TABLE 6.5
CENTRAL GOVERNMENT EXPENDITURE ON EDUCATION

	As % of Total Govt. Expenditure		As % of GNP ^c	
	1977 ^a	1986 ^b	1975	1986
S. Korea	16.8 (3)	18.1 (4)	2.2 (5)	4.5 (2)
Singapore	14.5 (4)	21.6 (1)	2.9 (3)	¹⁹⁸² 4.3 (3)
Malaysia	23.6 (1)	17.4 (5)	6.0 (1)	7.8 (1)
Thailand	22.5 (2)	19.5 (3)	3.6 (2)	¹⁹⁸⁵ 3.9 (4)
Philippines	13.3 (5)	¹⁹⁸⁵ 20.1 (2)	1.9 (6)	1.7 (6)
Indonesia	10.2 (6)	8.5 (6)	2.7 (4)	¹⁹⁸¹ 2.0 (5)
Japan	¹⁹⁷⁵ 22.4	¹⁹⁸¹ 17.9	5.5	¹⁹⁸¹ 5.1
United States	3.1	1.7	na	na

Figures in parentheses are rankings. Figures noted in superscripts to the left of corresponding data indicate the year for the data. Sources: a = all except Japan: IMF, Government Finance Statistics Yearbook 1985. For Japan: UN, UNESCO Statistical Yearbook 1984.

b = all except Japan and Malaysia: World Bank, WDR 1988. For Japan: UNESCO Statistical Yearbook 1988.

For Malaysia: calculated from ADB, Key Indicators (July, 1989).

c = UN, UNESCO Statistical Yearbook 1984 and 1988.

⁸⁹ Data on school enrollments should be interpreted cautiously for various reasons. First, while many countries consider primary school age as 6 to 11 years, others do not. Second, while in some countries the advancement from one level to another is automatic, it is not the case in other countries. For example in Malaysia, students have to pass national standardized examinations at ages 15, 17, and 19 in order to continue studies in publicly funded schools. (Note: In other countries, a son attending a private school is a mother's pride. But it is the opposite in Malaysia because private schools are for those who fail the standardized exams).

Table 6.5 shows government expenditure on education as percentage of total is about the same in all countries except Indonesia. As a percentage of GNP, this expenditure is found to be the highest in Malaysia (both for 1975 and 1986); not in the EA-NIEs nor in Japan which, unlike Malaysia, are often cited in Western mass media for their strong emphasis on education. One conclusion can be drawn from tables 6.4 and 6.5 is that there is little distinction between the EA-NIEs and the ASEAN-4 in terms of educational effort. The implication is that educational effort may not be an explanation for the divergence in the economic performance between the NIEs and ASEAN-4. Therefore we will examine another indicator in table 6.6.

TABLE 6.6
NUMBER OF SCIENTISTS AND ENGINEERS

	Latest Data (Year)	Stock		Engaged in R & D	
		Total	Per Million People	Total	Per Million People
Hong Kong	1986	145,523	25,775	na	na
Singapore	1984	38,259 ₁₉₈₀	5,842	3,760	949
S. Korea	1986	94,171 ₁₉₈₁	2,426	77,507	1,120
Philippines	1982	1,758,614 ₁₉₈₀	36,397	8,496	117
Malaysia	1983	26,000 ₁₉₈₂	1,796	2,697	182
Indonesia	1986	193,262 ₁₉₈₀	1,280	29,621	175
Thailand	1975	20,288	490	na	na
Japan	1986	7,046,000 ₁₉₈₂	59,636	677,153	4,743

Source: UN, *UNESCO Statistical Yearbook 1988*, tables 5.3 and 5.18.

Table 6.6 shows that the NIEs have relatively bigger stocks of scientists and engineers than do the ASEAN-4 except the Philippines. This raises further skepticism about the quality of Philippine higher education. The last column, in any case suggests that the number who engaged in R & D per million people is lower in the Philippines than in Malaysia. Korea, which is perhaps the most dynamic economically, stands out from the rest and has the largest percentage of scientists and engineers engaged in R & D after that of Japan. One conclusion here is that the success of the NIEs may be better explained by the large numbers of scientists and engineers (who actually put their expertise into practice) than by the generally measured educational effort.

But a more thorough analysis would be required if we were to measure the significance of their contributions to industrialization.⁹⁰

6.4.3 DETERMINANT III: INVESTMENT IN PHYSICAL CAPITAL

Table 6.7 shows that Singapore and Hong Kong began with high percentages of capital stock relative to GDP during 1970-75. A possible explanation for this is that the capital stock was the remnant of investments by the British which could be large relative to the size of the economies of the city-states. The growth rate of capital stock was also high in Singapore and Hong Kong.

TABLE 6.7
COMPARISON OF CAPITAL STOCK AND DOMESTIC INVESTMENT

	ASEAN-4				EA-NIEs				DC
	MA	TH	IN	PH	TW	KO	HK	SI	JA
CAPITAL STOCK^a									
a. As a % of GDP									
avg. for 1970-75	46.9	47.6	34.0	33.0	30.7	26.2	64.0	54.9	77.0
avg. for 1975-80	48.1	51.2	44.5	43.2	32.2	48.6	48.0	50.2	32.7
b. Annual growth, %									
avg. for 1970-75	8.5	7.1	6.5	5.0	5.0	5.9	12.8	10.5	12.0
avg. for 1975-80	8.7	8.1	8.4	6.8	6.2	9.7	15.2	8.8	6.7
GROSS DOMESTIC INVESTMENT^b									
a. As a % of GDP									
in 1970 ^c	22	26	14	21	na	25	21	39	39
in 1980	29	27	22	30	na	31	29	43	32
b. Annual growth, %									
avg. for 1970-80	10.3	7.7	14.4	10.5	na	13.4	12.7	6.7	3.2

avg. = average, GDP = Gross domestic product, TW = Taiwan (other countries see table 7.3), na = not available.

Sources: a = Yukio Ikemoto, "Technical Progress and Level of Technology in Asian Countries, 1970-80," in *The Developing Economies*, XXIV, Dec., 1986: 376 & 374, respectively.

b (except noted with c) = WB, *WDR 1982*, tables 5 and 4, respectively.

c = UNCTAD, *Handbook of International Trade and Development Statistics [HITDS] 1988*.

During 1975-80, the percentage shares of capital stock in GDP of Singapore and Hong Kong shrank to a level about equal to those of Malaysia, Thailand, and Korea which, on the other hand, had increased. The growth rate also decreased in Singapore while it increased in other countries except Japan. The similarity between Hong Kong and Singapore may be explained by the typical development of a city-state which is located in a strategic place for commerce and finance, namely by the increasing importance of the service sector. Notice

⁹⁰ Alice Amsden (1989), in *Asia's Next Giant* (p. 9) points out "salaried engineers" as the key figure in the "shopfloor management" of Korean industrialization because they are "the gatekeepers of foreign technology transfers."

also that the biggest increase between 1970-75 and 1975-80 in the percentage share of capital stock in GDP was in Korea. This is not surprising because President Park, the architect of the Korean economic miracle, had opted for capital-intensive and heavy industries as the "launching pad" for industrialization.⁹¹

In terms of the share of gross domestic investment (GDI) in GDP, Singapore stood out from others. But the annual growth of GDI was the highest in Korea (thus supporting our story earlier about large investment in heavy industries) and in Indonesia (largely because of petro-chemicals).

As a conclusion, though the NIEs' success can be attributed to exports of inexpensive manufactures, they differ regarding the path to industrialization. Korea pushed into heavy industries whereas Hong Kong and Singapore stressed the development of their financial sector. Other than that, we see little differences between the NIEs and ASEAN-4. For instance, in Malaysia, the share of GDI in GDP and the growth rate of GDI were as high as in Korea.

One policy implication is that industrialization may successfully be pursued without regard to today's short-run comparative advantage, but instead, with concern for the **long-run** advantage with an understanding that being disadvantaged today is a "pre-condition" for success tomorrow. That seems to be the case with Korea which had a transient recession in 1980. It was alleged by many that this was a result of weighty and premature indulgence in heavy industries.⁹² The above proposition to push into heavy industries as a "launching pad" for industrialization will however remain only a theory until we can actually prove that was the case for Korean economic success.⁹³

⁹¹ What is meant by the "launching pad" is that in order for a country to have rapid industrialization, its economy must first break the inertia (which inhibits industrial development and thus confining industrial development largely to small-scale and traditional industries). This is to say that in order for industrialization to reach a high plateau, there needs to be a big push into capital-intensive and heavy industries. Thus, one can make a case that had President Park not pushed Korea (with heavy investments) into the chemicals, automobile, and ship-building industries as early as the mid-1960s, Hyundai, for example, would not be able to turn out world-class tankers as early as 1973, and the conglomerate (which initially was a textile company) would not have become a giant today that manufactures automobiles, electronics, and is also a world-class construction company.

⁹² Following the assassination of President Park in 1979, Korea faced a severe recession in 1980. The GDP growth rate shrank in real terms from 7.4% in 1979 to negative 3% in 1980, the worst recession in East Asia prior to 1984 (when the Philippine economy shrank to -6%). Critics of President Park blamed the recession on what they alleged as the premature heavy industrialization.

⁹³ This can be a good research subject for future endeavors in order to answer the following questions: whether Prime Minister Mahathir's push into heavy industry in the early 1980s was in fact following that of President Park in the late 1960s? (The prime minister was the one who urged Malaysians to look to Korea). Was the idea "if we do not start now, so when will we?" behind the decision to go into heavy industries (as discussed above when we mentioned the word "pre-condition")? Was the Malaysian recession of 1985-86 a parallel to that of the Korean recession of 1980? What will be the future for Malaysia with the heavy industries already in place?

6.4.4 DETERMINANT IV: THE ABILITY TO FINANCE AND/OR TO STIMULATE GROWTH

Growth can be financed through domestic saving, foreign direct investments and foreign debt. It can be stimulated through domestic expenditures in which the government can have a major role.

It has been suggested by many that high saving rates are one of the factors for the success of the NIEs. But table 6.8 shows that it was not until sometime between 1980 and 1985 that a distinction could be made between the ASEAN-4 and the NIEs, except for Singapore which, since 1975, has maintained a high ratio of domestic savings to GDP. Many authors seem to overlook the fact that Malaysia has one of the highest saving ratios in the world. Among the countries reported by the World Bank, in 1985 Malaysia's ratio (at 33% of GDP) can be ranked at number three behind Oman (at 43%) and Singapore (at 42%). In 1986, the Malaysian rate (at 32%) can be ranked at number two behind Yugoslavia and Singapore (both at 40%).

It seems that Malaysia was attractive for investment. In 1970 foreign direct investment (FDI) in Malaysia which netted about the same amount as that in Singapore was the highest among the receiving countries in table 6.8. The year 1980 saw a divergence between the large amounts of FDI attracted each by Singapore and Malaysia compared to those by other ASEAN-4 and Korea. During that year Malaysia lured nearly five times the amount of FDI as did Thailand, and the amount accounted for 3.9% of GDP. 1985-86 recession, in 1987, this percentage declined to 1.8%, but within this group of seven countries it was second only to that of Singapore (at 3.4%). This indicates Malaysia's success in luring foreign investors⁹⁴ and curbing capital flight which, as reflected in table 6.8, seems to have occurred mostly in the Philippines. But more recently, in 1988 and 1989 Thailand became an investors' favorite, and the Kingdom attracted much larger amounts of FDI than Malaysia. As shown in table 6.8 and in table 8.4 (in chapter 8), in 1988 Thailand attracted FDI totaling more than eight times the amount attracted by Malaysia. Huge investments fueled the

⁹⁴ As noted by Rhee, Y. W. (1984:68) in A Framework for Export Policy and Administration: Lessons from the East Asian Experience, "Malaysia's successful inducement of foreign direct investments into its export industries has been achieved through its policy of promoting free trade zones." However, in order to counter any argument that may come up against my assertion that Malaysia is relatively less known - such as "why Malaysia has successfully attracted foreign investors despite being relatively unknown?" - it is important to note that most foreign investment did not come from the West but from Japan, Singapore, and more recently from Taiwan. The last two years, however, witnessed a "sudden" influx of American investment especially in the electronics industry.

robust growth of Thailand in recent years and that growth momentum, expected to extend the boom for several years to come, constitutes what will be termed the "Thai phenomenon" in chapter 8.

TABLE 6.8
ABILITY TO FINANCE AND/OR TO STIMULATE GROWTH

	ASEAN-4				EA-NIEs			DCs	
	MA	TH	IN	PH	KO	HK	SI	JA	US
Grs. Dom. Savings as									
% of GDP, 1965	24	19	8	21	8	29	10	28	18
1975 ^a	24	21	21	24	18	25	29	na	na
1980 ^a	38	21	29	25	23	31	38	31 ^c	17 ^c
1985 ^a	33	21	32	13	31	27	42	32	16
1986	32	25	24	19	35	27	40	32	15
1987	37	26	29	16	38	31	40	34	13
Net Foreign Direct Investment[*]									
US\$ mn. 1970	94	43	83	-29	66	na	93	-260	-6130
US\$ mn. 1980	928	186	184	40	-5	na	1454	-2121	-7757
US\$ mn. 1985	685	160	271	-14	200	na	1076	-5810	-900
US\$ mn. 1986	528	262	258	127	325	282 ^w	582	-14250	-3000
US\$ mn. 1987	575	270	425	186	418	282	982	-18330	-2470
as % of 1987 GDP ^c	1.8	0.6	0.6	0.5	0.3	0.8	4.9	-0.8	-0.1
US\$ mn. 1988 ^r	768	6225	4426	171	na	na	na	na	na
Total Long-Term Debt Service as a									
% of 1970 GNP	2.0	2.5	1.7	4.3	3.2	na	4.0	np	np
% of 1985 GNP	16.9	7.0	6.1	4.9	8.6	na	na	np	np
% of 1987 GNP	14.3	6.2	9.8	6.9	13.0	np	4.3	np	np
% of 1970 Exports	4.5	14.0	13.9	23.0	20.4	na	3.9	np	np
% of 1985 Exports	27.5	25.4	25.1	19.5	21.5	na	na	np	np
% of 1987 Exports	20.0	20.6	33.2	25.7	27.5	np	2.4	np	np
Public Long-Term Debt Service as a									
% of 1970 GNP	1.7	0.6	0.9	1.4	3.0	na	0.7	np	np
% of 1987 GNP	10.2	4.1	8.2	6.2	10.4	np	2.4	np	np
% of 1970 Exports	3.8	3.3	7.0	7.5	19.5	na	0.6	np	np
% of 1987 Exports	14.3	13.6	27.8	23.2	21.9	np	1.4	np	np
Current Account Balance (US\$mn.)									
1970	8	-250	-310	-48	-623	225	-572	1980	2320
1980	-470	-2280	2872	-2046	-5326	na	-1577	-10737	3722
1985 ^b	-613	-1537	-1923	-18	-887	na	-4	49170	-115160
1986 ^b	52	247	-3911	971	4617	na	542	85830	-138500
1987 ^b	2572	-365	-2098	-498	9854	na	553	87000	-143080
1988 ^b	1884	-1671	-1189	-373	14161	na	1660	79590	-126190

Net foreign direct investment is the total amount of investments by foreigners minus total amount of investments made by the citizens of the country abroad. Exports include services. Total long term debt is total of private and public debts.
na = not available, np = not applicable, w = World Bank estimate.

Sources: All 1965, 1970, 1987 data except with notes: WB, WDR 1989, (c = calculated).

All 1980, 1985, and 1986 data except with notes: WD, WDR 1982, WDR 1987, and WDR 1988, respectively.

a = ADB, Key Indicators (July 1988).

b = IMF, International Finance Statistics (IFS), Sept. 1989.

r = reproduced from table 8.4 in chapter 8.

Debt became a major concern in Malaysia in 1985 when, as shown in table 6.8, the long term total debt service reached 16.9% of GDP or 27.5% of exports--the highest among the countries shown in the table. During the same year public debt service was 13.7% of GDP or 22.3% of exports (neither are shown the table). In the past Malaysia had had one the lowest debt service ratios, lower than that of Korea which had/has been often cited for financing industrialization with high debts. But as result of strong exports, Korea has been able to repay its debts, and it has become a sought-after investment place. It is the strongly outward trade orientation (determinant V) pursued by Korea that enables it to turn the debts into profits.

In the current-account-balance, it was not until 1986 that there was a distinction between the EA-NIEs and the ASEAN-4. If we were to compare the years from 1972 through 1988 (annual data are not shown in the table), both Korea and Singapore had had current account deficits until as recently as 1986 (except for a relatively small surplus in 1977 in Korea). Thailand also had had deficits until 1986. The Philippines and Indonesia had surpluses only in three of the seventeen years: 1972, 1973 and 1986 in the former, and 1974, 1979 and 1980 in the latter. Malaysia had deficits only in 1974 and from 1980 until the recession year of 1985.

Since there was no clear distinction between the ASEAN-4 and the NIEs in all measures in the table, we attempt to reach a conclusion by deducing the possible explanations. If all except Singapore began with comparable saving rates and attracted roughly the same amounts of FDI, and if all except Hong Kong have had roughly the same debt service ratios, and if all except Hong Kong have had a history of current account imbalance, then what is left to explain the success of the EA-NIEs is the strongly outward, export-oriented industrialization that has characterized all of the EA-NIEs. This industrialization was generally debt free in Hong Kong and to a lesser extent in Singapore. But in Korea it was financed largely by borrowed capitals.

6.4.5 DETERMINANT V: TRADE ORIENTATION⁹⁵

According to the World Bank in its World Development Report 1987, there is a positive correlation between economic growth and an outward-oriented trade policy. The EA-NIEs are characterized by a strongly outward-oriented trade policy.⁹⁶ Table 6.9 shows the classification of selected countries by trade orientation.

⁹⁵ It is useful to clarify some concepts. The terms outward-oriented, outward-looking, export-oriented, export-led, and export-promotion have proliferated in recent years.

Outward-oriented and **outward-looking** are the same. They are the broadest terms which may apply to any open economy which has a large ratio of either exports or imports to GDP. Malaysia, with an exports-GDP ratio at 55%, may fit in the category as also do Korea (36%) and Thailand (27%). Balassa and Associates (1982) classify strategies as outward-oriented depending on incentives (in terms of effective subsidies) for sales to domestic and foreign markets.

Export-oriented is "industry-specific." An industry may be considered export-oriented only if the products are produced largely for export.

Export-led growth is a term which implies a cause and effect relationship. There is a danger in using the term because exports are not the only cause of growth.

Export-promotion (based on Cordon [1980, p.529], cited by Ariff and Hill [1985, p.36]) can be defined in three degrees: first, one that is neutral in its bias as between producing for the export and domestic market (either through free trade or an equivalence in effective rate terms between export subsidies and import protection); secondly, a policy which is biased towards exports, where export subsidies exceed tariffs and quotas; and thirdly, policies which promote exports, in a partial equilibrium sense, without considering the effects of tariffs and quotas. Perhaps paradoxically, the first definition is the most commonly adopted in economic literatures. Ariff and Hill added, "export-promotion, in this context, means nothing more than the removal of distortions, such that the incentives to export and substitute for imports are equalized. (Technically, it is a trade regime in which the effective exchange rates for importable and exportable commodities are equalized)." For our discussion with regard to export-promotion, I have adopted the third definition with a view that a strategy can be regarded an export-promotion only if exports are promoted (as opposed to subsidized).

⁹⁶ Definitions based on World Bank (1987:82):

1) **Strongly outward-oriented:** Trade controls are either nonexistent or very low in the sense that any disincentives to export resulting from import barriers are more or less counterbalanced by export incentives. There is little or no use of direct controls (see comment below about Korea) and licensing arrangements. The exchange rate is maintained so that the effective exchange rates for importable and exportable are roughly equal.

Author's comment: Only Hong Kong fits in this category. Korea is known for its "managed" foreign exchange regimes with currency control until today. As quoted from Rhee (1984, p.21), "Korea's exchange rate policy since its adoption of an outward-looking strategy has been a mixture of adjustable and crawling peg policies [as opposed to free-floating rates such as in Malaysia]. Since 1980, however, the crawling peg has been firmly rooted. Korea has attempted to provide realistic exchange rates for exporters through a mixture of major devaluations and flexible adjustment...A constant real exchange rate has not been achieved..." Korea, Indonesia and the Philippines belong to the nonconvertible currency group. Malaysia along with Japan, Kuwait, Hong Kong, Saudi Arabia and Singapore are among the few Asian countries that have made their currencies fully convertible and that meet the requirements of Article VIII of the IMF Agreement. Strongly outward-oriented is a generalization. The term makes more sense in relations to the degree of export-promotion and export-dependency.

2) **Moderately outward-oriented:** The overall incentive structure is biased toward production for domestic rather than export markets. But the average rate of effective protection for the home market is relatively low and the range of effective protection rates relatively narrow. The effective exchange rate is higher for imports than for exports, but only slightly.

3) **Moderately inward-oriented:** The overall incentive structure distinctly favors production for the domestic market. The exchange rate is clearly overvalued.

4) **Strongly inward-oriented:** The overall incentive structure strongly favors production for the domestic market. The exchange rate is significantly overvalued.

TABLE 6.9
CLASSIFICATION OF SELECTED ECONOMIES BY TRADE ORIENTATION
(not a ranking)

Period	Outward oriented		Inward oriented	
	Strongly	Moderately	Moderately	Strongly
1963-73	Hong Kong S. Korea Singapore	Brazil Indonesia Côte d'Ivoire MALAYSIA Thailand	Mexico Nigeria Philippines Tunisia Yugoslavia	Argentina Chile India Sri Lanka Turkey
1973-85	Hong Kong S. Korea Singapore	Brazil Chile MALAYSIA Thailand Tunisia Turkey	Côte d'Ivoire Indonesia Mexico Philippines Sri Lanka Yugoslavia	Argentina India Nigeria

Source: Adapted from World Bank (WB), World Development Report (WDR) 1987, p.83.

6.4.6 DETERMINANT VI: THE DEGREE OF GOVERNMENT INTERVENTION

The degree of government intervention is difficult to measure precisely. But it is safe to take two countries as representing the two extremes.

When it comes to the role of government, analysts agree that making a generalization about the degree of government intervention in the EA-NICs is an imprudent thing to do. It has been recognized that at the one extreme there is Korea with an authoritarian regime (especially during the Chun era) and at the other, Hong Kong, the world's last bastion of nineteenth-century free-trading *laissez-faire* economy. Between the two extremes lie the other selected countries. The order is not clear but it has been suggested by some that Singapore is second only to Korea. Singapore is characterized by a heavily interventionist government (see Fong and Lim in Corbo et al., eds, 1985:90). Thailand, the Philippines and Indonesia may be placed after Singapore. They are characterized by heavy military involvement in the government from top to bottom. The executive power of the leaders has been directly backed by the loyal military because many of the ministers and decision makers come from the military.

Throughout Southeast Asia, Malaysia is the only country where the absence of military from politics (or "democracy based on ballots not bullets") can be found.⁹⁷ The government has been more interventionist

⁹⁷ Let it be known that as of today Singapore has two generals in its cabinet.

since the May 13, 1969, Incident. But the degree of intervention in Malaysia is relatively less than in other countries except Hong Kong.

What does the degree of intervention have to do with economic growth? There are two opposing answers, one is that it speeds up the growth process, and the other is that it is a hindrance to growth. It has been observed that the authoritarian regimes of South Korea were effective actors not only in stimulating but also in directing the private sector to perform. An industrial and export targeting system has been in place since 1962 to promote the export drive by forcing manufacturers and exporters to meet certain requirements in order to qualify for incentives. Amsden (1989) pointed out subsidies and/or incentives work in Korea because of the ability of the government to discipline big businesses through the use of performance standards. Cases where government intervention is a hindrance to growth are found in Indonesia and, in particular, in the Philippines where bureaucracy remains an obstacle to development.

6.5 OVERALL CONCLUSION ON DETERMINANTS

There are many factors contributing to the success of the EA-NIEs. But some of these factors are also present in the ASEAN-4. Therefore the factors which are absent in the latter may help explain the divergence in growth performance between the two groups of economies. Our study has found four of these factors. First, unlike the ASEAN-4, the EA-NIEs have a larger industrial work force and larger percentages of economically active population in the total (i.e, lower dependency ratios). Second, scientists and engineers (who put their expertise into practice in R & D) are an important ingredient for industrial development, of which the ASEAN-4 is lacking. Third, we found that since all of the economies attracted similar amounts of foreign direct investment and all were in the same situation regarding debts and current account balance, exports are likely to have been the most important contributor to the EA-NIEs' success. Fourth, we believe that the governments in the EA-NIEs were primary movers behind the EA-NIEs' success. The last but not the least finding is that considerations about the intensity of capital utilization and the type of industrialization (heavy and large-scale or vice versa) should be based on the long-run rather than the short-run comparative advantage. Korea in particular has shown that its allegedly "premature" push into heavy industries may have been in fact an important first step in later joining the ranks of the developed market economies.

6.6 COMPARISON OF PERFORMANCE

6.6.1 GROWTH PERFORMANCE AND INFLATION

Economic growth is meaningless to consumers if inflation is riding high. We will examine real growth rates of GDP along with inflation in tables 6.10 and 6.11.

TABLE 6.10
ANNUAL AVERAGE GROWTH RATES OF TOTAL AND PER CAPITA REAL GDP AT MARKET PRICES, %

Real Growth of Total GDP						Real Growth of Per Capita GDP			
1960-70	1970-75	1975-80	1970-87	1980-87	1987-88	1960-70	1970-75	1975-80	1980-87
HK 13.7	SI 9.8	HK 11.9	KO 8.7	KO 8.6	KO 11.0 (a)	HK 11.0	SI 7.9	HK 8.9	KO 6.8
JA 10.3	KO 9.1	SI 8.7	HK 8.6	HK 6.8	SI 11.0 (a)	JA 9.1	KO 6.9	SI 7.3	HK 4.8
SI 9.4	IN 8.5	MA 8.4	SI 8.0	TH 5.6	TH 10.0 (b)	SI 6.8	IN 5.9	KO 6.7	SI 4.2
KO 8.9	MA 7.9	KO 8.3	MA 6.9	SI 5.4	MA 8.1 (a)	KO 6.3	MA 5.3	MA 6.0	TH 3.6
TH 8.3	HK 7.2	IN 7.8	IN 6.8	MA 4.5	HK 7.4 (a)	TH 5.1	HK 4.9	IN 5.6	JA 3.1
MA 5.9	TH 6.4	TH 7.7	TH 6.6	IN 4.2	PH 6.7 (b,n)	US 3.1	TH 3.7	TH 5.2	US 2.3
PH 5.2	PH 6.2	PH 6.2	PH 5.7	JA 3.8	JA 5.7 (b,n)	MA 3.0	PH 3.6	JA 4.1	IN 2.2
US 4.4	JA 4.6	JA 5.0	JA 4.5	US 3.2	IN 4.8 (b)	PH 2.1	JA 3.2	PH 3.5	MA 2.0
IN 3.4	US 2.5	US 3.4	US 3.0	PH -0.5	US 3.9 (b,n)	IN 1.1	US 1.4	US 2.4	PH -2.8

n = Real GNP (instead of real GDP)

Sources: UNCTAD (1989), HITDS 1988 except noted with a and b

a = Knight Ridder, *Journal of Commerce* (June 14, 1989).

b = ADB, *Key Indicators* (July 1988).

Besides showing the familiar sluggish growth in a developed country (the U.S.) and a slow down of growth in the "newly" developed country (Japan), table 6.10 indicates that while one or another of the ASEAN-4 was challenging (and doing as well as) the NIEs in a 5 year time period, the NIEs outperformed each and all of the ASEAN-4 over, say, the longer period 1970-87. The difference was even more pronounced in per capita terms from 1975-80 and well into the late 1980s. Thus we may conclude that it was not until the late 1980s that the so-called "phenomenal, unparalleled" growth in the NIEs actually became evident. Recall that in 1980 Korea's annual real GDP shrank to a negative 3%, the biggest negative rate in East Asia in the 1970s.⁹⁸ It was not until 1986 that Korea regained growth rates of at least 11%. It was in that year also that Taiwan began to have double-digit growth rates following the previous 13.7% peak in 1976. Very recently, in 1988, Singapore posted a record high of 10%. But that was following a recession in 1985-86.

Table 6.11 shows that Malaysia and Singapore have maintained exceptionally low rates of inflation. This is a salient feature of the two economies which have a history of interdependence.

⁹⁸ Much credit should be given to President Park who had earlier placed Korea on a growth launch pad, resulting in real GDP riding high at 13% in 1976, 11% in 1977 and 1978. The political chaos following his assassination halted that growth momentum. It took a more authoritarian regime such as that of Chun Do-Hwan for Korea to be able to surge from deep negative growth and to match the 11% registered during the Park era.

TABLE 6.11
GROWTH RATES OF THE CONSUMER PRICE INDEX

Average Annual Growth Rates of Consumer Price Index (%)					% Change Over Corresponding Period of Previous Year			
1960-70 ^a	1970-75 ^b	1975-80 ^c	1970-80 ^b	1980-87 ^e	1985 ^d	1986 ^d	1987 ^d	1988 ^d
KO 17.4	IN 19.6	KO 18.7	IN 17.5	PH 16.2	PH 23.1	IN 5.8	IN 9.3	PH 8.8
IN na	PH 17.0	IN 15.7 ^e	KO 16.2	IN 9.1 ^g	IN 4.7	HK 3.2	HK 5.3	IN 8.0
PH 5.8	KO 15.3	PH 11.1	PH 14.6	KO 8.9	US 3.6	KO 2.8	PH 3.8	HK 7.4
JA 4.9	JA 11.4	HK 10.9 ^f	TH 9.7	HK 8.9	HK 3.4	US 1.9	US 3.7	KO 7.1
US 2.8	TH 9.8	TH 9.1	JA 9.0	TH 6.1	KO 2.5	TH 1.8	KO 3.0	US 4.0
HK 2.4	SI 9.3	US 9.0	HK 8.6	US 5.9	TH 2.4	PH 0.8	TH 2.5	TH 3.9
TH 1.8	HK 8.8	JA 7.5	US 7.8	MA 3.9 ^h	JA 2.0	MA 0.7	MA 0.9	MA 2.0
SI 1.1	MA 7.3	MA 4.5	SI 6.5	JA 3.2 ^h	SI 0.5	JA 0.6	JA na	SI 1.5
MA -0.3	US 6.8	SI 3.5	MA 5.9	SI 3.0	MA 0.3	SI -1.4	SI 0.5	JA 0.7

g = 1981-87, h = 1980-86

Sources: a = WB, WDR 1982, table 1.

b = UNCTAD, HITDS 1988

c = calculated from IMF, IFS (Feb. 1980 and Nov. 1983)

d = IMF, IFS (Aug. 1989)

e = 1975-79 (not 1975-80); ADB, Key Indicators (July 1988)

f = calculated based on the 1975-79 average from Key Indicators (July 1988) the 1980 data from IFS, Nov. 1983.

Based on WDR 1989, inflation (which is measured by the growth rate of the GDP implicit deflator) averaged at 4.9% in each economy during 1965-80 compared to 129.9% in Chile, 34.2% in Indonesia, 18.8% in Korea, 11.7% in the Philippines, 8.1% in Hong Kong and 6.3% in Thailand. During 1980-87 the average was 1.1% in Malaysia and 1.3% in Singapore, in contrast with 16.7% in the Philippines, 8.5% in Indonesia, 6.7% in Hong Kong, 5.0% in Korea and 2.8% in Thailand.

6.6.2 SECTORAL PERFORMANCE

Our focus is on industrialization. In table 6.12 the ranking according to the 1974-87 growth rates in the industrial sector and the manufacturing sub-sector put Malaysia in fourth rank among the seven countries.

TABLE 6.12
RANKING BY SHARE OF MAJOR SECTORS IN REAL GDP AND THEIR ANNUAL GROWTH RATES, %

Share in Real GDP, 1986				Growth Rate, 1974-87 (simple average)			
Agric	Services	Industry	(Mfg)	Agric	Services	Industry	(Mfg)
PH 30	SI 64	TW 52	TW (43)	MA 3.7	TW 7.8	KO 12.0	KO (12.5)
IN 24	TH 48	KO 45	KO (32)	IN 3.6 ^a	KO 7.6	TW 9.2	IN (11.5) ^a
TH 22	TW 43	MA 38	SI (25)	PH 3.4	IN 7.5 ^a	TH 7.8	TW (9.5)
MA 21	KO 42	IN 37	PH (24)	TH 3.2	SI 7.1	MA 7.4	MA (8.5)
KO 13	MA 41	SI 36	MA (22)	KO 2.8	TH 6.8	IN 7.2 ^a	TH (7.8)
TW 6	PH 40	PH 31	TH (21)	TW 1.4	MA 6.3	SI 6.4	SI (6.6)
SI 1	IN 39	TH 30	IN (14)	SI-1.5	PH 3.5	PH 3.2	PH (2.8)

a = 1974-86, Agric = Agriculture, Mfg = Manufacturing.

Because manufacturing is generally the most dynamic part of the industrial sector, it is shown separately in parentheses.

Source: ADB, Key Indicators (July 1988), tables 6 and 8.

Malaysia and Thailand seem to be neck and neck both in the industrial sector and the manufacturing sub-sector. However, in Malaysia both manufacturing and total industry comprise a somewhat larger part of GDP than in Thailand. The ranking according to the 1986 share of the industrial sector in GDP places Malaysia at number three behind the large NIEs (Taiwan and Korea) and ahead of other countries.

6.6.3 STRUCTURAL CHANGE AND INDUSTRIALIZATION

We will examine structural change in two major areas which we consider important. They are sectoral share in GDP and changes in export structure.

6.6.3.A SECTORAL SHARE IN GDP

In table 6.13 the share of the industrial sector increases in all countries except Singapore and the Philippines. The percentage point change for Malaysia was second only to that of Korea.

Countries which have experienced an increase in the share of the industrial sector can be placed into two subgroups. One is with an accompanying increase in the share of services (Thailand and Indonesia), and one with a declining service share (Malaysia, Korea, and Taiwan).

TABLE 6.13
STRUCTURAL CHANGE IN THE SHARES OF MAJOR SECTORS IN GDP, 1975-1986, %

<u>Malaysia</u>					<u>South Korea</u>				
	<u>Agri</u>	<u>Serv</u>	<u>Indu</u>	<u>(Mfg)</u>		<u>Agri</u>	<u>Serv</u>	<u>Indu</u>	<u>(Mfg)</u>
1975	27.7	45.5	26.8	(16.4)	1975	24.1	43.5	32.5	(22.5)
1986	21.4	40.7	37.9	(22.0)	1986	13.3	41.5	45.2	(32.3)
Change	-6.3	-4.8	11.1	(5.6)	Change	-10.8	-2.0	12.7	(9.8)
<u>Thailand</u>					<u>Taiwan</u>				
	<u>Agri</u>	<u>Serv</u>	<u>Indu</u>	<u>(Mfg)</u>		<u>Agri</u>	<u>Serv</u>	<u>Indu</u>	<u>(Mfg)</u>
1975	30.5	44.5	25.0	(18.1)	1975	11.4	43.8	44.8	(34.6)
1986	22.3	47.9	29.8	(21.2)	1986	5.5	42.9	51.6	(42.8)
Change	-8.2	3.4	4.8	(3.1)	Change	-5.9	-0.9	6.8	(8.2)
<u>Indonesia</u>					<u>Singapore</u>				
	<u>Agri</u>	<u>Serv</u>	<u>Indu</u>	<u>(Mfg)</u>		<u>Agri</u>	<u>Serv</u>	<u>Indu</u>	<u>(Mfg)</u>
1975	36.8	35.9	27.3	(11.1)	1975	1.5	61.8	36.8	(25.7)
1986	23.9	38.7	37.4	(13.5)	1986	0.7	63.7	35.7	(25.1)
Change	-12.9	2.8	10.1	(2.4)	Change	-0.8	1.9	-1.1	(-0.6)
<u>Philippines</u>									
	<u>Agri</u>	<u>Serv</u>	<u>Indu</u>	<u>(Mfg)</u>					
1975	26.8	39.1	34.1	(25.3)					
1986	29.8	39.1	31.1	(23.8)					
Change	3.0	0.0	-3.0	(-1.5)					

Change = percentage point change.

Source: Asian Development Bank, Key Indicators (July 1988)

Without inspecting detailed data on services, we presume that the increase in the share of services in Thailand and Indonesia may have to do with tourism as Bangkok and Bali are favorite tourist destinations in Southeast Asia. Even in America today, Bali a small island is better known than Malaysia or Kuala Lumpur. Another possible explanation has to do with faster growth of labor force than of the modern sector. This results in increase in informal service sector jobs.

Singapore and the Philippines, the two countries which have had a decrease in the share of industrial sector are the opposite of each other. Singapore with no or little agriculture has relied instead on its industrial sector. The location of Singapore along with the rising manufacturing wage, has turned Singapore into a financial center and service economy. In the Philippines the decline of its industrial sector from a relatively large base is reciprocated by an increase in agriculture.

6.6.3.B EXPORT STRUCTURE

Table 6.14 shows structural change in exports between 1975 and 1986 based on broad groupings of the SITC. The share of agricultural exports in the export total declined in all countries except Indonesia. The share of crude materials decreased in all countries. In the case of fuels, Indonesia and Malaysia, the region's net exporters of oil, went in opposite directions. In Indonesia, the percentage of fuel exports declined whereas in Malaysia it increased substantially following the discovery of new oil reserves in the early 1980s. In Malaysia, the oil industry is expected to continue to play a major role in the economy as the more recent discovery of this "blessing" (in November, 1989, on Sarawak) will add to total oil reserves.

The share in total exports of manufactured goods (broadly defined as SITC 5 + 6 + 7 + 8) increased in all countries except Hong Kong. When each subgroup of manufactured goods are examined we find a similarity between the NIEs and two of the ASEAN-4, Malaysia and the Philippines, where the share of basic manufactures decreased while the share of machinery and transport equipment increased.

However, we should be cautious in drawing any conclusion because a narrower definition of manufactures would exclude SITC 68 (non-ferrous metals). We would have had different results for Malaysia and Thailand (the region's tin exporters) if we had used that definition. The lack of detailed SITC data yet available for 1986 has prevented us from compiling data on this preferred definition.

TABLE 6.14
COMPOSITION OF MERCHANDISE EXPORTS, 1975 and 1986, (%)

SITC:	Agric 0+1+4	CrudeMat 2	Fuels 3	Chemical 5	BscMfs 6	Mach 7	MiscMfs 8	MfdG 5+6+7+8	Uncl 9
Malaysia									
1975	23.0	35.0	10.5	0.9	17.6	6.2	5.7	30.4	1.1
1986	15.7	22.0	22.4	1.7	7.2	25.2	5.0	39.1	0.7
Change	-7.3	-13.0	11.9	0.8	-10.4	19.0	-0.7	8.7	-0.4
Thailand									
1975	60.5	15.1	0.6	0.5	14.3	1.3	3.5	19.6	4.3
1986	44.8	8.9	0.8	1.5	18.8	9.8	14.3	44.4	1.2
Change	-15.7	-6.2	0.2	1.0	4.5	8.5	10.8	24.8	-3.1
South Korea									
1975	13.1	2.8	2.2	1.3	29.4	15.0	35.8	81.5	0.2
1986	4.8	1.0	1.9	3.1	23.5	33.6	32.0	92.2	0.2
Change	-8.3	-1.8	-0.3	1.8	-5.9	18.6	-3.8	10.7	0.0
Taiwan									
1975	15.5	1.9	1.1	1.9	23.7	19.5	36.2	81.3	0.0
1986	6.0	1.6	1.0	2.7	20.4	29.1	39.1	91.3	0.0
Change	-9.5	-0.3	-0.1	0.8	-3.3	9.6	2.9	10.0	0.0
Singapore									
1975	9.4	13.3	27.0	3.7	8.5	22.7	6.9	41.8	8.4
1986	7.9	5.0	20.7	5.8	7.4	38.6	8.3	60.1	6.4
Change	-1.5	-8.3	-6.3	2.1	-1.1	15.9	1.4	18.3	-2.0
Hong Kong									
1975	1.4	0.7	0.0	0.6	10.3	11.2	52.2	74.3	23.6
1986	1.0	0.4	0.2	0.5	6.2	12.0	34.6	53.3	45.0
Change	-0.4	-0.3	0.2	-0.1	-4.1	0.8	-17.6	-21.0	21.4
Philippines									
1975	47.9	28.4	1.6	1.0	10.4	0.5	4.4	16.3	5.9
1986	25.8	10.7	1.4	5.0	9.0	8.9	12.1	35.0	27.0
Change	-22.1	-17.7	-0.2	4.0	-1.4	8.4	7.7	18.7	21.1
Indonesia									
1975	8.0	14.9	74.8	0.3	1.3	0.5	0.3	2.4	0.0
1986	13.6	9.9	56.1	1.8	13.4	0.4	4.6	20.2	0.2
Change	5.6	-5.0	-18.7	1.5	12.1	-0.1	4.3	17.8	0.2

Agriculture = SITC 0 (food and live animals) + SITC 1 (beverages and tobacco) + SITC 4 (animal, vegetable oil and fats). CrudeMat = Crude materials excluding fuels. BscMfs = Basic manufactures. Mach = Machinery and transport equipment. MiscMfs = Miscellaneous manufactured goods. MfdG = manufactured goods.

Source: ADB, *Key Indicators* (July 1988).

Another issue is that the relatively unstable oil prices may have distorted the picture in oil-exporting countries (Indonesia and Malaysia) and possibly in Singapore as well (because fuels accounted for over 20% of its exports), and the export values are in current rather than real dollars. Thus, for Indonesia, Malaysia and Singapore, we have calculated percentage shares of each export group in the export total excluding fuels

(results are not shown in the table). In Indonesia the biggest change is found in crude materials which decreased by 36.5 percentage points from 59.1 to 22.6% and in basic manufactures which, on the contrary, increased by 25.3 percentage point from 5.2 to 30.5%. In Malaysia the share of machinery and transport equipment in the non-fuel total becomes much higher than that shown for the grand total in table 6.14. The share increased by 25.6 percentage points from 6.9 to 32.5%. In Singapore, there was less distortion because fuels' share in the total did not change as much as in Indonesia or Malaysia.

Thus, by excluding fuels from the export total, a more pronounced structural change can be shown in the oil producing countries. But is not this an indication of the significance of fuels in the export total? It is very likely, but as mentioned above, fluctuations in oil prices might have distorted the export total. A thorough analysis (beyond the scope of this thesis) would be required to reach a more precise conclusion.

6.6.4 CHANGING COMPARATIVE ADVANTAGE

One of the ways to apply the theory of changing comparative advantage is to examine the changes in export composition in terms of some designated groups of factors. The underlying theory suggests that an economy moves along a ladder of comparative advantage whereby the factor intensity of its exports shifts from natural-resource intensive (NRI) to unskilled-labor intensive (ULI) to human and/or physical capital (HPK) and/or technology intensive (TI). The purpose of this section is to locate Malaysia on that ladder. A starting point is empirical works by others. Table 6.15 is adapted from Bradford (1987). The table shows that the share of NRI exports declined in all countries except Indonesia. Indonesia's case is understandable because it is a big exporter of oil and other crude materials. Hong Kong is a special case where the lack of natural resources has dictated that the country specialize in the second stage (ULI), thus omitting the first stage (NRI). An interesting comparison can be drawn between Hong Kong and Singapore against the two features that they have in common (the lack of natural resources and the fact of being city-states with considerable *entrepot* trade). In Singapore, despite the lack of natural resources, more than half of its export total in 1967 came from NRI. By 1978, NRI's contribution declined but still accounted for a big portion of the export total (42%). The location of Singapore matters. Singapore, located on the "inevitable" shipping line and in the center of two oil producing countries (Indonesia and Malaysia), has become a center of oil refineries.

As for Hong Kong, in addition to being an inexpensive producer of manufactures, she is also an *entrepot* center which has been a back door to the mainland for countries which have no direct trade with China. Table 6.15 shows that the largest share for ULI is found in Hong Kong.

TABLE 6.15
CHANGES IN FACTOR INTENSITIES OF FIFTEEN LEADING EXPORT SECTORS
(percentage of total exports)

	1967	1978	% Point Change
South Korea			
Natural resource intensive	31.95	8.61	-23.34
Unskilled labor intensive	40.03	43.75	3.72
Human and/or physical capital intensive	2.00	18.72	16.72
Singapore			
Natural resource intensive	52.96	42.30	-10.66
Unskilled labor intensive	6.28	12.50	6.22
Human and/or physical capital intensive	3.78	16.31	12.53
Hong Kong			
Natural resource intensive	0.00	0.00	0.00
Unskilled labor intensive	73.85	72.05	-1.80
Human and/or physical capital intensive	8.36	13.44	5.08
Malaysia			
Natural resource intensive	81.71	72.46	-9.25
Unskilled labor intensive	5.82	9.12	3.30
Human and/or physical capital intensive	0.00	7.52	7.52
Philippines			
Natural resource intensive	84.04	54.83	-29.21
Unskilled labor intensive	6.65	26.66	20.01
Human and/or physical capital intensive	0.00	0.00	0.00
Thailand			
Natural resource intensive	75.45	66.01	-9.44
Unskilled labor intensive	2.11	13.68	11.57
Human and/or physical capital intensive	0.00	0.00	0.00
Indonesia			
Natural resource intensive	89.04	96.25	7.21
Unskilled labor intensive	0.00	0.74	0.74
Human and/or physical capital intensive	0.00	0.00	0.00

SITC three digit commodity classification is based on Blejer (1978) which was based on Lary (1968). Data are from UNCTAD 1976 and UNCTAD 1982, table 4.4.

Source: Adapted from Colin Bradford, "NICs and the Next-tier NICs as Transitional Economies," in Bradford and Branson, eds. (1987), *Trade and Structural Change in Pacific Asia*, pp. 178-9.

Between 1967-1978 all countries except Indonesia showed evidence of shifting either to the second or third stage. The most noticeable shift toward the second stage (ULI) is found in the Philippines and Thailand. As of 1978 the NIEs seemed already in the third stage (HPK). But ULI exports remained very significant in Hong Kong and to a lesser degree in Korea while NRI exports, though they have declined, are important in Singapore even today.

Malaysia, as of 1978, did not seem to be shifting from the first to the second stage because, as of that year, both the percentage share and the percentage point change of ULI exports were still relatively small. However, we do not deny that some shift toward the second stage had occurred. But there was already an indication that the shift toward the third stage was also occurring. Some of the reasons for the slow shift toward the second stage and the early shift toward the third stage are that, with its relatively abundant natural resources and relatively small population, Malaysia started out with a relatively high income and high labor cost. As of 1978 the shift toward the third stage was occurring as shown by the 7.5% share of HPK in the export total. This shift did not occur in the other ASEAN-4 countries. In this regard, Malaysia in 1978 was similar to a NIE in the late 1960s or early 1970s. The 1978 evidence does indeed suggest that Malaysia might be the next NIE.

The next empirical work we cite is by Krause (1987) which is presented in tables 6.16 through 6.19. He separates out for the period up to 1978 technology intensive (TI) exports from the broader HPK intensive group used by Bradford. In these tables the countries are listed according to the 1977 ranking of the corresponding factor intensity.

TABLE 6.16
EXPORTS OF NATURAL-RESOURCE-INTENSIVE COMMODITIES AS PERCENTAGE OF TOTAL

	1970	1971	1972	1973	1974	1975	1976	1977	1978
IN	99.25	99.17	99.16	99.05	99.34	98.83	98.68	98.57	98.62
MA	95.34	94.85	93.31	92.34	89.51	84.90	87.45	87.09	na
TH	97.18	95.69	92.94	88.38	90.11	89.18	86.57	86.48	82.00
PH	96.87	96.84	95.94	94.51	95.30	92.22	88.40	86.82	81.52
SI	72.59	66.67	59.61	57.27	60.77	59.17	56.44	58.28	56.22
KO	34.93	31.17	28.00	26.31	20.91	24.70	19.15	21.67	17.19
JA	8.41	7.57	6.99	6.72	7.52	5.83	5.23	4.96	4.83
HK	4.24	4.03	3.79	3.83	3.88	3.48	3.29	3.69	3.69

For country abbreviations see table 6.3. na = not available

Source: Adapted from Lawrence Krause, "The Structure of Trade in Manufactured Goods in the East and Southeast Asian Region," in Bradford and Branson (eds.), 1987.

In table 6.16 the share of NRI exports declined in all countries. In table 6.17 we find a contrast between Japan along with Hong Kong and Korea as one group and the ASEAN-4 and Singapore as the other.

TABLE 6.17
EXPORTS OF UNSKILLED-LABOR-INTENSIVE COMMODITIES AS PERCENTAGE OF TOTAL

	1970	1971	1972	1973	1974	1975	1976	1977	1978
HK	76.15	75.89	73.79	71.75	68.93	70.52	69.83	66.05	64.64
KO	52.82	54.53	50.10	47.64	45.12	49.49	51.71	48.54	51.17
JA	24.08	22.94	21.85	21.51	18.73	18.95	18.60	18.03	14.25
SI	8.18	9.59	10.98	10.35	7.62	8.54	11.03	9.28	9.25
TH	1.59	3.06	5.12	9.05	6.71	7.29	9.30	9.03	12.01
PH	1.39	1.52	2.48	3.99	3.46	5.83	8.85	8.82	12.37
MA	0.94	1.40	2.26	2.00	2.12	2.97	2.96	2.89	na
IN	0.18	0.16	0.18	0.16	0.14	0.10	0.12	0.12	0.24

See table 6.16 for notes and source.

While competitiveness in ULI exports weakened in the former group, the intensity of ULI exports increased in the latter group from a much lower base. But a careful inspection of table 6.17 reveals that the trend is less clear for Korea and Singapore where there had been ups and downs which made the intensity level look more or less constant. Malaysia was ranked next to the last in ULI exports, thus indicating that, as of the late 1970s, the country had not demonstrated an apparent comparative advantage in ULI industries. This supports Bradford's result earlier in table 6.15.

Table 6.18 shows that in all countries the intensity of TI exports increased from their respective levels between 1970 and 1978. Japan and the NIEs are at a higher level than the ASEAN-4. As of 1978 Malaysia was ahead of other ASEAN-4. The intensity level achieved by Thailand and the Philippines in 1977 and 1978 had been achieved by Malaysia sometime between 1972 and 1973. This implies a lag of about 5 years. The intensity level achieved by Malaysia in 1977 had been achieved by Korea sometime before 1970 (about an 8 year's lag) and by Hong Kong sometime between 1972 and 1973 (about 5 year's lag).

TABLE 6.18
EXPORTS OF TECHNOLOGY-INTENSIVE COMMODITIES AS PERCENTAGE OF TOTAL

	1970	1971	1972	1973	1974	1975	1976	1977	1978
JA	25.02	23.97	25.45	26.51	26.08	27.62	27.54	28.43	31.35
SI	10.64	13.47	18.26	21.89	21.50	21.06	21.15	20.72	21.35
KO	7.95	8.40	11.05	11.72	13.36	10.63	12.22	11.47	12.23
HK	6.94	6.51	7.37	8.44	9.55	8.17	8.23	9.03	9.35
MA	1.72	1.87	2.24	4.04	6.54	9.63	7.40	7.58	na
TH	0.32	0.34	0.49	0.69	1.19	1.77	2.44	2.87	3.82
PH	0.53	0.67	0.94	0.63	0.68	1.22	1.45	2.75	3.31
IN	0.29	0.13	0.26	0.21	0.16	0.72	0.86	1.07	0.93

See table 6.16 for notes and source.

Table 6.19 shows that the intensity of human-capital intensive (HCI) exports increased in all countries except Indonesia.

TABLE 6.19
EXPORTS OF HUMAN-CAPITAL-INTENSIVE COMMODITIES AS PERCENTAGE OF TOTAL

	1970	1971	1972	1973	1974	1975	1976	1977	1978
JA	42.50	45.53	45.71	45.26	47.67	47.59	48.62	48.57	49.56
HK	12.67	13.58	15.05	15.98	17.64	17.83	18.65	21.23	22.32
KO	4.31	5.90	10.86	14.33	20.61	15.19	16.93	18.32	19.42
SI	8.60	10.27	11.16	10.49	10.11	11.23	11.38	11.72	13.18
MA	2.01	1.88	2.19	1.62	1.83	2.51	2.20	2.45	na
PH	1.21	0.97	0.65	0.88	0.56	0.74	1.30	1.61	2.80
TH	0.91	0.90	1.45	1.88	2.00	1.76	1.69	1.63	2.17
IN	0.29	0.54	0.40	0.59	0.35	0.35	0.34	0.24	0.21

See table 6.16 for notes and source.

Malaysia was ahead of other ASEAN-4 in HCI exports but considerably behind the EA-NIEs. Though the HCI share may be increasing faster in the Philippines and Thailand than in Malaysia, all three shares were still at low levels in 1978.

The next empirical study we will refer to is that by Ariff and Hill [hereafter A&H] (1985). Their study is based on the works by Krause (1982) and Tyers and Phillips (1984). A&H use five groupings of commodities. The NRI group used by Krause is broken down into agriculture resource and mineral-resource intensive. No data are provided for Indonesia since manufactured exports were so small, both absolutely and relatively, that no meaningful trends were identifiable. No explicit work is done on the NIEs (except Singapore) but implicit calculations were made for Korea and Japan. A&H did not make a table for their results. But rather, they constructed four line-graphs covering four of the ASEAN countries. Since the graphs do not have proper scales or markings, we cannot identify the exact percentages. Nevertheless, we can see the trends. Figures 6.1 through 6.4 are reproduced from their work.

A&H find that, "the Philippines accords most closely with the theoretical predictions. The transition from predominant exports of [agricultural] resource intensive (ARI) manufactures (almost four-fifths of the total in the mid-1960s) to...unskilled-labor intensive (ULI) [exports] in a little over a decade has been quite dramatic [figure 6.1]. Both human capital (HCI) and technology-intensive (TI) exports have generally been very limited. The composition of Philippine manufactured exports in the early 1980s thus resembles quite closely that of Korea around 1970, allowing for the former's better resource endowment" (A&H, 1985:182-3).

FIGURE 6.1

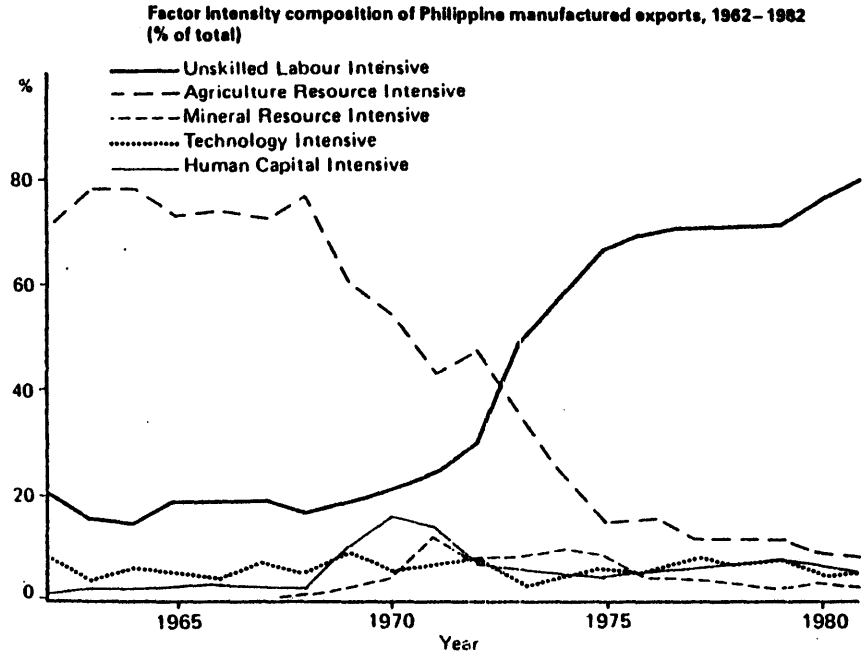
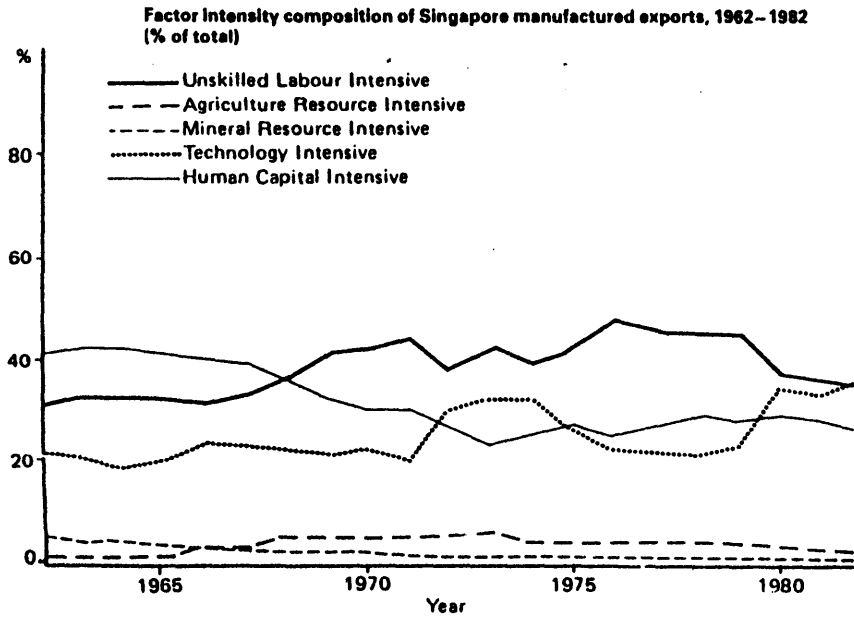


FIGURE 6.2



Source: Reproduced from Ariff, K.A. Mohamed and Hill, Hall. Export-Oriented Industrialisation: The ASEAN Experience, pp. 183 and 186.

FIGURE 6.3

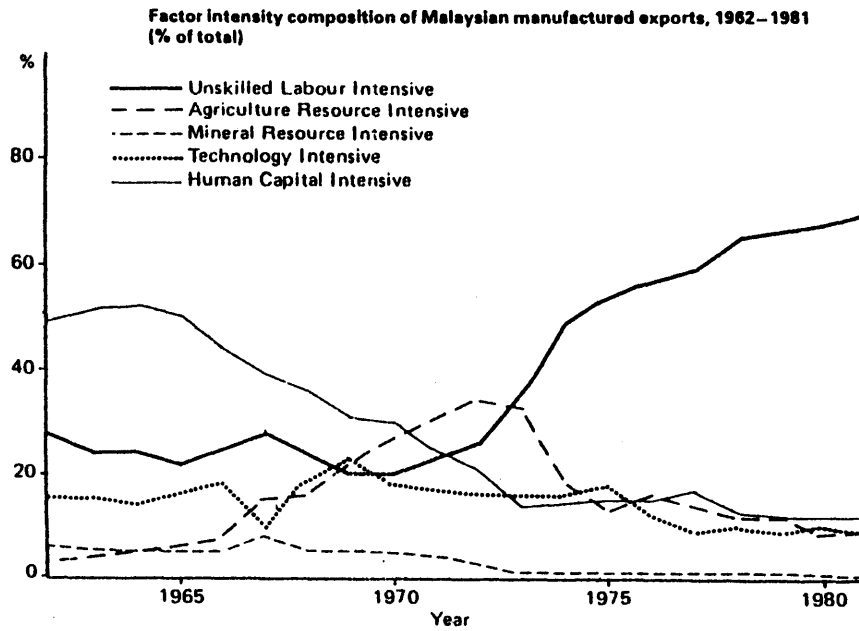
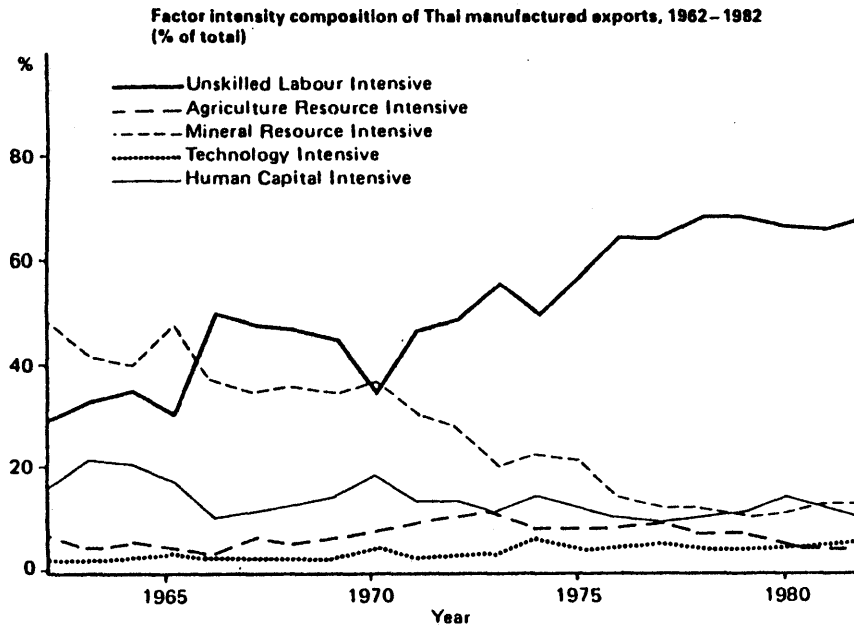


FIGURE 6.4



Source: Reproduced from Ariff, K.A. Mohamed and Hill, Hall. Export-Oriented Industrialisation: The ASEAN Experience, pp. 184 and 186.

A&H warn that prior to 1970, manufactured exports from Malaysia and Thailand were fairly small, and the composition among the five groups has limited analytical meaning. But table 6.17 shows that any increase in ULI occurred earlier in Thailand (around 1965) than in Malaysia (around 1970).

It is surprising to find that in Thailand, ARI did not precede other groups. ARI's share in the export total (between 5 to 10%) is too low for the country with the reputation as the "rice bowl" of Asia. The obvious reason is that milled rice, which is Thailand's largest export earner, is generally not considered a manufacture. Thus in figure 6.2, instead of starting with ARI, the shift toward ULI comes from a high level of mineral-resource intensive (MRI) exports. But Thailand seem less likely to have such a high base of MRI to begin with because it has relatively few natural resources except tin. But tin (SITC 687) is already excluded since the whole SITC 68 (non-ferrous metals) is not classified in manufactures. The one item that continues to contribute significantly to Thai manufactured exports is pearls and other precious stones (SITC 667).

In Malaysia, as in other ASEAN-4 countries, the share of ULI in total exports increased rapidly in the early 1970s. The difference was that in Malaysia the rapid increase of ULI came after the decrease in the share of HCI exports as opposed to following ARI (as in the Philippines) or MRI (as in Thailand). This rapid increase in ULI exports occurred despite Malaysia's natural resource base and rising real wages. The transformation is accounted for largely by SITC 729 (electrical machinery n.e.s., mainly integrated circuits). According to A&H, the explanation for the phenomenal growth in Malaysia's exports of SITC 729 is mainly the presence of export processing zones. They noted that, "although real wages--and probably real labor cost--are the highest in ASEAN apart from Singapore, unskilled-labor intensive activities are still rendered competitive by attractively priced and efficient infrastructure services" (A&H, 1985:185).

A&H also pointed out that the very high share of HCI exports of Malaysia in the 1960s was explained mainly by the export of transport equipment (SITC 732) to Singapore, in the context of very little manufactured exports in total (A&H, *ibid.*). Closely integrated automotive assembly industries were established both in Singapore and Malaysia on the assumption of the creation of a common market. Following the separation of Singapore from the Federation, the industries resumed their domestic market orientation. Correspondingly, Malaysia's exports of HCI manufactures declined.

As in the other ASEAN-4 countries, the share of TI exports does not change rapidly. But Malaysia's intensity level in these exports is higher than those of the other ASEAN-4. This is exactly what the two earlier empirical works have shown.

In Singapore, as in Malaysia, the share of HCI exports was high in the 1960s. According to A&H, this is due to SITC 732 (transport equipment) which "was by far the most important of Singapore's exports in the HCI group, and these products were exported overwhelmingly to Malaysia" (A&H, *ibid.*). Two features which distinguish Singapore from the ASEAN-4 are that the increase in ULI exports has been much less rapid and the percentage of TI exports has been relatively high in Singapore.

We have attempted to replicate A&H's work with the hope their results could be extended to 1984, the latest year for which export data by SITC are available. The whole process is cumbersome. For each country, 69 entries of SITC data are involved. Working with limited time, we have arbitrarily chosen the year 1975 for replication. Time did not permit us to do the study for all countries. We limited our interest therefore to Malaysia and Thailand. We are also curious how they fared in comparison with a NIE. For this purpose we have selected a "big" NIE, namely South Korea.

We encountered two problems. Firstly, the SITC had been revised; the 1984 data are from the SITC Revision II. Apparently A&H were using the earlier SITC. Secondly, A&H were using data from the data bank of the ASEAN-Australian Joint Research Project, to which we have no access. We used data from the United Nations. Because of the non-comparable data sources we have derived different results in table 6.20.

TABLE 6.20
FACTOR INTENSITY COMPOSITION OF MANUFACTURED EXPORTS (%), 1975

	Malaysia		Thailand		S. Korea
	Ariff/Hill ^a	Author ^b	Ariff/Hill ^a	Author ^b	Author ^b
Agricultural resource	13	13	7	2	3
Mineral resource	1	1	21	19	2
Unskilled labor	52	23	57	66	70
Technology	18	49	4	4	6
Human capital	16	14	12	9	19

Sources: a = Approximate percentages derived from figures 5.5 through 5.8 (pp. 183-6) in Ariff and Hill, Export-Oriented Industrialization: The Asian Experience.

b = calculated; data from UN, Commodity Trade Statistics, various country tables.

For Malaysia, the results of our study are similar to those of A&H for all groups except ULI and TI. A&H's study shows that the percentage of ULI exports is bigger than that of TI exports. Our study produces the opposite result. A plausible explanation for this divergence is that we may have made errors in matching the SITC Revision II with those used by A & H. More precisely, we either have included commodities whose data are large into the TI group or we have included commodities whose data are small into the ULI group.

In the Thai case, it is apparent that Thailand's comparative advantage is in unskilled-labor intensive exports.⁹⁹ As intended, we have made calculations for 1984. The results are presented in table 6.21. Any comparison between 1975 and 1984 is biased to some extent by changes in the SITC. However, we may do a cross country comparison within the same year.

TABLE 6.21
FACTOR INTENSITY COMPOSITION OF MANUFACTURED EXPORTS (%), 1984

	Malaysia	Thailand	S. Korea
Agricultural resource	10	4	1
Mineral resource	2	12	1
Unskilled labor	43	56	68
Technology	27	18	7
Human capital	19	10	24

Source: calculated; data from UN, Commodity Trade Statistics.

Table 6.21 shows that comparative advantage in unskilled-labor intensive manufactured exports is less prevalent in the case of Malaysia than in the case of Korea or Thailand.

We were puzzled by the extremely low percentage of TI exports in Korea's case with the view that as a NIE, Korea should have been at a more advanced position on the ladder of comparative advantage. Similar to table 6.15 (but using a modified commodity classification schema), we examined the top 15 leading export commodities (at the SITC 3-digit level) for Korea (as produced in table 6.22). We found that as of

⁹⁹ Calculations were made twice. The initial results for Thailand, listed in the same order as presented in table 8.20, are as follows: 1%, 13%, 44%, 3%, and 39%. We doubted the results because they show that Thailand had a much higher percentage of HCI exports than did Korea or Malaysia. In addition, only the result for TI exports came close to that of A & H. We looked at the HCI group to see if there was a single item which may have caused the group's total to become larger than it actually was. We suspected that the amount for SITC 892 (printed matter) which is almost \$169 billion might have been incorrectly printed (in the UN's Commodity Trade Statistics) because the next largest amount within the TI group is only around \$4.3 million. By comparison, the amounts for SITC 892 were \$1069 in 1973, \$23,281 in 1974, \$116 in 1975 and \$600 in 1977 (all are in million). We suspect that the amount for 1974 was also printed incorrectly. Therefore for table 7.20, we have used the average of totals from 1973 to 1977 excluding 1974. Another possibility is that there was no misprinting but there were extreme fluctuations in exports. But in any case the exclusion of extreme numbers in the calculation should take care of this problem.

1984/85, nearly half of Korea's total exports were ULI (49.4%). This is smaller than the calculation based on A&H's classification schema presented in table 6.21. Clothing (SITC 841) alone accounted for 14.5% the total, 20.6% of all developing country's, and 10.8% of world's exports for that SITC number. We found only three TI items in the top 15 list. They were SITC 724--telecommunications equipment (5.44%), SITC 332--manufactured petroleum products (2.91%), and SITC 714--office machines (1.70%) which gave a combined contribution of 10.05%. This is close to the 7% calculated for table 6.21.

The whole exercise prompted us to do a study of our own, using our own classification schema. The results are presented in table 6.22.

TABLE 6.22
CHANGES IN FACTOR INTENSITIES OF THE YEAR'S TOP 15 LEADING EXPORT COMMODITIES
(percentage of each country's export total)

Country/Factor intensity	Stage	1978		1984/85		% point change
ASEAN-4						
Malaysia						
Agricultural resource	I	15.2	(3)	14.6	(3)	-0.6
Nonrenewable resource	I	25.7	(1)	31.6	(2)	5.9
Renewable resource	I	37.9	(1)	19.9	(1)	-18.0
Unskilled-labor	II	7.5	(6)	15.3	(5)	7.8
Technology	III	1.7	(6)	5.7	(4)	6.0
Human capital	III	0.0		0.0		0.0
Subtotal		88.0		87.1		-0.9
Thailand						
Agricultural resource	I	45.6	(1)	42.8	(1)	-2.8
Nonrenewable resource	I	12.6	(3)	6.6	(4)	-6.0
Renewable resource	I	9.9	(3)	7.3	(3)	-2.6
Unskilled-labor	II	8.9	(5)	11.5	(6)	2.6
Technology	III	2.7	(5)	4.8	(4)	2.1
Human capital	III	0.0		0.0		0.0
Subtotal		79.7		73.0		-6.7
Philippines						
Agricultural resource	I	40.7	(2)	23.3	(2)	-17.4
Nonrenewable resource	I	12.0	(4)	7.9	(3)	-4.1
Renewable resource	I	9.9	(3)	3.5	(5)	-6.4
Unskilled-labor	II	18.8	(3)	45.0	(3)	26.2
Technology	III	0.0	(7)	0.0		0.0
Human capital	III	0.0		0.0		0.0
Subtotal		81.4		79.7		-1.7
Indonesia						
Agricultural resource	I	10.3	(4)	6.0	(4)	-4.3
Nonrenewable resource	I	14.3	(2)	70.9	(1)	54.8
Renewable resource	I	8.6	(4)	9.5	(2)	0.9
Unskilled-labor	II	0.0	(7)	1.6	(7)	1.6
Technology	III	3.6	(4)	3.8	(5)	2.1
Human capital	III	0.0		0.0		0.0
Subtotal		36.8		91.9		55.1

(continued)

TABLE 6.22 (CONTINUED)
 CHANGES IN FACTOR INTENSITIES OF THE YEAR'S TOP 15 LEADING EXPORT COMMODITIES
 (percentage of each country's export total)

Country/Factor intensity	Stage	1978	1984/85	% point change
EAST ASIAN NIES				
<u>S. Korea</u>				
Agricultural resource	I	4.5 (5)	2.2 (5)	-2.3
Nonrenewable resource	I	0.0	0.0	0.0
Renewable resource	I	3.3 (4)	0.0	-3.3
Unskilled-labor	II	48.6 (2)	49.4 (2)	0.8
Technology	III	4.8 (3)	10.1 (3)	5.3
Human capital	III	7.1 (2)	7.6 (2)	0.5
Subtotal		68.3	69.3	1.0
<u>Singapore</u>				
Agricultural resource	I	2.8 (6)	2.1 (6)	-0.7
Nonrenewable resource	I	0.0	0.0	0.0
Renewable resource	I	14.0 (2)	3.6 (4)	-10.4
Unskilled-labor	II	15.0 (4)	18.5 (4)	3.5
Technology	III	37.4 (1)	47.7 (1)	10.0
Human capital	III	1.4 (3)	1.4 (3)	0.0
Subtotal		70.6	73.3	2.7
<u>Hong Kong</u>				
Agricultural resource	I	0.0 (7)	1.5 (7)	1.5
Nonrenewable resource	I	0.0	0.0	0.0
Renewable resource	I	0.0	0.0	0.0
Unskilled-labor	II	60.8 (1)	49.9 (1)	-10.9
Technology	III	10.4 (2)	16.5 (2)	6.1
Human capital	III	11.8 (1)	13.9 (1)	2.1
Subtotal		83.0	80.3	-2.7
DEVELOPED MARKET ECONOMIES				
<u>Japan</u>				
Agricultural resource	I	0.0	0.0 (9)	0.0
Nonrenewable resource	I	0.0	0.0	0.0
Renewable resource	I	0.0	0.0	0.0
Unskilled-labor	II	12.9 (5)	11.2	-1.7
Technology	III	25.0 (3)	28.4 (3)	3.4
Human capital	III	32.7 (1)	34.6 (1)	1.9
Subtotal		70.6	74.2	3.6
<u>United States</u>				
Agricultural resource	I	11.1 (4)	7.9 (4)	-3.2
Nonrenewable resource	I	0.0	2.1 (5)	2.1
Renewable resource	I	0.0	0.0	0.0
Unskilled-labor	II	3.9 (8)	5.9 (8)	2.0
Technology	III	31.2 (2)	31.3 (2)	0.1
Human capital	III	9.3 (3)	8.8 (3)	-0.5
Subtotal		55.5	56.0	0.5

Commodities (at the SITC 3-digit level) which are listed as the top 15 contributors to the country's export total, say during year A, may or may not be listed again during year B. In other words, the list of the top 15 leading export commodities during year B may or may not contain the same commodities previously listed during year A. We have devised a schema of six groupings of commodities as shown in the table (SITC numbers are given in appendix 1). We made our own judgement on each of the 15 commodities as to which of the six commodity-groups it belongs. Figures in the table are the contributions, as measured in percentages, by each of these six commodity-groups in the country's export total. Figures in parentheses are rankings among countries within each of the six commodity-groups (not among the six commodity-groups within the same country).

Sources: 1978 data : UNCTAD (1982), Handbook of International Trade and Development Statistics 1981 Supplement
 1984-5 data: UNCTAD (1989), Handbook of International Trade and Development Statistics 1988, table 4.3 D.

Table 6.22 indicates that ARI exports are most significant in Thailand. Nonrenewable-resource intensive exports are most prominent in Indonesia and Malaysia, the region's oil exporters. As expected, renewable-resource intensive exports are most prevalent in Malaysia which leads the world in rubber and palm oil exports. ULI exports are most prominent in Hong Kong, Korea and the Philippines. TI exports have been significant in Singapore whose level even surpasses that of Japan or the U.S. HCI exports are most prominent in Japan. Unlike the ASEAN-4, the EA-NIEs have already reached the HCI stage.

All of the economies except the U.S. seem to have high concentrations of export commodities. The "subtotal," which indicates the percentage of the export total that is contributed by the top 15 leading export commodities, was 56% in the U.S. compared to 91.9% in Indonesia.

Table 6.22 also shows that for TI exports, Korea is ahead of Malaysia which is ahead of Thailand. Indonesia follows behind. The Philippines, as of 1984/85, did not have any TI commodity in its top 15 list.

As a conclusion: The EA-NIEs are ahead of the ASEAN-4 on the ladder of comparative advantage. Malaysia is located behind the NIEs but ahead of other ASEAN-4. We found that comparisons based on **technology intensive** exports provide a more visible "time-location" on the ladder. As shown in table 6.18 (which is adapted from Krause), Indonesia is about 3 years behind Thailand. Malaysia is about five years ahead of Thailand. Hong Kong is about five years, and Korea is about eight years, ahead of Malaysia. This "time-location" is consistent with the results from our study (table 6.22) even though we did not attempt to determine the exact year lags. To do so we would have had to replicate Krause's work which examines all the years from the beginning to the end of the period that he chose. Yet he examines not the top 15, but all commodities. In order to produce the "time-location" results, it is necessary to examine all the years in between a period that we chose. But it is not necessary to examine all commodities because the top 15 leading exports will be sufficient to produce crude but indicative results. Due to time limitation, we do not attempt to replicate Krause's work. The question remains about the "time-location" for the Philippines. Krause's work shows that it is located behind, but close to, Thailand (about one year lag). But our study shows, as noted above, that no TI item exists in the top 15 Philippine exports. We double-checked if we have made any wrong judgement on any commodity which could reasonably belong to the TI group. But beyond any doubt, no

"on the fence" commodity (which could belong to either side or group) existed in the top 15 list for the Philippines. Thus, in short, the order on the ladder is as follows: Japan, the NIEs, Malaysia, Thailand, and Indonesia or the Philippines.

6.6.5 INDUSTRIALIZATION

Table 6.23 shows selected indicators of industrialization. It shows that Japan and the NIEs excluding Hong Kong have larger shares of manufacturing in GDP than do the ASEAN-4. Although Malaysia lags behind other countries except Indonesia in terms of the percentage of manufactured exports in total merchandise exports, the country is significantly ahead of other ASEAN-4 in per capita terms both for manufactured exports and MVA. Indonesia along with Korea and Malaysia have larger growth rates of MVA than do the others. Malaysia's per capita MVA, which as of 1985 was a little larger than that of Korea, was in fact much higher than that of Thailand.

TABLE 6.23
COMPARATIVE INDUSTRIALIZATION INDICATORS

	Mfg as % of GDP (1987) ^a	Mfd exports as % of merchandise Exports (1987) ^b	Per cap. Mfd. Exports (1986) \$mn. ^c	MVA ^d		Per cap. MVA ^d		Mid- 1986 Pop. mn. ^e
				Total (1985) \$mn.	Growth (1970-85) %	Total (1985) \$mn.	Growth (1970-85) %	
HK	22.0 ^b	92	6045	8696	6.8	1567	4.2	5.4
SI	28.5	72	5643	4310	7.9	1684	6.4	2.6
TW	43.5	93	1833	na	na	na	na	19.6
KO	30.3	92	768	24219	13.3	587	11.4	41.5
MA	25.0	40	309	9281	10.0	597	7.4	16.1
TH	24.1	53	75	7696	8.9	150	6.4	52.6
PH	25.3	62	49	8090	4.6	148	2.0	57.3
IN	14.4	27	18	12432	12.6	75	10.2	166.4
JA	29.0 ^b	97	1678	395141	6.0	3273	5.0	121.5

Mfg = Manufacturing, Mfd = Manufactured, na = not available, MVA = Manufacturing value added, cap. = capita.

Sources: a = FEER, *Asia Yearbook 1989*, pp. 6-7.

b = WB, *WDR 1989*, columns 3 and 4 of table 16.

c = *WDR 1988*, data from table 14 divided by population.

d = UNIDO, *Handbook of Industrial Statistics 1988* (table 4).

e = *WDR 1988* table 1 except for Taiwan (FEER, *Asia Yearbook 1989*).

The next industrialization indicator is the index of industrial change. Table 6.24 shows that excluding that of Japan, the highest index of structural change between 1975-1988 is found in West Malaysia (note that

an index for the entire Malaysia is not available in the UNIDO report). During 1975-1989, though the West Malaysian index is lower than that of the NIEs excluding Hong Kong, it is the highest within the ASEAN-4.

TABLE 6.24
INDICES OF INDUSTRIAL STRUCTURAL CHANGE

Country	Index of Structural Change		Average annual growth rate of industrial production, %	
	1975-1988 ^a	1975-1989 ^b	1975-1988 ^a	1975-1989 ^b
South Korea	21.49	36.78	14.15	14.90
Singapore	23.50	30.29	4.35	7.82
Taiwan	24.25	29.15	10.56	11.18
Hong Kong	9.11	13.16	5.36	8.75
Malaysia (West)	29.36	21.77	5.46	7.32
Philippines	12.13	20.11	5.92	12.74
Thailand	20.53	14.42	6.20	6.19
Indonesia	11.75	16.04	9.35	7.13
Japan	33.19	32.66	4.44	5.15

The index of industrial structural change is derived from sixteen manufacturing branches. The index for 1975-1988 is a measure of the degree of correlation between the value-added shares in 1975 and 1988. The same concept applies for the 1975-1989 index. If the correlation is high, then there is little structural change and the index is low. If the correlation is low, then there is a lot of structural change and the index is high. Both expanding and shrinking branches contribute to the index. The calculation is based on the manufacturing value added index of 1975 = 100 in 1980 constant prices.

Sources: a and b = UNIDO, *Industry and Development Global Report 1987* and *1988/89*, respectively.

6.7 OVERALL CONCLUSION ON ECONOMIC PERFORMANCE

Overall, though Malaysia is behind the EA-NIEs in many indicators, it is much ahead of other ASEAN-4 countries. We found that while all of the selected countries experience economic growth at different speeds, only Singapore and Malaysia have had a good record of containing price inflation. Our study of data for 1975 and 1986 yields a result that the share of the industrial sector in GDP increased the most in Korea followed by that in Malaysia. Our study also shows that though trailing below the EA-NIEs, Malaysia is at a higher position than other ASIAN-4 on the ladder comparative advantage.

6.8 COMPARISON BY SOCIO-ECONOMIC DEVELOPMENT

One of the purposes of economic development in a country is to upgrade the quality of life of its citizens. Economic growth would be meaningless to the poor if their lives were unimproved. However, it is beyond the scope of this thesis to measure the quality of life. We will only compare the selected countries based on readily available data on income and poverty, health, and economic infrastructure.

Table 6.25 ranks the countries by per capita GNP. It shows a rivalry between Malaysia and Korea. The latter came from behind and surpassed the former in 1982 (data for the year is not shown in the table).

TABLE 6.25
RANKING BY PER CAPITA INCOME

Per capita GNP (US\$)					Average annual growth, %
1976	1980	1985	1987	1988	1960-87 ^b
JA 4910	JA 9890	JA 11300	JA 15760	JA 15950	HK 7.4
SI 2700	SI 4430	SI 7420	SI 7940	SI 8010	SI 6.9
HK 2110	HK 4240	HK 6230	HK na	HK 6990	KO 6.7
TW na	TW na	TW na	TW 4573 ^c	TW 5280	TW na
<u>MA 860</u>	<u>MA 1620</u>	KO 2150	KO 2690	KO 3000	JA 5.2
KO 670	KO 1520	<u>MA 2000</u>	<u>MA 1810</u>	<u>MA 2080</u>	TH 4.4
PH 410	PH 690	TH 800	TH 850	TH 1000	<u>MA 4.2</u>
TH 380	TH 670	PH 580	PH 590	PH 600	IN 4.0
IN 240	IN 430	IN 530	IN 450	IN 430	PH 2.1

Sources: 1976, 1980, 1985, 1987 data: World Bank, WDR 1978, WDR 1982, WDR 1987, WDR 1989 (table 1) respectively, except for that noted by c (for Taiwan): FEER, Asia Yearbook 1989, p.7.

b = UN (1989), Handbook of International Trade and Development Statistics 1988.

For Malaysia, the 1985-86 recession has tarnished both her past record of rapid growth (7.7% annually during 1976-84, ranked behind Korea's 8.0% in table 8.3) and her recent rapid growth (9.6% in 1989) because the negative and sluggish rates during the recession lower the overall average. This tarnished image is reflected in table 6.25 in which Malaysia fairs more poorly than the NIEs and Thailand. But in terms of per capita GNP, Malaysia is ahead of Thailand and the other ASEAN-4.

The next subject is poverty, one of the most common socio-economic ills in the developing world.

TABLE 6.26
COMPARISON OF POVERTY LEVEL AND POPULATION UNDER THE LEVEL

	Estimated absolute poverty income level, US\$ per cap.		Estimated population below absolute poverty income level, %		
	1975	Most recent	1975	Most recent	Point Change
<u>Malaysia</u>					
Urban	124	314	21	13	-8
Rural	112	289	59	38	-21
<u>S. Korea</u>					
Urban	320	na	18	na	na
Rural	270	na	11	na	na
<u>Thailand</u>					
Urban	159	na	15	na	na
Rural	106	na	34	na	na
<u>Philippines</u>					
Urban	na	260	na	32	na
Rural	na	195	na	41	na
<u>Indonesia</u>					
Urban	136	124	28	26	-2
Rural	112	106	51	44	-7

Most recent is not clear but it is sometime between 1980 and 1985.

Source: WB, Social Indicators of Development 1988.

Table 6.26 shows a significant reduction of poverty in Malaysia. Available data indicate that poverty is less prevalent in Malaysia than in the Philippines and Indonesia.

In the following tables we will compare several measures of social welfare in the countries. In table 6.27 excluding that of Singapore (with a population of only 2.5 million) the best record of progress in the provision of safe drinking water (in all categories) is found in Malaysia.

TABLE 6.27
PERCENTAGE OF POPULATION WITH ACCESS TO SAFE DRINKING WATER

Total		Urban		Rural	
1980	1985	1980	1985	1980	1985
SI 100	SI 100	SI 100	SI 100	TH 63	<u>MA 76</u>
KO 75	<u>MA 84</u>	<u>MA 90</u>	<u>MA 96</u>	KO 61	TH 66
<u>MA 63</u>	KO 75	KO 86	KO 90	<u>MA 49</u>	PH 54
TH 63	TH 64	TH 65	TH 56	PH 43	KO 48
PH 45	PH 52	PH 49	PH 49	IN 19	IN 36
IN 23	IN 38	IN 35	IN 43		

Source: World Health Organization (1987), *The International Drinking Water Supply and Sanitation Decade: Review of Mid-Decade Progress (As at December 1985)*.

In table 6.28, South Korea claims a perfect record in providing its citizens with sanitation services both in the urban and rural areas. Malaysia has a perfect record as does Korea in the urban category. Malaysia is behind Korea and ahead of the other ASEAN-4 in the rural category.

TABLE 6.28
PERCENTAGE OF POPULATION WITH ACCESS TO SANITATION SERVICES

Total		Urban		Rural	
1980	1985	1980	1985	1980	1985
KO 100	KO 100	KO 100	KO 100	KO 100	KO 100
SI 80	SI 99	<u>MA 100</u>	<u>MA 100</u>	PH 67	<u>MA 60</u>
PH 72	<u>MA 75</u>	PH 81	SI 99	<u>MA 55</u>	PH 56
<u>MA 70</u>	PH 67	SI 80	PH 83	TH 41	TH 46
TH 45	TH 52	TH 64	TH 78	IN 21	IN 38
IN 23	IN 37	IN 29	IN 33		

Source: As in table 6.27.

The health-related indicators in table 6.29 show that Japan and the NIEs are more advanced than the ASEAN-4. But a careful inspection of the table reveals that Malaysia and Korea are near the same level of development and are more advanced than the remaining ASEAN-4, especially with regard to infant and

maternal mortalities and birth attended by health staff. For instance, in Thailand, as of 1985 only 33% of births are attended by health staff compared to 82% in Malaysia.

TABLE 6.29
RANKING BY SELECTED HEALTH INDICATORS

Life expectancy at birth (years) 1987 ^a	Infant mortality per 1000 births		Maternal mortality per 100,000 live births 1980 ^a	Births attended by health staff (percent) 1985 ^a	Child survival: % children born who survive to age 5 1987 ^b
	1965 ^a	1987 ^a			
JA 78	JA 18	JA 6	HK 4	US 100	SI 98.8
HK 76	SI 26	HK 8	US 9	JA 100	<u>MA 96.7</u>
US 75	US 25	SI 9	SI 11	SI 100	KO 96.6
SI 73	HK 28	US 10	JA 15	<u>MA 82</u>	TH 94.9
<u>MA 70</u>	<u>MA 57</u>	<u>MA 24</u>	KO 34	KO 65	PH 92.5
KO 69	KO 64	KO 25	<u>MA 59</u>	IN 43	IN 88.0
TH 64	PH 73	TH 39	PH 80	TH 33	
PH 63	TH 90	PH 45	TH 270		
IN 60	IN 129	IN 71	IN 800		

Sources: a = WB, WDR 1989,

b = UNICEF, The State of the World's Children 1989

Nearly 3 mothers die in every 1,000 live births in Thailand. The United Nation Children Fund (UNICEF), in its annual report published in early 1989, ranked Malaysia at number two behind Singapore in child (1 to 5 years) survival rate among all of East and South Asian countries excluding Japan and Hong Kong.

Table 6.30 indicates that the ratio of persons to each physician is much lower in Japan and the NIEs along with Malaysia than those in the other ASEAN-4. Fewer people will have to compete for a hospital bed in Malaysia than in Korea, Thailand or Indonesia. As an important ingredient for human development, protein, is available in larger amounts per head in the NIEs and Malaysia than in the other ASEAN-4.

TABLE 6.30
RANKING BY OTHER SELECTED SOCIO-ECONOMIC INDICATORS

Scientists & Engineers per 1000 people	Persons per physician		Persons per hospital bed		Daily/capita protein supply (gm.)	
	1976	1984 ^a	1976	1986	1976	1985
JA 59.49 (1982)	JA 836	JA 660	JA 95	JA 79	HK 80	HK 85
HK 19.03 (1981)	SI 1343	HK 1070	HK 235	HK 225	SI 74	SI 79
SI 15.86 (1980)	HK 1445	KO 1170	SI 266	SI 254	KO 64	KO 78
KO 2.43 (1981)	KO 2009	SI 1310	<u>MA 370</u>	<u>MA 390</u> (1984)	<u>MA 52</u>	<u>MA 64</u>
<u>MA 2.16</u> (1982)	<u>MA 3990</u>	<u>MA 1930</u>	PH 574	KO 524	TH 49	PH 53
	PH 6811	TH 6290	TH 744	PH 643 (1985)	PH 47	IN 53
	TH 8142	PH 6700	KO 1573	TH 624	IN 41	TH 49
	IN 14652	IN 9460	IN 1586	IN 1495		

Sources: 1976 and 1986 data: UN, Statistical Yearbook for Asia and the Pacific 1986-87 and 1988, respectively.

a = WB, WDR 1989.

We consider that modern and sufficient infrastructure is necessary for industrial development. Table 6.31 shows that Japan and the NIEs have longer roads relative to the usable land area than do the ASEAN-4

(among whom Malaysia has the lead). But in terms of percentage of paved road, excluding the two city-states, Malaysia is the best. This supports our claim that Peninsular Malaysia has one of the best road network in Asia. Thailand, the analysts' recent favorite for the NIC stakes, is ranked last of the ASEAN-4.

TABLE 6.31
RANKING BY SELECTED INFRASTRUCTURE

Length of road (km. per km. sq. of cultivated land)		Paved road as a percentage of total	
1976 ^a	1985 ^a	1986 ^b	
SI 36.9	SI 144.0	HK 100.0	
JA 18.6	JA 19.2 ¹⁹⁸³	SI 94.8 ¹⁹⁸⁵	
HK 10.9	HK 13.2	<u>MA 80.0</u>	
KO 2.1	KO 2.4	IN 62.3	
<u>MA 1.1^p</u>	<u>MA 1.6^{1983/p}</u>	JA 59.9	
PH 0.9	PH 1.3	KO 54.2	
IN 0.2	IN 0.3	TH 39.6	
TH 0.1	TH 0.2	PH 13.1	

p = Peninsular Malaysia only

Sources: a = calculated from UN (1988), *Statistical Yearbook For Asia and the Pacific 1986-87*, various country tables.

b = Euromonitor (1988), *International Marketing Data and Statistics 1988/1989*, table 2201.

Table 6.32 indicates that foreign businessmen will find it easier to communicate in and out of Malaysia than in Thailand. The number of telex subscriber lines per 100,000 inhabitants in Malaysia is larger than that in the U.S. Those in marketing will find that their advertisements will likely to reach more people in Malaysia than in Thailand where there are only 17 television sets per 1000 viewers.

TABLE 6.32
RANKING BY SELECTED INDICATORS ON COMMUNICATION

T.V. sets per 1000 people ^a		Telephones per 1000 people ^a		Telex subscriber lines, 1986	
1976	1983	1976	1985	Total ^b (000)	Per 100,000 ^c people
US na	US 785.0 ^d	US na	US 755.0 ^d	US 100.5	SI 687.7
JA 237.9	JA 563.5	JA 429.5	JA 530.2 ¹⁹⁸²	JA 45.0	HK 521.0
HK 185.6	HK 226.6	HK 250.4	SI 419.5	HK 28.8	<u>MA 70.7</u>
SI 134.9	SI 188.8	SI 163.3	HK 356.6	SI 17.6	US 41.6
KO 73.3	KO 175.3	KO 45.8	KO 192.8	<u>MA 11.4</u>	JA 37.0
<u>MA 44.4</u>	<u>MA 105.0^e</u>	<u>MA 26.3</u>	<u>MA 103.7¹⁹⁸⁶</u>	IN 10.4 ¹⁹⁸⁵	KO 24.1 ¹⁹⁸⁵
PH 18.4	PH 26.0	PH 10.2	PH 12.9 ¹⁹⁸²	KO 10.0	PH 16.1
TH 19.9	IN 22.8	TH na	TH 12.5 ¹⁹⁸³	PH 8.8 ¹⁹⁸⁵	TH 11.0 ¹⁹⁸⁵
IN 7.5 ¹⁹⁷⁷	TH 16.9	IN 2.4	IN 4.5	TH 5.8	IN 6.2

Sources: a = UN, *Statistical Yearbook for Asia and the Pacific 1986-87*

b = International Telecommunication Union *Yearbook of Common Carrier Telecommunication Statistics 1977-1986*.

c = calculated using ITU data.

d = The Economist, *The World in Figures 1988*

e = Ministry of Finance Malaysia, *Economic Report 1986/87*.

Table 6.33 shows that there are more cars on the Malaysian roads than for any other of the countries in the table except the Japan and the U.S.

TABLE 6.33
RANKINGS BY LIVING STANDARD (CAR OWNERSHIP)

Passenger car circulation (000 unit at Dec. 31st.) ^a			Passenger car per 1,000 people ^b		People per car ^c
Total		% Change			
1977	1986	1977-1986	1976	1985	1987
US 112287.5	US 135671.0	KO 428.8	JA 163.8	JA 230.6	US 1.8
JA 19825.7	JA 28653.7	TW 213.8	SI 62.1	MA 92.8 ^p	JA 4.3
MA 503.2	MA 1100.0	MA 118.6	MA 42.5 ^p	SI 92.3	MA 10.1
IN 443.4	IN 965.2 ¹⁹⁸⁵	IN 117.7 ¹⁹⁷⁷⁻⁸⁵	HK 26.6	HK 33.8	SI 10.9
PH 431.0	TW 925.0	SI 76.7	PH 8.6	KO 13.6	TW 18.9
TH 344.0	KO 664.2	TH 59.9	TH 7.0	TH 10.5 ¹⁹⁸²	HK 30.0
TW 294.8	TH 550.0	JA 44.5	IN 3.2	PH 6.8 ¹⁹⁸⁴	KO 63.2
SI 135.8	PH 350.0	HK 35.5	KO 2.7	IN 5.9	TH 110.6
HK 131.7	SI 240.0	US 20.8			PH 174.3
KO 125.6	HK 178.4	PH -18.8			IN 185.2

p = Peninsular Malaysia only

Sources: a = Euromonitor (1988), *International Marketing Data and Statistics 1988/1989*.

b = calculated from United Nations (1988), *Statistical Yearbook For Asia and the Pacific 1986-1987*.

c = Automobile International (1988), *World Automotive Market 1988*.

In Malaysia 10 people have to share one passenger car, but in Thailand that number jumps to three digits. Something which can make our life easier such as a car is apparently relatively affordable in Malaysia.¹⁰⁰

6.9 SUMMARY

Malaysia's economic performance is generally behind that of the EA-NIEs but ahead of Thailand, the Philippines, and Indonesia. This is also true in terms of performance in socio-economic development.

The factors of success for the EA-NIEs which are absent in ASEAN-4 are four-fold. First, the large industrial work force and the low dependency ratio. Second, the large number of practicing scientists and engineers. Third, the ability to finance and stimulate growth through exports. Fourth, the synergetic relationship between the government and firms in industrial development.

¹⁰⁰ One can make a case that in a city as crowded as Seoul, it is not necessary to own a car because public transportation is available. In the case of the city-states where public transportation provides services virtually to all sections of the island, owning a car may not be necessary.

We found that the position on the ladder of comparative advantage is as follow: Japan, the EA-NIEs, Malaysia, Thailand, Indonesia, and the Philippines. However, in general we can conclude that the EA-NIEs perform better economically than do the ASEAN-4, and as a result they perform better in socio-economic development.

We have also emphasized many times that one of the purposes of economic development in a country is to improve the quality of life of its citizens. We have just examined socio-economic development in relation to economic growth in this chapter and concluded that though Malaysia lags behind the NIEs in several socio-economic indicators, she leads the ASEAN-4 in all of the selected socio-economic indicators. Given the political stability and good infrastructure that Malaysia possesses while its manufacturing output growing at a faster than that of Thailand (18% versus 13% for 1990) which had been the growth leader for the past three years, and its economy which is expected to become the fastest growing in East Asia in 1991, Malaysia stands a good chance of becoming the Fifth Tiger.

6.10 WHERE DO WE GO FROM HERE?

Chapter 6 compares Malaysia with the 4-Tigers and the other ASEAN-4 in which Thailand seems to be a strong competitor of Malaysia for the fifth place on the "tiger" roster. Whether Malaysia or Thailand is a better candidate for the Fifth Tiger title will be examined in chapter 8. As a transition, the next chapter will be a brief presentation on the author's view of the "world" of economics. The view has led the author to a theoretical distinction between growth and development, a necessary concept for examining the robust growth in Thailand and its claim to the NIC-dom in the following chapter.

CHAPTER 7 ON THE THEORY OF ECONOMIC GROWTH AND DEVELOPMENT

7.1 DIFFERENT VIEWS BY ECONOMICS AND ITS SUB-FIELDS

Economists tend to look at the world of economics in a **two-dimensional** way, for example by looking at, among other things, the interactions between supply and demand in relations to prices on the y-axis and quantities (and/or time or other variables) on the x-axis. They either forget or in many cases view as unimportant a third dimension, that of space (i.e., distance).

Economic geographers (or spatial economists) on the other hand will view their world of economics as **three-dimensional**. This view is more comprehensive; for example, supply and demand (among other things) are viewed as an interrelationship among price and quantity (and/or time) and a third dimension, that is, distance.

The reason for elaborating on the fundamental difference between economics and economic geography is because economic geography may give relatively clearer definitions of "growth" and "development." Even the field of development economics does not come close to perfectly distinguishing growth from development. **Development economists** will explain "development," in particular, as a process of "structural change" in an economy but make no explicit geographical analysis of the economy over the "economic space" (i.e., region) where the economic structure changes. **Regional economics** on the other hand, comes closer to defining development because it applies economic theory to the understanding of regions. Perhaps best of all, **economic geography** explains **how** and **why** economic phenomena or activities take place or locate **where** they are, and **what** are the **nature** of the processes that affect their locations. The nature (that we refer to here) may include historical, philosophical, political, social and cultural aspects. These aspects have already been included (at various places) in the preceding chapters and they will certainly be taken into consideration when we seek to answer the question of "Who is the Fifth Tiger?" in the next chapter. Ideally, economic geography calls for an analysis of growth and development over the economic space (i.e., region) or in other words, a geographical analysis of growth and structural change. But it is beyond the scope of this thesis to undertake this immense task.

7.2 GROWTH AND DEVELOPMENT, TWO DIFFERENT THINGS

My definition of growth in plain English is simply the process of getting "bigger." For example, an economic pie expands by 15% while sectoral shares or ingredients in the expanded pie remain unchanged. Undoubtedly the area covered by the pie also increases by 15% but the relative sizes among the slices remain the same. Think of it as slices of pizza. The person who gets the smaller slice may not be happy even though the slice is now 15% bigger. The implication is that, what has taken place in this case is only growth, the economy simply gets bigger. The economic structure remains the same. There will be no development unless there is structural change.

Development on the other hand is defined, again in plain English, as the process of getting "better" as a result of **structural change** in the **system** affecting man's total environment in a particular setting. For example, installing an integrated, computerized banking network on a nationwide scale would be a profound development for an archipelago of more than 7000 islands such as the Philippines. Reducing and eventually eliminating the identification of race with vocation and region would also be considered development for a rapidly growing economy in a multiracial society such as in Malaysia.

The difference between growth and development is that growth is quantitative; development is qualitative. In other words, measurement (numbers) are attached to growth. Development is a value-laden concept with historical, philosophical, ideological, locational, and socio-economical dimensions.

Development in the **system** must be viewed in a broader scope than that of growth. The structure of the **system** covers economic, social, cultural, and political aspects which may include: (i) the **mode** and **location** of production and distribution, and the **pattern** of consumption, (ii) the quality and efficiency of **physical** infrastructure, (iii) the quality, efficiency and effectiveness of **institutional** infrastructure (such as that of banking, of mass-media, and of social services particularly in health care and in education with "unconditional" emphasis on the quality besides the quantity, (iv) the types of **government** (military or non-military, democratic or authoritative), and (v) the effectiveness and the character of the **administration** (formalism in policy implementation and enforcement of laws versus informal, lax attitude and an unprofessional character).

In order to have development, structural change within the system above must first take place. In short, growth simply implies "bigger" whereas development implies "better" as a result of structural change.

Now, the question is: which one of the two (growth or development) must come first, or may it be that neither one needs to come before the other, or may it be necessary that they come hand in hand? It is a long-debated issue, but I would like to make a stand by saying that economies can have development either with or without growth, and growth does not necessarily leads to development, though it often does. Again, it is beyond the scope of this thesis to make an attempt to prove this statement. Thus, we caution our readers that the distinction between growth and development proposed above continues to be just a theory.

7.3 GROWTH VERSUS DEVELOPMENT AND ITS RELEVANCE TO THE "FIFTH TIGER" ISSUES

In the last two or three years, the question of who would be next after the 4-Tigers appeared in many business magazines. The choice has been between Thailand and Malaysia. The Thai economy posted double-digit growth rates three years in a row beginning from 1988. The peak achieved in 1989 was at over 12% and was the fastest growth rate in the world. But industrialization occurs so rapidly that Thai infrastructure has become inadequate and not all Thais or provinces benefit from the rapid growth. Now foreign investors and the Thais themselves are taking another long, hard look at what has been touted as "Asia's next NIC." The September 7, 1989 issue of the Far Eastern Economic Review ran a cover page story considering Malaysia as "The next NIC" (as quoted from the title of the article on page 96). The article cited Malaysia's strength over Thailand in physical and institutional infrastructure including the financial system, political stability, and the ability of the labor force to converse in English, which is considered a plus though not necessary. The article also raised concerns about the geographic concentration of Thailand's rapid growth and the effects it has had on the quality of life. The article argued that in Malaysia industrialization does not occur exclusively in the capital city and its suburb as it does in Thailand and as a result there is wider dispersion of income. The quality of life in Bangkok has not actually improved as the city faces daily traffic jam with tons of poison pumped into the air. Other problems include increasing government debt, inflation, and corruption including the lax in the enforcement of laws. These issues will be discussed further in the next chapter.

CHAPTER 8

WHO IS THE FIFTH TIGER: MALAYSIA OR THAILAND?

8.1 HOW DID THE FIFTH TIGER QUESTION ARISE?

The second quarter of the 1980s (which coincided with the beginning of U.S economic recovery from its 1981-82 recession) saw the dawn of the new electronics age with the introduction of personal computers (PCs) and video cassette recorders (VCRs) at affordable prices. By 1985, PCs and VCRs were among the hottest selling products in America. PCs have since helped coin such terms as "office automation" while VCRs have made possible viewing movies in the comfort of our home. In the PC and VCR markets, there was a three way competition, among American, Japanese, and European brand names. Until the mid-1980s, competition among developing countries for a share of the U.S. market was largely in textiles and clothing. South Korea was among the first to give a challenge to the industrial countries. As noted earlier, low-priced Samsung VCRs from Korea was responsible for the general decline of U.S. VCR prices. Hyundai, already strong internationally in construction and ship-building industries, began putting low-priced IBM-compatible PCs on the American market while its Pony cars were already selling in Canada. At the same time, plans to sell the all new Hyundai cars, called Excel, in the U.S. were in the completion stage. While most clothing and footwear on the American market were largely Asian made, the entry of Hyundai Excels into U.S. auto market in early 1986 actually marked the Asian industrial challenge to America. Korea (at the time dubbed the footwear maker) along with Hong Kong (the toy maker), Singapore (the typewriter maker) and Taiwan (the sweater weaver) were the fastest growing economies in Asia, thus earning themselves the titles "Four Tigers" and "Gang of Four." The question often raised in the U.S. is that, "after these Asians, who shall be the fifth?"

8.2 WHY WAS MALAYSIA A CANDIDATE?

In early 1985, there was talk that Malaysia would soon join the Gang of Four. The Malaysian real GDP grew by 7.8% in 1984 and was the next fastest after Singapore (at 8.3%). Malaysia certainly possesses a strong economic foundation based on abundant natural resources and a strong plantation sector. The country has for many years been the world's largest exporter of tin, rubber, and palm oil. The newly found oil and natural gas reserves off the Peninsula's east coast in the early 1980s should add to the total already made

available largely from Sarawak's offshore. By the mid-1980s, Malaysian economic growth began to be led by the industrial sector and fueled by exports of largely electronics which had replaced rubber as the leading export earner. Merchandise exports grew by an annual average of 10.7% during 1980-85 (compared to 4.4% during 1965-80) while the percentage share of manufactures in merchandise exports increased from a meager 6% in 1965 to over 30% in 1985 (WDR 1987 data). International reserves and the current account balance were in comfortable positions. A salient feature of the Malaysian economy has been the low rates of inflation which were (and still are) the lowest in East Asia. The 1980-85 inflation average was 3.1% annually compared to 6.0% in Korea (WDR 1987 data). Today the rate is 2.4% compared to over 6% in Indonesia, Thailand, and Korea, and nearly 13% in the Philippines (FEER data, May 10, 1990). As in Singapore, the banking and financial systems that exist today in Malaysia are among the most advanced in Asia because the two countries inherited the system established by the British. Malaysia boasts of having one of the most efficient transport and telecommunication networks in the region. With GNP per capita at \$2000 in 1985, just behind that of Korea at \$2150 (table 8.1), Malaysia seemed a good candidate for the fifth spot on the Tiger roster.

TABLE 8.1
RANKING BY GNP PER CAPITA AND AVERAGE ANNUAL GROWTH IN REAL GDP

GNP per capita (US\$)			Average annual growth of real GDP		
1970 ^a	1980 ^b	1985 ^b	1976-84 ^c	1985-86 ^c	1987-88 ^c
JA 1920	JA 9890	JA 11300	HK 10.0	KO 8.6	KO 11.1
HK 970	SI 4430	SI 7420	TW 8.9	TW 7.5	HK 10.6
SI 920	HK 4240	HK 6230	SI 8.4	HK 5.9	TH 10.0
TW 390	TW na	TW na	KO 8.0	TH 4.0	TW 9.9
<u>MA 380</u>	<u>MA 1620</u>	<u>KO 2150</u>	<u>MA 7.7</u>	IN 3.3	SI 9.9
KO 250	KO 1520	<u>MA 2000</u>	IN 7.2	JA na	<u>MA 7.0</u>
PH 210	PH 690	TH 800	TH 6.7	<u>MA 0.1</u>	PH 5.7
TH 200	TH 670	PH 580	JA na	SI 0.1	JA 5.0
IN 80	IN 430	IN 530	PH 3.6	PH -1.5	IN 3.7

Sources: a = Kasper, (1974), *Malaysia: A study in Successful Economic Development*, table 2, p.8.

b = World Bank, *World Development Report*, table 1, 1982 and 1987, respectively.

c = calculated from Asian Development Bank, *Key Indicators*, July 1989, table 4, 1988 data are from *Far Eastern Economic Review*, May 10, 1990, pp.50-1.

8.3 HOW DID THAILAND REPLACE MALAYSIA AS THE POTENTIAL FIFTH TIGER?

Unfortunately for Malaysia, the year 1985 turned out to be a difficult one. The country faced a recession due a global plunge in the price of oil and other commodities following a recession worldwide.

Malaysia's annual growth rate of real gross domestic product shrank from 7.8% in 1984 (the record high since 1977) to negative 1.0% in 1985 and grew by only 1.2% in 1986. Thus its 1985-86 average was a low 0.1% (table 8.1).¹⁰¹ Hong Kong, the Philippines, and Singapore also faced a recession. On the contrary, Korea, Taiwan, Indonesia and Thailand successfully weathered the impacts of the worldwide recession. Their GDP growth rates, though low, were well above the zero mark.¹⁰²

The 1985-86 recession tarnished Malaysia's image as an impending Fifth Tiger. Private analysts and government economists were skeptical about Malaysia's recovery. Unexpectedly, it did recover in 1987. The official estimate for the year was revised upward from 4.7 to 5.2%.

Thailand's economy, meanwhile, grew at a double-digit rate of nearly 11% in 1988, the highest in more than twelve years (since the 1976 data shown in table 8.2). Based on the final official estimate for 1988 along with an estimate for 1989 and a projection for 1990, we find that Thailand is not just one of, but is in fact the fastest growing economy in Asia since the EA-NIEs (the region's growth leaders during much of the 1980s) are currently experiencing a slow down (tables 8.2 and 8.3). Thailand has gained much publicity--particularly in Japan, Taiwan and North America--as "the place" in which to invest in Asia. For instance, the launching (listing) of the Thailand Fund on the New York Stock Exchange in late 1988 was welcomed with much enthusiasm by some investors who perhaps knew little about the structure of the Thai economy.

8.4 THE THAI PHENOMENON

There has been an euphoria surrounding Thailand's robust growth in 1988. This thesis will argue that the robust growth is a **recent phenomenon**. We will refer to the robust growth and the euphoria as the Thai phenomenon. This phenomenon is a case in which a relatively good performance achieved during the "bad" years (when the neighboring economies were in a recession) helped make Thailand stand out from the

¹⁰¹ However, we should not simply conclude that Malaysia is too dependent on oil exports as contended by some experts who claim that Malaysia is now no different from the older Netherlands which had suffered from the so-called "Dutch disease." Malaysia was not alone. Hong Kong, which does not export oil, also had a recession of -0.1% in 1985. But Hong Kong recovered quickly by 11.9% in 1986. Thus its 1985-86 average (at 5.9%) was not as bad as Malaysia's (table 8.2).

¹⁰² There are possible explanations for this. Thailand and Indonesia have a strong tourist industry to supplement any shortfall in exports. For Thailand (the world's largest rice exporter), exports revenues from rice might have not severely deteriorated because the demand for rice, particularly in Asia, is price inelastic. This is because rice is the main dish for Asians and they consume about the same amount of rice regardless of price.

rest in the region as an attractive place for investment. The investment-led growth in Thailand has become a case in which once economic growth has gained momentum, followed by a good expectation--it is hard to slow down. We will show how this occurs in tables 8.2 and 8.3 and we will summarize it in exhibit 8.1.

TABLE 8.2
ANNUAL GROWTH RATES OF REAL GDP, 1976-1990

	Period Before the "Bad" Years								"Bad" Years		Recovery	Estimate Projection			
	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
HK	17.1	12.5	9.5	11.7	10.9	9.4	3.0	6.5	9.5	-0.1	11.9	13.8	7.4	2.5	0.0-3.0
TW	13.9	10.2	13.6	8.2	7.3	6.2	2.9	7.8	9.6	4.4	10.6	12.4	7.3	7.7	7.0-9.0
SI	7.2	7.8	8.6	9.3	9.7	9.6	6.9	8.2	8.3	-1.6	1.8	8.8	11.0	9.2	7.0-9.0
KO	13.2	10.9	10.9	7.4	-3.0	7.4	5.7	10.9	8.6	5.4	11.7	11.1	11.0	6.3	7.2
MA	11.6	7.8	6.7	9.3	7.4	6.9	5.9	6.3	7.8	-1.0	1.2	5.3	8.7	8.5	8.2
TH	9.4	9.9	10.4	5.3	4.8	6.3	4.1	7.3	7.1	3.5	4.5	8.4	10.9	10.5	10.0
	(TH's rates were lower than MA's, except in 1977-8 and 1983)									(Phase I)		(Phase II)		(Phase III)	
IN	6.9	8.9	7.7	6.3	9.9	7.9	2.2	4.2	6.0	2.5	4.0	3.6	3.8	6.2	6.5-7.0
PH	8.0	6.1	5.5	6.3	5.2	3.9	2.9	0.9	-6.0	-4.3	1.4	4.7	6.7	6.0	5.0-7.0

See table 3.1 for country abbreviation.

Sources: 1976-87, except for the 1987 figure for Malaysia, Asian Development Bank, *Key Indicators* (July 1989), table 4. 1988-90: *FEER* (May 10, 1990). For Malaysia, 1978-90, Bank Negara Malaysia (in *FEER* May 10, 1990 p.48).

Table 8.2 shows that the years 1985 and 1986 were generally "bad" years for all economies in the table as a result of the worldwide recession, particularly in the developed market economies on whom they largely depended for their export market. Korea, Taiwan, Thailand and Indonesia grew at a slower pace while Malaysia, Singapore, Hong Kong and the Philippines shrank into negative rates. The 1985-86 period must therefore be treated separately from other years. Thus, centering on 1985-86, in tables 8.2 and 8.3, we have divided the 1976-1990 period into three sub-periods: before, during, and after the "bad" years of 1985-86.

TABLE 8.3
AVERAGE ANNUAL GROWTH RATES OF REAL GDP

	Before "bad" yrs.	"Bad" years	After the "bad" years		
	1976-1984	1985-1986	1987-1988	1988-1989	1989-1990
HK	10.0	5.9 RECESSION, QK RECOVERY	10.6	4.9	0.0-3.0
TW	8.9	7.5	9.9	7.5	7.0-9.0
SI	8.4	0.1 RECESSION	9.9	10.1	7.0-9.0
KO	8.0	8.6	11.1	8.7	7.2
MA	7.7 5th-TIGER?	0.1 RECESSION	7.0	8.6	8.2
TH	7.2	4.0 RELATIVELY GOOD GROWTH	0.0 INV-LED GROWTH	10.7 GROWTH MOMENTUM	10.0 GOOD EXPECTATION
IN	6.7	3.3	3.7	5.0	6.5-7.0
PH	3.6	-1.5 RECESSION	5.7	6.4	5.0-7.0

QK = Quick, INV-LED = Investment-led.

Source: Calculated from table 8.2.

The first feature of the Thai phenomenon is that Thailand's robust growth occurred relatively recently. The year 1988 saw Thailand's best economic growth in more than a decade. But a careful inspection of an

earlier trend (1976-84) in table 8.2 indicates that, except in 1977, 1978 and 1983, Thai growth rates never surpassed that of Malaysia until 1985. Table 8.3 shows that the 1976-84 average for Thailand was lower than that for Malaysia. The robust growth in Thailand actually began in 1987. The real GDP grew by 8.4%, trailing just behind Singapore's 8.4%. Fifth Tiger candidate Malaysia had just recovered from the 1985-86 recession with its real GDP growing by only 5.2%. Malaysia's image as a rapidly growing economy, as noted above, was tarnished by the recession. Thailand stood out as an attractive place to invest in Southeast Asia as reflected in table 8.4.

TABLE 8.4
INVESTMENT FLOWS TO ASEAN-4, 1988

From/To	Thailand (1)		Indonesia (2)		Malaysia (3)		Philippines (4)	
	Total (US\$mn.)	% change on previous year	Total (US\$mn.)	% change on previous year	Total (US\$mn.)	% change on previous year	Total (US\$mn.)	% change on previous year
Japan	3,063	217	226	-56	214	134	95	229
Taiwan	850	184	923	11,584	147	212	109	1,109
Hong Kong	446	266	232	90	50	350	27	-3
Singapore	275	330	255	1,876	66	22	2	166
S. Korea	109	742	209	1,249	9	1,013	2	100
Asia total	5,019	221	1,844	175	508	134	253	222
World total	6,225	220	4,426	267	768	158	452	171

(1) Total foreign investment in projects receiving Board of Investment promotional privileges.

(2) Total foreign capital in projects approved by BKPM; excludes investment in oil, financial sectors.

(3) Foreign equity in manufacturing projects approved by the Malaysian Industrial Development Authority.

(4) Equity investments approved by the Board of Investment.

Source: Asian Development Bank (April 1990), *Asian Development Outlook 1990*, p.41.

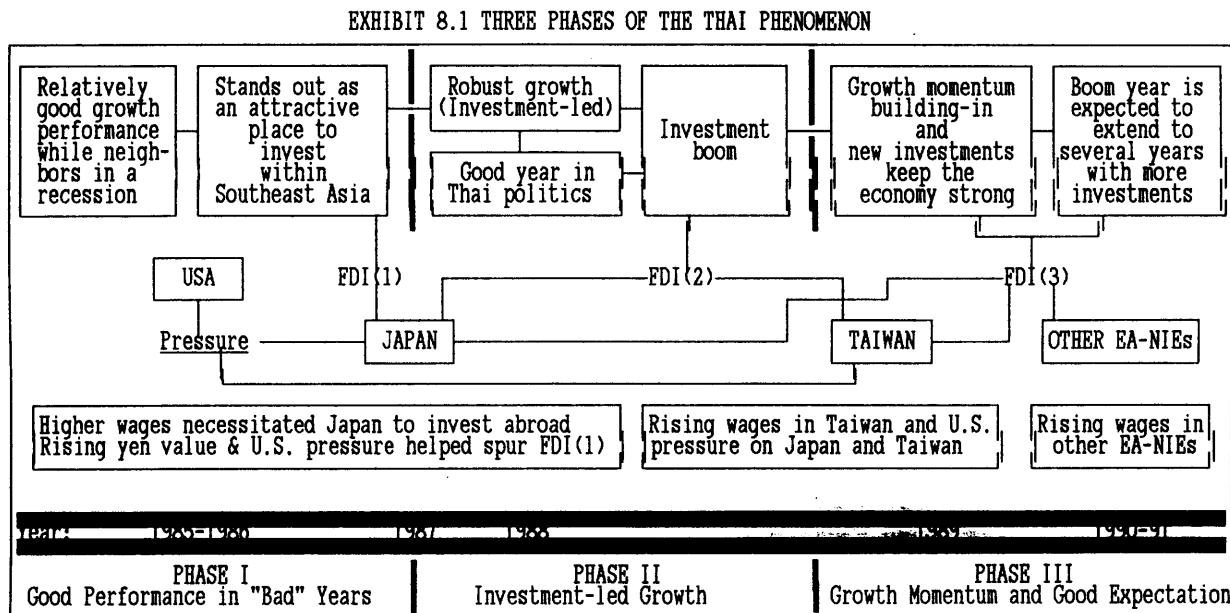
The second feature of the Thai phenomenon is that it is a case of investment-led growth in combination with good expectations that has created a growth momentum which, with new rounds of investments, will in turn extend the boom period. As shown in table 8.4, Thailand attracted Japanese investment in 1988 about 14 times larger than did Malaysia. If we go back to table 8.3, we may see that during 1988-89, the robust growth has regained its momentum, and the boom seemed likely to continue for several years given the intensity of investment (mostly by the Japanese) along with **good expectations** as reflected by the relatively high projections by many analysts (as already shown in table 8.2).

The publicity which Thailand has gained from the robust growth and the optimistic view by analysts and investors about Thai economic growth will attract new rounds of investment there. Afterward, the economy is likely to become overheated: rising inflation may exert an upward pressure on interest rates (to

encourage savings) which will in turn make investment more costly. Thus, the question is: For how long Thailand will be able to enjoy the sunshine?

8.4.1 THE THREE PHASES OF THAI PHENOMENON

Now we are prepared to examine the Thai phenomenon along with external factors as shown in exhibit 8.1. Earlier in table 8.2 under the Thai figures, we have noted three phases. These phases constitute what we have termed the "Thai phenomenon."



FDI(1) = The first round of foreign direct investments (made largely by the Japanese) was responsible for the initial boom.
 FDI(2) = The second round of FDIs largely by Japan and Taiwan (who joined Japan as the scapegoats for U.S. trade deficits). FDI(3) = The current round of FDIs now joined by the other EA-NIEs (Hong Kong, Korea, and Singapore).

During phase I (1985-86), as a result of a global recession, the GDP of the Philippines, Malaysia, and Singapore contracted. In Thailand, though the economy slowed down, the growth rate was well above the zero mark (the 1985-86 average was 4%). There were possible explanations for the success of Thailand in weathering the impacts of the worldwide recession. Firstly, Thailand's exports were well-diversified. For instance, as we can see in table 6.14, in 1986 manufactured goods (SITC 5 + 6 + 7 + 8) accounted for 44% the export total while agriculture (SITC 0 + 1 + 4) accounted for 45% of the total. Fuels (SITC 3), whose prices plunged globally in 1986, accounted for less than 1% of Thailand's exports. On the other hand, fuels accounted for 22% of Malaysia's export while manufactured goods accounted for 40% of the total. Secondly,

while industrial countries' recession had a negative impact on LDCs' exports, Thailand was less dependent on exports than did, for instance, Malaysia. As we can see in table 6.1, in 1985 exports accounted for 27% of GDP in Thailand as opposed to 55% in Malaysia. Thirdly, for Thailand, the world's largest rice exporter, export revenues from rice might have not severely deteriorated because the demand for rice, particularly in Asia, is usually price inelastic. This is because rice is the main dish for Asians and they consume about the same amount of rice regardless of prices. Fourthly, tourism which was and still is Thailand's biggest foreign exchange earner helped cushioned the export shortfall (for example, as reported in the March 1991 issue of the Asian Business magazine [page 44], estimates for 1990 show that tourism receipts were B128 billion compared with export revenues of B79.65 billion from textiles and garments and B57.82 billion from rice).

The relatively good performance achieved by Thailand during the "bad" years--when there was a recession in the neighboring countries (and even in Hong Kong), and a slow down in Taiwan and Korea--made Thailand stand out as an attractive place in which to invest within Southeast Asia. Japan became the single largest country to venture into this new investment market. For Japanese firms, rising domestic wages made it necessary for them to transfer more labor-intensive operations overseas. Meanwhile, the rising value of the yen against most of the other Asian currencies made investment abroad more attractive given the large capital surpluses that Japan has accumulated. At the same time Japan was under U.S. pressure to cut its trade and current account surpluses. This helped accelerate Japanese investment overseas, particularly in Thailand where, to say at least, the Japanese might like the fact that Thailand is a buddhist nation. Japanese investments were largely responsible for the initial economic boom.

During phase II (1987-1988), the year 1987 saw the beginning of the robust growth in Thailand with real GDP growing by 8.7%. The year 1988 was perhaps one of the best for Thailand. It achieved a double digit growth of 11.7%, the best since 1978. It was also a good year for Thai politics. Prem Tinsulanond, a former general who survived two coup attempts, became Thailand's longest serving civilian prime minister, only to step down after the election in July 1988. A retired general, Chatichai Choonhavan, became the Kingdom's first elected prime minister in twelve years. The year also saw an investment boom. The U.S., with increasing trade and budget deficits, was pressuring both Japan and Taiwan to appreciate the value of their currencies. More importantly in the shorter run, Japan and Taiwan are under pressure to reduce their

huge current account surpluses in order to appease the U.S. At the same time Taiwan, confronted with labor unrest (for the first time since its economic boom) and rising domestic wages, had to shift some production to lower-waged Southeast Asia. Based on the more recent growth trend (beginning from 1985), Thailand looked a much better place to invest than Malaysia whose recovery from a recession (still as late as 1987) remained uncertain to analysts and even to some of its government economists. It was in 1988 that the mention of Thailand as the next "little dragon" first surfaced in business magazines.

During phase III (post-1988), the robust growth has gained its momentum. Japanese and Taiwanese investments gave a new lease of life to the Thai economy. As these investments were fueling economic growth, the resulting rapid growth became yet another indicator of a healthy economy, thus attracting new rounds of investment. Newton's first law of motion finds its applicability in economics, although the following analogy seems a little weak. A moving matter (economic growth) will continue to move (grow) constantly (at the same rate) in a straight line (without lags or shocks) unless acted upon by an outside force (investment by capital-rich foreigners or commodity price fluctuations). What carries the Thai economy and is likely to extend its boom by several more years is (growth) momentum--defined as mass (the size of GDP which has increased and more importantly the size or intensity of investments) multiplied by velocity (the expectation of future growth based on recent performance). A robust year builds a good expectation for the next year. The future scenario is that the economy will at best grow further, or at least will maintain a high growth rate, or at worse will slow down (but the level of growth is already high). Good projections or expectations are crucial for continued investments. As shown in tables 8.2 and 8.3, Thailand is predicted to become the fastest growing economy in East Asia. A Bangkok Bank economist said, "[e]ven if the world economy slowed down,...the Thai economy would still grow by 9% next year [1990]--and that's on the low side" (AWSJ, Oct. 23, 1989:8). More Japanese and Taiwanese investments and new investments from other EA-NIEs (as they are also facing rising domestic wages) are expected to go to Thailand. Korea, which in recent years began to have current account surpluses, allowed its citizens to invest abroad for the first time in late 1988. Yet, Hong Kong's capitalists, who are worried about the situation after the handover of the colony to China in 1997, feel that they must start investing abroad. Moreover, it is not unusual that "Thigh-land" [Thailand] can offer its "local

attractions" (the providers of pleasures) in Soi Thaneeya¹⁰³ and at the number one ranked hotel in the world¹⁰⁴ in order to lure Japanese businessmen (who will otherwise have to face geisha-related scrutiny in Tokyo).¹⁰⁵

For Malaysia, no one dared hope it would recover quickly. Investments slackened in Malaysia while Thailand continued to attract new investments. Following the relaxation of the New Economic Policy requirements (such as the 30% equity for *bumiputra*) in late 1987, foreign direct investment, especially by the Japanese, Taiwanese, and recently by Americans, in the electronic sector began to fuel the Malaysian economy. 1988 saw a robust growth of 8.7% in the economy, the highest since 1979. But it seems too late, at the most until 1991, for its GDP growth to catch up with that of Thailand which had attracted a larger amount of investment. There is no doubt that Thailand is the fastest growing economy in East Asia today. But perhaps analysts and investors from the West are not fully informed about the structural aspect of the Thai economy. Thus the following section will consider the mirage behind Thailand economic growth.

8.5 THE THAI ECONOMIC GROWTH: A MIRACLE OR MIRAGE?

Thailand is relatively behind compared to Malaysia especially in telecommunication and infrastructure (data supporting this claim have been given in chapter 6).¹⁰⁶ Today it is well known that infrastructure deficiency and insufficiency is possibly the biggest brake on its robust growth (see EIU, Thailand: Country Report, No. 3, 1988). As foreign industrialists experience for themselves, the Port Klong is congested, Bangkok's traffic jam is worse than New York's, telecommunication is a headache.

The implementation and enforcement of laws seem less formal and weak. Numerous instances may be given: For instance, in November of 1989 the Thai Finance Minister, Pramual Sabhavas, gave the country's

¹⁰³ The area, located next to the lower-class Patpong red-light district, contains night clubs catering almost exclusive to Japanese businessmen.

¹⁰⁴ The Oriental Hotel in Bangkok was rated the No.1 hotel in the world two years in a row in 1988 and 1989 (see the September 1989 issue of the Institutional Investors magazine (p. 311).

¹⁰⁵ Geisha-related scandals had a tremendous impact in Japan. It helped bring down Takeshita and Uno from the prime minister post.

¹⁰⁶ See also EIU Thailand: Country Report, No. 3, 1988:5&16, and the FEER, September 29, 1988).

15 commercial banks two years to comply with share divestiture rules set in 1979 but never enforced. Counterfeited goods are not confiscated to the extent that the Thai government is under constant complaints from Washington. Perhaps the Thai government made a show to the U.S. in early 1989 when somehow a picture of Thai officials publicly burning these goods appeared in the Boston Globe.¹⁰⁷ Copyright and patent laws are not enforced to the extent that they became a top issue in Thailand's trade friction with Washington. In May 1989, the U.S. put Thailand on a "priority watch" list under its Super 301 program for failing to honor American copyrights and patents (AWSJ, Oct. 24, 1989:8). The Chatichai government has been unable to enforce the ban on logging because "illegal loggers are better armed than authorities" (AWSJ, Oct. 23, 1989).

Crimes occur relatively often without being stopped by police and without due process of laws. Civilians have access to guns.¹⁰⁸ Drug dealings and murders are an everyday story.¹⁰⁹ According to a police report on crime prevention planning, in 1978 there was one murder or manslaughter every four minutes (FEER, Sept. 21, 1989:31).¹¹⁰ Foreigners who are planning a business trip to Thailand should thank the FEER for unveiling and warning them that besides AIDS¹¹¹, crimes are a major problem in Thailand. Rich foreigners are often the target. As a Kelantanese saying goes, "if you're going to Thailand, you can do anything [there] except drive a BMW or Mercedes, especially one with a Malaysian license plate." The Japanese government found this out when a Japanese business executive in Thailand was murdered. It later issued a

¹⁰⁷ This is based on author's recollection; the exact date is not available. The picture appeared in a box with description at the bottom (i.e., not followed by a news story).

¹⁰⁸ In contrast, in Malaysia, under the Dangerous Weapon Law someone convicted of possessing a gun is punishable by hanging.

¹⁰⁹ One's life in Thailand seems just as cheap as that shown in American movies and syndicated television programs in which everyday and night many "die" (on television) and as if the police have no authority.

¹¹⁰ Among these murders which I can recall were the shootings of Thai politicians of Malay origin in Narathiwat province and Malay religious teachers in Pattani province, and the kidnapping and murder of a Malaysian journalist who was driving a Mercedes Benz (less affordable in Thailand than in Malaysia).

¹¹¹ See the FEER (Nov. 2, 1989:44-5) which published an article on prostitution and tourism and AIDs problem in Thailand. Reliable data on AIDs cases are not available because not all the cases are reported. As pointed out by the article: "Responsible analysts say the fact that there are nearly 10,000 proven HIV-positive AIDs carriers in the country indicates that there are at least ten times more undetected carriers." Perhaps the extent of AIDs may be reflected from the number of prostitutes. As noted by the article, reasonable estimates, based on calculations from police lists of brothels, massage parlors and the like, there are over half a million prostitutes, constituting 1% of the Thailand's 53.6 million population. It is also noted that some argue that the number could double that because many of them are children or minors who are not reported.

warning to any Japanese wanting to visit Thailand (FEER Sept. 21, 1989). In late December of 1989, a Saudi diplomat was gunned down in Bangkok. These murders are inconsistent with the many portrayals of Thai gentleness in Western media. As quoted from the FEER (Sept. 21, 1989:31), "crimes...baffle social scientists seeking reasons for the phenomenon in a society purportedly ruled by traditional gentleness, and a Buddhist abhorrence of killing."¹¹² Official statistics indicate that between January and June 1988 there were 5,866 serious crimes; 53% of which were murders (FEER, Sept. 21, 1989:31). All these are a reflection of the "easy" or lax attitude on the part of enforcement officers, perhaps reflecting the relative backwardness of the administrative system in Thailand which is run by the military in disguise.

A very doubtful point (or mirage) about the "Thai miracle" may be traceable from the "invisible" sectors (i.e., personal entertainment services, and drug trade) within her economy if such data ever exist. Bangkok is known by some as the sex capital of the world. Drug trading is another "invisible" exports and yet a big contributor to foreign exchange earnings given the porous Thai borders.¹¹³ Perhaps no one in Thailand ever questions whether it is good or bad for the national economy as long as foreign currencies are flocking in; plus one may argue that these "invisible" sectors exist in almost every countries in the world. The question we should ask with regard to the growth of the key sectors is: whether Thailand has already had the necessary ingredients or prerequisites for industrial development such as modern physical and institutional infrastructure, at least at par with that of Malaysia if not of Singapore, for Thailand to be ranked as a NIC!

Finance is another area in which Thailand lags behind Malaysia. Malaysian and Singaporean currencies are among the few in Asia which since the 1970s have satisfied the requirements of Article VIII of the IMF Agreement and therefore have been fully convertible. Thai and Korean currencies are among the non-

¹¹² This is the first time I found a support for my observation that crimes are a problem in Thailand, and the culture which is portrayed as being gentle is actually partly influenced by the "Dirty Harry" culture from America similar to the "Western cowboy" culture in the Philippines where civilians and authority are no different since both carry guns.

¹¹³ Malaysia is very much concerned that illegal drugs originate from the region covering the mountains of Thailand, Myanmar, and Laos or what is called "Southeast Asia's golden triangle." The Malaysian government has declared "dadah" (illegal drugs) as the number one threat to national security. At every international airport or port, foreign visitors are greeted by a posters showing a skull that reads: "Dadah is Death," reminding them of the mandatory death sentence (hanging) for drug traffickers carrying, for example, 15 grams or more of heroin. In 1986 two Australian citizens were hung (one was British-born) despite personal appeals from prime minister Thatcher and the Queen. The hanging caused tensions between Malaysia and Australia and the U.K. The Australian government described the hanging as "uncivilized and barbaric," implying a degradation to the white people who once modernized this very nation. If Malaysians themselves have been hung under the law, should other citizens be set free just because they are an extract of our colonial masters? The latest hanging of a British citizen, in July 1989, again took place despite appeals from U.K.'s prime minister and Queen.

convertible currencies. Malaysia's equity market is more open than that of Thailand, Korea, and Taiwan. As quoted from FEER (Sept. 7, 1989), one British investment banker put it: "If you are from London and if you can set up a brok[er] outfit in Taiwan, Korea or Thailand you will be a star overnight..."

We must not be deluded by the numbers (i.e., growth rates) given the "highly" dualistic nature of the Thai economy. Growth is concentrated in the Bangkok area. The widening gap between urban and rural areas, in terms of infrastructure, social services, employment and income, is most notable in Thailand. Bangkok with 9.3 million inhabitants (about 25% of Thailand population) who enjoy incomes of over \$2,500 per person (only a little below those of the Portuguese) seems a country by itself within the Thai Kingdom when compared with 19.3 million Thais in the Esarn (northeast) region whose incomes are about \$300 per person, way below the \$1,000 per capita income for the country as a whole (see the Economist, February 23, 1991:36).

Many analysts from the West have rated Thailand as one of the best place to invest partly because the country has no ethnic problem.¹¹⁴ The reason is, in Thailand the Chinese minority has assimilated itself into the Thai culture relatively easily through Buddhism and interracial marriage within that same religion. Moreover, the Chinese are not as distinguishable from the Thais as they are from the Malays in the south or in Malaysia (i.e., the Chinese and Thais look similar to foreigners and even to some of the Thais or Chinese). Thus when they confront each other in daily activities such as business, one does not regard to be ethnically different from the other. Western analysts have gotten a wrong impression about Malaysia just because it is multiracial, thus giving Thailand a better review.

But many Westerners do not know or forget that the Thai politics had been unstable throughout the 1970s and most of the 1980s. The country has a history of coup attempts. Recently, on February 23, 1991, the Chatichai government was toppled in a military coup. On the contrary, Malaysia has been relatively stable politically and, as a result, it rarely made news internationally.

Foreigners will likely face a language problem because, unlike in former British colonies such Malaysia or Singapore, English is not widely used.

¹¹⁴ Except in the south, between the Thai citizens of Malay origin and the Thais.

Thailand's per capita GNP of US\$800 in 1985 was relatively low compared with Malaysia's US\$2000. Admittedly, an economy does not need to reach a GNP of at least \$2000 or \$3000 to be considered a NIC. But, with the backwardness of the systems which run the economy, I do not see that Thailand is in a better position than Malaysia to be a NIC. What those analysts saw was only growth; not development. Admittedly Thailand is developing, but with my broader definition of development, a country is undeveloped (immature) so long as "ballots" do not reign supreme over "bullets."

As a summary, by looking at **recent** growth alone, we cannot blame those less-informed analysts for dubbing Thailand as the next NIC. The robust growth of the Thai economy is a recent phenomenon which, once started, it kept going by its own momentum. But Thailand's inadequate infrastructure, will eventually reduce that momentum. The publicity associated with the robust growth keeps the momentum strong, thus luring Japanese and Taiwanese investments in unprecedented numbers. In addition, Thailand has all along enjoyed publicity as a tourist's favorite destination. But foreigners are lacking knowledge about the situation outside Bangkok. Bangkok (not Thailand) may indeed be a NIC. If we look at **past** trends, the growth rate of the Thai economy never surpassed that of Malaysia until 1985. In practice, it is the recent and current economic trends that actually represent a country in the ranking by investment analysts. The past tend to be forgotten. Yet Malaysia has suffered from its image problem and its low profile abroad. The robust growth in Thailand was in part a result of high investments mostly by the Japanese and Taiwanese which were under U.S. pressure to reduce their current account balance and who were also lured by rising interest rates in Thailand.¹¹⁵ The rising interest rates (at 16% as of March 18, 1991) and growing inflationary pressures (with a 6.5% change over previous year) may serve to dampen economic activity and the government may be forced to rein in the economy in the face of a burgeoning trade deficit (at US\$2.76 billion during the fourth quarter of 1990). In fact, the GDP growth for 1991 is expected to slow down to between 6.5 and 8% from the 10% achieved the year before (all data from FEER, March 28, 1991:66-7).

¹¹⁵ As reported by the EIU, "interest rates on deposits offered by commercial banks have now [at the end of 1988] hit the Bank of Thailand imposed ceilings as the banks have sought to solve their liquidity shortage and it seems likely that there will be a steady rise in 1989, so that the present ceiling of 15% for loans becomes the norm" (EIU No.4 1988: 4) For the Japanese, the higher value of yen means higher purchasing power in terms of other currencies, making it easier for the Japanese to buy foreign bonds and securities. The Taiwanese are encouraged to invest overseas in order to cut the huge current account surplus (contributed in most part by the trade surplus) with the hope to appease the U.S.

In the final analysis, structural changes in institutional infrastructure (such as financial, administrative and political systems) and in physical infrastructure (such as roads and telecommunication) are needed in Thailand before development can go forward. There will be no development, unless there is structural change (i.e., betterment in the systems mentioned above). However, in reality there is no sharp demarkation between growth and development. We concede that there has been development associated the rapid, **intensive** growth in Thailand. But growth is largely concentrated in Bangkok and is not **extensive** enough to alter soon the dualistic character of the Thai economy. Moreover, the scope of structural change employed includes the types of government and administrative system. We have emphasized and given instances of the "lax attitude" and the lack of "formalism" and professionalism of the government machinery in its character, in its operation, in the provision of services and in the enforcement of laws as a corollary of an "institutional backwardness" which inhibits development. A country is less developed if its government is weak and lacking formalism in enforcing laws and moreover if it is over-run by the criminals (e.g., in Colombia, judges and justice ministers were murdered). We consider a country is not developed as long as "ballots" do not reign supreme over "bullets." The author's argument of Thailand being relatively deficient in **physical** infrastructure is supported by data in chapter 6. But the author's claim that Thailand is relatively undeveloped in **institutional** infrastructure such as in the provision of government services (formal versus informal), in finance and banking system was not substantiated with data but was based on author's personal observation and experience¹¹⁶ and on his reading of history.¹¹⁷ Data measuring administrative efficiency are not easy to get even if they exist.

¹¹⁶ Born and lived about 10 miles from the Thai border in the Malaysian state of Kelantan, I traveled more extensively in Thailand than in Malaysia because of the special relationship that Kelantanese have with the Malays in Southern Thailand. There are many instances of cross-border marriages and the extended families living in the region which was once a part of the Kelantanese world. In history, Kelantan and Thailand's four most southern provinces were under the rule of a Malay kingdom before being controlled by Siam. The Siamese control of Kelantan lasted until the early 1900s. Malays in the four provinces speak the same Malay dialect which is not understandable by people, say from Kuala Lumpur. Some Malays in South Thailand even carry dual citizenship, and of course choose to send their children to have formal schooling in Malaysia.

¹¹⁷ The British colonial legacy of modern administrative, financial and banking systems was prominent in Malaysia because of the early integration into the capitalist network in which Malay[sija] has since been the world's leading exporter of tin, rubber, and later palm oil. Malaya was among the few colonies that gained independence in a "mature" way, through diplomacy without bloodshed. The leaders were British-educated and fluent in English. Prior to the current Indonesia's role, it was not unusual that they assumed the role as spokesman for ASEAN in international circles. On the monetary side, back in the early 1970s the ringgit was one the few currencies in Asia that were readily convertible.

8.6 CONCLUSION

The robust growth of the Thai economy during the past three years has earned Thailand a reputation as a potential NIC. Japanese investments have fueled much of the growth. As demonstrated by the "Thai phenomenon," it is necessary for a country to have not only a high profile but also a good image in the Japan, North America, Western Europe from where we find most of the sources of foreign direct investment.

Some analysts consider Thailand as a model of political stability among the would-be NICs. These analysts seem to forget that the attempted coup in 1985 left 10 people dead. As already mentioned, on February 23, 1991, Prime Minister Chatichai was ousted by a military coup. On the other hand, the last time Malaysia was shaken by political unrest was in 1969. Since then, the country has had fair and free elections and changed prime ministers peacefully.

Malaysia has had a bad image overseas just because it is multiracial. Many foreign analysts point out to the multi-ethnicity of Malaysia's population as a long-term political liability. On this score, Thailand is given high marks for its national cohesiveness and success in integrating the dynamic Chinese community. It can be argued that ethnicity in politics in Malaysia is now less important than at any time since independence in 1957. For instance, the United Malay National Organisation (UMNO) Party now depends on its coalition partner in the ruling National Front Party, the Malaysian Chinese Association (MCA) for crucial support. The supposed champion of the Chinese, the Democratic Action Party, is in alliance with the Pan-Malaysian Islamic Party (PAS) in the opposition camp with the needs of compromise potentially canceling out each party's hard-line stances.

Malaysia has had a low profile in the West. The next chapter presents Malaysia in a story of the little-known.

CHAPTER 9 MALAYSIA: A STORY OF THE LITTLE-KNOWN

We are concerned about Malaysia's low profile in the U.S. in particular because the U.S. is a center of intellectual circles, international development agencies, and news exchanges. But the name Malaysia is rarely mentioned in the U.S. mass media. If it is mentioned, it is usually inserted merely as a supplementary fact for geographic description of her neighbors which receive rather full coverage in the form of exclusive articles or regional coverage. For example, Bali, Bangkok, and Singapore but rarely Malaysia are mentioned in tourist magazines as places of attraction in Southeast Asia. Sometimes Malaysia is simply inserted for listing the names of the member nations of the ASEAN.

9.1 WHY WAS MALAYSIA OVERLOOKED?: LOW PROFILE VERSUS THE LACK OF EMPHASIS ON GEOGRAPHY AND FOREIGN AFFAIRS IN EDUCATION SYSTEM IN THE WEST

It seems that the primary reason why Malaysia has been overlooked by the West is the relatively low profile that she has on the international scene and, as mentioned above, in the U.S. in particular. But is the low profile a cause or a consequence? Did Malaya and Malaysia choose to have such a low profile?

The Malay Peninsula was never sealed from outsiders. The rulers did not opt for the "closed-gate" policy¹¹⁸ such as practiced by the old Korea for which Korea was known as the Hermit Kingdom. But rather the Peninsula was "integrated into a larger economic and cultural system from as early as the first few centuries after the birth of Christ" (Bunge, 1984:5).¹¹⁹

The openness continues to this day. But why is Malaysia still relatively unknown in the West? It will be argued that the relatively low profile is not by itself a reason for Malaysia's being overlooked. It is rather a consequence of various factors among others, the absence of Great Power conflicts involving Malaysia and the lack of emphasis on geography and foreign affairs in the West.

¹¹⁸ "Closed-gate" policy is my term for Korea's closed-door policy. It is a reflection of the many gates in the country, for example those in Seoul which are preserved to this day.

¹¹⁹ The Peninsula was on the crossroad of the maritime trade between China and India. The openness of Malaysia's economy may be traced back to the early development of the Peninsula which illustrates the workings of an international economic system a millennium and a half before the Industrial Revolution in England. The Strait of Melaka became an inevitable gold traders' route between the Siberian goldfield and India when the overland trade route was cut off (Bunge, *ibid.*). This had occurred long before the presence of Arab traders (between the fourth and sixth centuries A.D.) and before the early emergence of Southeast Asia as a center for spice trading which had attracted the Portuguese, Spaniards, Dutch and English to the extent that among them they had colonized almost all of Southeast Asia.

9.2 WHY IS MALAYSIA RELATIVELY LITTLE-KNOWN?

Six reasons may be emphasized: the first one concerns the absence of the Great Power rivalries; the second, related to the first, has to do with Malaysia's low profile in the U.S.; the third is related to the direction of and the channel for Malaysia's exports within the context of the common market and institutions that once existed between Malaysia and Singapore; the fourth is the lack of tourist promotion in Malaysia; the fifth concerns Westerners' lack of knowledge of geography and the affairs of some countries in the Far East; and the sixth concerns the attitude of some Malaysians about the West.

9.2.1 THE FIRST REASON: THE ABSENCE OF SUPERPOWER CONFLICTS

Malaysia, in sharp contrast with her neighbors, can be considered one of the more peaceful nations in the world. For instance, immediately to the northeast lie the killing fields of Kampuchea and war-torn Vietnam. To the northeast there is the communist-threatened and politically chaotic Philippines. To the extreme northeast there are the two divided Koreas who distrust each other; and the two Republics, the Peoples' Republic of China (ROC) and the Republic of China (ROC) on Taiwan, each of whose territorial boundary includes the other (e.g., Taiwan's Constitution maintains that the mainland is part of the ROC).

Countries which have some kind of military and/or political connections with the U.S. have a relatively high profile in the West. The most prominent examples among Asian countries are South Korea and the Philippines. The U.S. which was involved in the Korean War (1950-1953) has since maintained military bases there. After the war, Korea became a big recipient of U.S. economic aid. The Philippines was occupied by Americans and has since accommodated bases for the U.S. military. Another big recipient of U.S. aid, but one that is not often mentioned, is Thailand which has also received U.S. military support.

Malaysia has had its own problems such as racial tension, but it has been blessed for over 30 years with relative peace and harmony without any war or coup attempt.¹²⁰ Malaysia along with Singapore can

¹²⁰ Except for three incidents: First, there was the Emergency period (1948-1960), a declared period of underground activities and sabotages by the outlawed Communist Party of Malaya. The party was aided by China with the aim of establishing a communist state on the Peninsula and later to prevent the formation of Malaysia.

Secondly, there was the "Konfrontasi" (confrontation) campaign by Sukarno, Indonesia's former president. The campaign was launched to prevent the formation of, and later to "crush", the Federation of Malaysia. It was officially announced in January 1963 and ended when Sukarno stepped down following an abortive left-wing coup on September 30, 1965, and when Malaysia signed a peace treaty with the Suharto regime on August 11, 1966.

boast of being the only nations within the region to achieve independence without bloodshed but rather through diplomacy. Malaysia was not caught in the middle of the Great Power rivalries. There is no U.S. military presence in Malaysia despite its strategic location. This is partly due to the British presence before the independence, and also due to the non-aligned "prophecy" (crusade) that the Malaysian government has spearheaded at the United Nations and within ASEAN.¹²¹ But being active in international diplomatic circles does not guarantee a name recognition worldwide. The absence of the superpower conflicts in Malaysia is related to the second reason discussed in the next section.

9.2.2 THE SECOND REASON: RELATIVELY LOW PROFILE IN THE U.S.

We single out the U.S. because in many aspects it has a prominent position in the world. As noted several times above, the U.S. is one the largest markets for exports from, and one of the major sources of capital and technology-intensive imports for, developing countries. It is a leader in telecommunication technology, and in news gathering and transmission. News reported in the U.S. may likely be also reported elsewhere.

But the aspect more relevant to our discussion is the notion that the U.S. is a center for exchanges of intellectual ideas. Isn't it true that the U.S. has the learning institutions which have produced many of the

Finally, there was the May 13 Incident discussed in chapter 6. However, by no means can any of these hostilities be regarded as war. The Emergency is better described as the declared period of communist subversive activities. The "Konfrantasi" involved violent demonstrations by Indonesians. The May 13 Incident happened only in Kuala Lumpur and was contained within a short period of time.

¹²¹ Even though Malaysia is relatively a small nation, it is one of the most active and outspoken countries in international diplomatic circles. It was one of the few countries which spearheaded the nonaligned movement at the U.N. But Malaysia's claim to nonaligned status was given recognition belatedly in 1969 when she was invited to attend a preparatory meeting of nonaligned countries held in Tanzania. Malaysia was actively involved in bringing the conflicts in Kampuchea to discussion tables at the U.N. Malaysia was the founder of the concept of neutralization for Southeast Asia. This concept had been quietly discussed by and among Malaysian leaders as early as 1966 and 1967, but it was not until September 1970 that the idea was first publicized internationally. This was done at the Conference of Nonaligned Nations in Lusaka, Zambia, where Malaysia called on the nonaligned countries to take a greater interest in a neutrality scheme that hopefully would be subscribed to by the superpowers themselves. In October 1971 Malaysia elaborated this concept before the U.N. General Assembly and evidently succeeded in persuading her ASEAN partners to accept neutralization as a desirable, if not immediately practical, goal for the region (Bunge: 229). Malaysia's achievement was realized with the historic ASEAN's Kuala Lumpur Declaration in November 1971 when the then five ASEAN countries signed a declaration pledging their "necessary efforts toward the recognition of and respect for Southeast Asia as a Zone of Peace, Freedom, and Neutrality [better known as ZOPFAN] which is free from any form or manner of interference by outside powers." Malaysia was at the forefront on the Antarctica issue (making it accessible by all nations). Prime minister Mahathir initiated the formation of the South Commission whose first meeting was held in Kuala Lumpur in 1986. The biggest achievement and recognition of Malaysia's active involvement in international issues so far is being elected as a member of the twelve nation U.N. Security Council for the second time (in October 1988).

often quoted schools of thought,¹²² world renown nobel laureates,¹²³ and the often cited writers and publications? Some of these institutions have become centers for research and technology, and policy studies.

It is well-known that economics has moved from Cambridge, England, to the American Cambridge by the Charles River, namely to MIT and Harvard (see the Economist, Dec. 24, 1988:91-4). But one of its subdisciplines--development economics--has not been appealing to young Americans because job prospects in this field are dull. As noted by Sir Arthur Lewis (1984), "development economics is said now to be in the doldrums."¹²⁴ John P. Lewis (in Lewis and Kallab, 1986:3) noted that: "In the U.S. case, references to 'aid fatigue' have become commonplace. Compared with twenty years ago, the study of development has lost standing in the universities."¹²⁵

Despite such gloomy notes, a large amount of research in economic development is still initiated by development thinkers in the U.S. (who may not necessarily be U.S. nationals). This is because the U.S. is a center of higher education and research that not only it does attract intellectuals from all over the world but

¹²² But from my personal experience and observation, quantities--not qualities--characterize high education in America. The fact that world's best universities are concentrated in the U.S. (such as Harvard, Yale, MIT, and Cornell) compared, for instance, to the relatively fewer in England (with a shorter list such as Oxford and Cambridge) has given all U.S. universities high remarks in the eyes of people in the less developed countries. They have a perception that all universities in the U.S. are of high quality. But from my own experience during undergraduate education in the U.S., mathematics courses were of a low level, comparable to that in Malaysian lower-secondary school (age 13 through 15). Four or five years ago a well-known saying among Malaysian students in the U.S. was: "If you want to finish fast, go to a small university, you can get an easy B.Sc.--but one which is still highly regarded back home because it is from America." The Malaysian government learned of this saying and stopped its spread by requiring its sponsored students in certain fields in the U.S. to complete at least a master's degree level. The recognition scheme used by the government is as follows. A bachelor's degree from a U.S. university (which normally takes 4 years) is equivalent to a diploma from Malaysia (which usually takes 2 or 3 years and is not considered a degree). A master's degree from the U.S. is equivalent to a bachelor's degree in Malaysia. A doctorate degree from the U.S. is not necessarily as highly regarded as those from Malaysian universities; but the recognition is based on the stature of the institution.

¹²³ Partly because many of the best educated scholars from all over the world including those from the less developed countries come to the U.S. and some never return to their home countries. This is an example of the "colonized mentality." I do not blame those who stay because of fear of political persecution back home, but those who subscribe to the perceived notion that the U.S. is the land of opportunity and who surrender to the challenge of having to create opportunities by themselves back home (which usually means job and advancement opportunities). After all an opportunity is not something that we can expect to come easily. As a Malay proverb says "wait not for the moon to fall on your laps." But it is something that must be created by using the knowledge with which they are equipped.

I also observe that many of the Nobel laureates are from the West. Today, colonization still exists in many domains; one is in education. I think that if Dr. Susumu Tonegawa of MIT were not in the West, he would not have gotten the Nobel prize. He began the research in Japan and completed it in Europe; not at MIT when his contribution was recognized.

¹²⁴ Lewis, W.A., "The State of Development Theory," The American Economic Review, vol. 74, no. 1 (March 1984:1 & 10).

¹²⁵ Confuse not the Lewises as critics of development economics; rather they are two of the proponents of this sub-field of economics (precisely, the promotion of Third World development, in J.P. Lewis's words, "both as a subject for study and as a realm of public policy" which is today about 37 years old. They were commenting on how the critics of this sub-field of economics were slighting the field.

also it generates enough funds for research. Most students of development in U.S. universities are foreigners. In recent years more and more development economists from the developing world gained stature in this field as shown by many of their writings published in the U.S. and elsewhere. It may seem an overblown expression to say that: in order to be cited or discussed internationally in academia, their writings ought to be in English and published in the U.S.¹²⁶ But practically that is true.

Countries which are relatively known in the U.S. would be subjects of discussion and research at U.S. universities by world famous academicians. Countries which have a high profile in the U.S. tend to have a similar profile elsewhere given the dominant position of the U.S. Writings by scholars in the U.S. are also read by students in other parts of the world. But Malaysia is less-known in the U.S. She is a rare subject of development studies and discussions compared, for example, to the Philippines and South Korea, two of the countries where Americans have had involvements. Relatively few books about Malaysia are written in the U.S. or by Americans. Contacts between scholars, academicians, and professionals in the U.S. and those in Malaysia is relatively few compared, for example, with those in China, Israel, and the U.S.S.R.

9.2.3 THE THIRD REASON: NAME RECOGNITION FOREGONE TO, AND OVSERHADOWED BY SINGAPORE

The third reason is the greater name recognition foregone to Singapore, a city-state strategically located at the southern tip of the Malay Peninsula, the longest of the peninsulas that stretch out of the East Asia's mainland. Given the length of the Peninsula which separates the South China Sea from the Indian Ocean, inevitably the shipping route between the Far East and the Middle-East and perhaps Europe as well had to pass by Singapore. In addition, the islands of Java and Sumatra which lie to the south and west of Singapore, respectively, serve to shield Singapore's harbor from heavy wind. Such a shield was needed by sailing ships during the old days of spice trading by which Singapore became not only a stopping point but also a center for the trading (despite producing little or virtually no spices at all).

¹²⁶ I wonder what would happen to the status of America and its universities if German--not English--were the language used internationally.

Despite her political separation from Malaysia that took place in 1965, Singapore remained a part of the Malaysian common market until the late 1970s. Malaysia channeled some of its exports to and/or through Singapore because of the locational (or natural) advantage that the Singaporean ports had had and the relative ease that Singapore's *entrepot* practices had offered. This might have helped boost Singapore's name as a major exporter. Being on an inevitable trade route, Singapore emerged not only as an *entrepot* center but also a financial and business center. Modern ports were built in response to increasing international shipping. Commercial activities grew. Banks and financial institutions sprang up to provide financial services to traders. Insurance companies followed suit. The stock market grew. The construction industry (for the high-rise buildings and highways) boomed especially in the 1970s to the extent that Singapore had to import construction workers from Malaysia. High-rise buildings of steel and tinted glass and a modern highway system have projected Singapore as a modern country with a healthy economy. All of these have created a climate that is conducive to attracting foreign investment. This gives Singapore a new status: the financial center of Southeast Asia that joins the ranks of Hong Kong and Japan.

Malaysia might have foregone some of her international exposure and name recognition to Singapore through her sharing with Singapore some of the institutional machineries or facilities. The sharing had worked to the advantage of Singapore due to the locational advantage that Singapore has. A primary example is the sharing of the common rubber market which lasted until August 20, 1973. If we look back, it was so incongruous for Malaysia, as the world's largest rubber exporter not to have had her rubber market operate independently of Singapore--an island which produces virtually no rubber. Malaysia and Singapore also shared the same currency from 1906 to 1973.¹²⁷ With the sharing, rhetorically speaking, Malaysia bore the pain of production with little or no marginal profit, but Singapore took the easy or extra profits in distribution

¹²⁷ On June 21, 1967, Bank Negara (the central bank) began issuing the Malaysian ringgit to replace the Malayan dollar. But the move was more of a reaction to the failure in the negotiations for a common currency (after Singapore separated from the Federation on August 9, 1965) than a move to have pride in a currency which Malaysia can call her own. The negotiations are a reflection of interdependence between Malaysia and Singapore. Had the negotiations not failed, Malaysia might have continued to share the currency for some years. Despite the currency split, the agreement for interchangeability was maintained until May 8, 1973, when Malaysia unilaterally terminated it.

(through *entrepot*) along with the name recognition that was crucial for attracting foreign investors who were in the most part responsible for turning Singapore into a financial center.

Within the financial sector some national pride is at stake. Malaysia shared the same stock market until June 4, 1973. Today the Kuala Lumpur Stock Exchange (KLSE) and the Stock Exchange of Singapore (SES) are like siamese twins. But the SES rather than the KLSE has the locational advantage and the preeminent role. One may argue that Singapore may not have become the financial center of Southeast Asia if there were no contribution by Malaysian companies. As noted by the AWSJ (Oct. 30, 1989), Malaysian-based companies make up more than half the 317 concerns listed on the SES and account for half of its market capitalization of some S\$112 billion (US\$57 billion). In contrast, Singapore-based companies on the KLSE constitute less than one-fifth of the exchange's 300 listed concerns and account for less than one-tenth of market capitalization, which is roughly equivalent to that of the SES. On October 27, 1989, the finance minister, while laying out Malaysia's annual budget, announced that the government was ordering the KLSE "to take appropriate action immediately" to cut its link with the SES. The minister told Parliament: "The government has...decided as a matter of national policy on a total separation of the KLSE from the SES, or in specific terms, on a de-listing of Malaysian-incorporated companies from the SES...The split...should be looked up upon as a natural and logical development of the Malaysian share market."

9.2.4 THE FOURTH REASON: THE LACK OF TOURIST PROMOTION IN MALAYSIA

Related to our discussion above is the lack of tourist promotion by Malaysia. Tourism has been one of the biggest industries in Singapore. The city-state has been an important transit point and/or a favorite tourist destination in Southeast Asia, again, because of its strategic location. Kuala Lumpur tends to be left out (on maps) by some of the major long haul international carriers for the reason that Kuala Lumpur is only 30 minutes away (by air travel) from Singapore. The number of international flights in and out of Singapore has always by far exceeded that of Malaysia. Available statistics show that, excluding those from ASEAN, only 77 international flights a week (with 20,667 seats) land at Kuala Lumpur compared to the 344 flights (with 120,189 seats) at Singapore (Economist Intelligence Unit, Country Report, No. 2, 1988). Hence far more foreigners land at Singapore than Kuala Lumpur thus giving Singapore a greater international exposure

while at the same time Singapore offers foreigners what she can provide best: a center of trade, commerce, finance, and business. To foreigners, Singapore is a "shopper's paradise" or the "shopping center" of Southeast Asia. In addition, compared to Malaysia, Singapore has a relatively greater coverage in mass media from industrial countries where, unlike the less developed countries, the word vacation often translates into travel overseas. Malaysia which is just a ten minutes drive across the Johore Causeway is left out of the bigger picture through which Western business communities can read about Southeast Asia.

While Singapore is known for the savvy shopping, Thailand is known for the legalized sex establishments, but Malaysia which is geographically in the middle of these countries is left out. However, this is not to suggest that Malaysia should be known for the same reason as the latter.

9.2.5 THE FIFTH REASON: LACK OF EMPHASIS ON GEOGRAPHY AND FOREIGN AFFAIRS

The fifth reason concerns the educational system in some other countries, particularly concerning geography, history, and foreign affairs. The U.S. may be cited as a prominent example. It is ironic that in the U.S.--which has been looked up by others as being the most developed, which is the leader in space technology, and which can boast of having many universities recognized worldwide and which have produced many Nobel laureates--many of her pupils (whether in public schools or in colleges) cannot even draw a map, or pin point on the world map the location, of their own country. In an annual geography test given to some students from selected countries, students from the U.S. score last or poorly. It would be interesting to see the result if students from Malaysia were included.¹²⁸ Students from Malaysia, for example those in the

¹²⁸ Perhaps the organizers are unaware of the more comprehensive geography syllabus in the Malaysian education system. This is another example of Westerners overlooking a few countries from which they may draw some lessons. The Malaysian education system is perhaps one of the best in the world--notably regarding the discipline, the level and competitiveness, and the coverage and comprehensiveness. One of the features of the system is the **national curriculum** which prescribes standardized syllabus, to each standard (or grade) throughout the country. Thus lessons taught in rural schools are no different from those taught in schools in Kuala Lumpur. Furthermore, the level used, in school and in the nationwide **standardized examinations**, has its Cambridge [England] equivalence. Regarding the discipline, the more prominent examples are: (i) the compulsion of wearing the school uniform which are the same throughout the country, (ii) the "lining-up" on the first day of each school week when students must form a line and walk in processions from classroom to on open space to hear a briefing by the headmaster and later to sing the state and national anthems (while the student-head raising the flags), and (iii) the respect for teachers (a class monitor calls upon students to stand up and greet "good morning" when a teacher enters the classroom; the students remain standing until the teachers tell them to sit).

Standards 1 through 3 of primary school are basically a preparation that focus on the 3M Curriculum--*membaca, menulis, mengira*--reading, writing, and arithmetic. Thus geography begins to be taught in standard 4 (at age 10). Students learn geography of Malaysia until the end of primary school (in standard 6 or at age 12). In the lower secondary school (form 1 through form 3 or from age 13 to 15), in addition to geography of Malaysia, students learn geography of virtually all countries in the world. In the upper secondary school (form 4 and form 5 or at age 16 and 17), students have the option to choose two among these regions: Asia monsoon, North

U.S., can impress other students when introducing each others' country. The Malaysians not only can mention names of leaders in their counterpart's country (along with bits and pieces of history) but also can often draw a map of that country complete with names of major cities, ports, location of industries and vegetation. The Malaysians are often disappointed with how little their counterparts know about Malaysia or countries other than their own in general.¹²⁹

We have been critically singling out the U.S. because it has a prominent position in the world. We believe that there are flaws in American education system with regard to geography, history, and foreign affairs.¹³⁰ The instances of pupils in the U.S. not being able to even locate their own country on the world map, and Texans drawing their world of Texas covering all southern half of the U.S. are no longer foreign to Americans themselves. Some of these pupils will become the so-called experts (more precisely, consultants) on Third World development but are currently lacking basic geography and the interest foreign affairs.

The underlying reasons for the lack of emphasis in these subjects are two-fold: the relatively large size of the U.S., and the dominant position of the U.S. in the world. The larger the size of a country, the less it depends on or needs to interact with other countries. The bottom line is, many Americans seem to feel that they do not need to look elsewhere but other countries are the ones who need to look toward the U.S.¹³¹ The dominant position of the U.S. in the world has instilled the "we are number one and the best" attitude in some of its citizens. With this attitude, Americans consider learning about other countries as unnecessary.

America, South America, East Asia, and Europe to study in more detail. In high school (lower and upper form 6 or at age 18 and 19), geography becomes more specific into--for example--physical geography and economic geography. The point made is that geography in Malaysian schools covers virtually all countries in the world, and is not self-centered to Malaysia alone. The same is true for history which even starts to cover history of world civilization as early as in standard 4 and continue to learn about history of Malaysia and other countries.

¹²⁹ For some people in the third world countries, the lack of knowledge about geography or affairs about other third world countries is probably partly a result of the "colonized mentality." With this mentality, the West is considered superior and the media looks west for sources of news and stories. For example, newspapers and magazines in some third world countries give a big coverage of President Kennedy's life story as if he was a great president of the people in those countries while newspaper and magazine editors in the U.S. care little to know leaders in those third world countries.

¹³⁰ The author considers the U.S. as a geography-illiterate nation and a nation in its own, isolated world. It is admitted that the statement is a product of a personal bias of special interest in (economic) geography, and foreign affairs.

¹³¹ This may well be reflected by the large number of foreigners seeking higher education in the U.S. and by the imports of "Americana" (American influence) in other countries (everything from America is good?) ranging from Coca-Cola, blue jeans which are too thick to wear in the tropics, the neck-breaking on-street breakdance, the half-naked "Solid Gold," and the on-street violence of "Miami Vice" in which human life is so cheap.

Perhaps an interesting case to point out is a pioneering effort by the State of Virginia in "mapping world competition" (Journal of Commerce [JOC], Oct. 26, 1989).¹³² The JOC's editor wrote: "There is a land that uses large wall maps to impress upon its children...the importance of international trade to the economy....The...maps show the manufacturing, agricultural and transportation sectors with a stake in world trade and specifically highlight the seaports and airports involved." We might expect similar displays in Japanese or Malaysian schools, but they were found in Virginia's elementary and secondary schools. The maps and the lesson plans are prepared by the state's school system in cooperation with the Virginia Port Authority and the state's Department of World Trade. "We are getting our students ready to compete internationally...not with...North Carolina, but to match them with students of...other countries," says S. John Davis, the state's Superintendent of Schools (JOC, *ibid.*). But the effort is only a beginning step in a right direction compared to that in Malaysia where since the formulation of the (standardized) national curriculum after independence in 1957, students are required to pass geography whose syllabus not only teaches the students where other countries are, but also stresses the economic aspects: the type and location of economic activity, principal exports and imports, the location of ports, and the factors such as climate, type of soil, institutions, culture, and the like. In a way, geography in a Malaysian school seems like a course in economic geography except that it does not rely on mathematical equations like the latter but it is illustrated with maps and straight forward statements. Perhaps U.S. schools need a standardized curriculum?

9.2.6 THE SIXTH REASON: THE ATTITUDE OF SOME MALAYSIANS TOWARD THE WEST

Some Malaysians tend to pronounce the names of Malaysian cities and states with an English accent when describing their country to foreigners. This tendency is a partly a result of the (wrong) belief that names in Bahasa Malaysia are not within of the ability of foreigners' tongues to pronounce and, partly due to the colonial influence which instills the superiority of English which causes people to imitate an English accent when talking to foreigners. Kuala Lumpur is pronounced "Que-le-luem-puter" (as opposed to "Kwa-la-loompur," and Selangor as "Slangor" (as opposed to "Se-la-ngor"). In addition, most Westerners either do not know

¹³² "Mapping World Competition" is an editorial by Tom Connors, chief of the JOC's Washington bureau.

or cannot pronounce correctly the name of Malaysia's capital. It is arguable that the name Kuala Lumpur itself is difficult for foreigners to pronounce.¹³³ Thus, if Malaysians themselves do not take the initiative to introduce their country to foreigners with pride in Malaysia and her *Bahasa*, who else will?

9.3 SUMMARY

Malaysia may be regarded as suffering from a vicious cycle of the little-known. Malaysia is little-known in the West because of Westerners' lack of knowledge about the country. The lack of knowledge about Malaysia is a result of her relatively low profile in West. The relatively low profile is a result of the lack of coverage or attention by Western media, especially in tourist-oriented publications. The lack of coverage is a result of the lack of exposure to Westerners. The lack of exposure is a result of the lack Western visitors. The lack of Western visitors is a result of Malaysia's being little-known.

Aside from being a destination of initially less interest to tourists--until they discover Malaysia for themselves--Malaysia and her modern economy are overshadowed by the growing world recognition of Singapore as an industrial, financial, and "shopping" center of Southeast Asia. This is probably one of the major reasons why Malaysia is rarely mentioned in Western business magazines.

Malaysia's low profile in the West may be blamed to the lack of knowledge about geography and the affairs of Far Eastern countries on the part of most Westerners. This is a result in the lack of emphasis on world geography and foreign affairs in the educational system of many Western countries. The U.S. is a prominent example. But in the final analysis, Malaysians themselves should be blamed. The cycle of little-known may be broken if it was not for the lack of initiative on the part of most Malaysians to utilize the Western mass-media and international journals for writing about Malaysia, and on the part of many Malaysian organizations to have Malaysia represented at academic or trade forums in the West. The cycle would have been broken long ago if it was not for the lack of tourist promotion by the government. It was not until 1990 that government took a vigorous initiative toward making Malaysia more-known internationally when it embarked on the campaign for the "1990 - The Visit Malaysia Year."

¹³³ Kuala Lumpur has four syllables: the first two, "Kua" and "la," end with vowels, and the last two, "Lum" and "pur," end with consonants. "Kua-la-Lum-pur" is more of a tongue-twisted pronunciation compared to "Singa-pore," "Bang-kok" or most notably easy "Hong-Kong."

CHAPTER 10 CONCLUSION

10.1 OVERVIEW: WILL MALAYSIA BE THE FIFTH TIGER?

There is no straight answer of yes or no. In many ways, as shown in chapter 7, Malaysia is behind the 4-Tigers but ahead of Thailand, Indonesia, and the Philippines. In other ways, especially with regard to GDP growth since 1987, Thailand is ahead of Malaysia. Malaysia is indeed on its path toward becoming a NIC (see FEER Sept 7, 1989). We predict that Malaysia will be dubbed a NIC by the mid-1990s. After a strong 10% growth in 1990, latest forecasts indicate that in 1991 the Malaysian economy (predicted to grow 8.6% in real terms) will be the fastest growing among all economies in East Asia. For the last three years (1988-1990), Thailand (with double-digit growth rates) had been the growth leader. Thailand's robust growth may be approaching its sunset in 1991. The GDP is expected to grow by 6.5% compared with the 12% peak reached in 1989. The Thai economy may have become overheated. We predict inflation (currently 6%) will be a problem along with inability of Thai infrastructure to accommodate or cope with growth.

Malaysia has expanded its industrial base to become, as of late 1989, the world's largest exporter of microchips. Malaysia is also the world's second-largest exporter of window air-conditioning units after Japan. But the country is still the world's largest producer and exporter of natural rubber, palm oil, and tin, and is catching up with Brazil for the number three spot behind Côte d'Ivoire and Ghana as top exporters of cocoa. More recently the Malaysian rubber industry has "profited" from the AIDS epidemic and the Western society's lifestyles. The country has become the world's largest exporter of rubber gloves and contraceptive gadgets as AIDS research and prevention helped increase the demand for these products.

10.2 DIFFERENCES BETWEEN MALAYSIA AND THE 4-TIGERS

The differences between Malaysia and 4-Tigers lie in the structure of the economy, society, and approach to development.

Malaysia has a larger endowment of natural resource whereas the 4-Tigers are generally resource-poor. But this general statement may exaggerate the notion that Malaysia is better endowed than the 4-Tigers. We should distinguish rubber and palm oil from the "natural blessings" such as tin and petroleum in the general category of primary commodities. This is because rubber and palm oil are renewable resources, owing much

to (plantation) technology and human efforts. Natural rubber and palm oil themselves are not "blessings," but they do reflect other "blessings," namely the fact that Malaysia has relatively more arable land and suitable climate than do the 4-Tigers. But what about Thailand and Indonesia which have the same tropical climate and a land area bigger than Malaysia? Why is Malaysia and not Thailand or Indonesia the world's largest exporter of natural rubber and palm oil? The answer lies in the plantation technology, one of Malaysia's better kept secrets.

Malaysia is a case of "delayed" and "managed" industrialization. The former is a result of the British colonial policies which sought Malaya to remain a reliable and cheap source of raw materials for British industries and a captive market for manufactured exports from Britain. In addition, because of the abundance of natural resources and the commanding lead that Malaysia had in exports of tin and rubber, there was no urge to industrialize. The "managed" aspect is a result of the pluralistic nature of the Malaysian society.

For the 4-Tigers, their lack of natural resources prevented them from becoming commodity exporters in the first place. With their then abundant labor supply it was logical for them to specialize in labor-intensive manufacturing while their relatively small domestic market dictated to them the need for exporting.

The Malaysian government has recognized the need for diversification and has done so because the economy cannot depend totally on the primary commodity exports. Diversification can take on several meanings which we will use later to explain another structural difference between Malaysia and the 4-Tigers. Since we are more interested in exports, we will focus on export diversification which can be classified into three types. First, across **sectors**, namely reducing the dependence on the traditional export sectors. Second, across a range of exportable **products** within the same sector, such as exporting a larger variety of manufactures (product differentiation). Third, in terms of **market** re-orientation which may be done in two ways. One is **geographic** re-orientation--depending less on the traditional market, and the other is shifting to a higher (price) **segment** of the market (product quality improvement).

In Malaysia, the first two types of export diversification (across sectors and across products) have happened (in that sequence) while the first part of the third type (geographic reorientation) is taking place. Firstly, Malaysia sought to depend less on the exports of raw primary commodities by processing them before

exporting. Secondly, within the manufacturing sector, it has diversified its exports from resource-based to labor-intensive manufactured goods such as electronics. Currently, the country is seeking non-traditional importing countries (i.e., other than Japan and the U.S.) as markets for its exports. Malaysia has not been able to achieve the second part of the third type of diversification, i.e., to move to a higher (price) segment of the market, except for rubber products, whereas the Tigers have done so. This is another difference between Malaysia and the 4-Tigers. The reasons are because Malaysia is a new comer, late-industrializer (in Amsden's terms), and a late exporter of manufactures such as mentioned in chapter 3 (filling the niche vacated by the Tigers). In this context, two of the weaknesses that Malaysia possesses as a new comer are its technological lag in manufacturing and its relative lack of marketing experience. In order to compete with the Tigers, Malaysia must overcome these weaknesses. This task presents a challenge for Malaysia and it would be an interesting subject for research in the future.

Another major distinction is the society. Unlike Malaysia, each of the 4-Tigers is a relatively homogenous society. The contrast may translate into differences in policy objectives, decision-making, and in the approach toward economic development and in the pursuit of development strategies in general. If the Korean and Taiwanese governments have to deal with income distribution between economic strata, the Malaysian government has to deal with income distribution not only between economic strata but also among races. If in the homogenous Korea and Taiwan the governments have to curb students and farmers demonstrations, respectively, in pluralistic Malaysia the government has to channel some of its resources into promoting national unity to ensure that incidents such as that of May of 1969 will not again occur and ultimately to make the formation of the "Malaysian society" a reality.

Thus another difference is in the development approach. While the Korean government is pursuing a strategy of growth maximization through industrialization with no racial issues to deal with, the Malaysian government has to look to economic growth as a necessary condition for national unity, and like a circle, for continuing economic growth as well. In racially homogenous countries, growth can be traded for equity with relatively less danger. But in multiracial Malaysia the government has to pursue growth and equity simultaneously through growth and redistribution policies.

One can argue, of course, that the governments of South Korea and Taiwan are constantly facing military threats from the north and the mainland, respectively. This makes those two governments burdened in that much of their resources have to be used for defense. The counter argument is: what about the military and non-military aid that they have constantly enjoyed? The one thing for sure is that the aid helped put the war-torn country of South Korea on its feet from the early 1950s to 1960s, otherwise we would not have seen South Korea transformed from a hopeless basket case into a showcase economy. Malaysia, in the 1960s and 1970s, had to suppress the communist insurgency of the outlawed Communist Party of Malaya which was aided by China. Today, Malaysia, separated from the southern tip of Vietnam by a distance approximately equal to that between Boston and New York (around 250 miles across the South China Sea), could be the next target of Vietnamese aggression.¹³⁴ If the threat materializes, it will likely reduce Malaysia's attractiveness to foreign investors during a time when their investments are very much needed.

10.3 IS IT DESIRABLE FOR MALAYSIA TO BE A "TIGER?"

The answer is both "yes" and "no." First, the "no" argument. Malaysia, this argument says, should keep a low profile in the export-race if it is to avoid becoming, like Taiwan, one of the scapegoats for the U.S. trade deficit. The EA-NIEs have lost their GSP privileges. Today, the U.S. is pressuring Korea and Taiwan to import U.S. cigarettes and beef. In November of 1989 Japan bowed to U.S. pressure when it announced that it would import beef from America. But, as demonstrated by the EA-NIEs' ability to make necessary adjustments, the pressure to open domestic markets should not be too much of a concern for Malaysia. But what concerns a "new" manufacture exporter such as Malaysia is the protectionist sentiment in the developed world such as the U.S.

The "yes" argument is that maintaining a low profile in this changing world may not be conducive to development. Malaysia cannot afford to be another Hermit Kingdom in this modern world as did Korea

¹³⁴ The domino theory suggests that Vietnam may want to conquer more prosperous Malaysia and Singapore through Kampuchea and Thailand. Vietnam did enter Kampuchea in 1978 but pulled out in 1990. After failing to advance overland, Malaysia could be the next target via the South China Sea.

in the old days.¹³⁵ During the colonial era, sources of growth in the advanced economies came in part from resources exploited from their colonies. Today, "the main force of world growth...flows from the developed to the developing world..." (WB, 1981:2) as evident from the developing countries' reliance on the condition and openness of the developed countries' markets. Today that force takes the form of foreign direct investment (FDI). Malaysia needs to be known as one of the more attractive places to invest in Asia.

10.4 DOES MALAYSIA WANT TO BE A "TIGER?"

This question is exactly what Trade and Industry Minister, Datin Paduka Rafidah Aziz, encountered in the U.S. in late 1988.¹³⁶ The U.S. is taking a second look at Malaysia after years of trade deficits, including those with Malaysia.¹³⁷ In 1987, the U.S. trade deficit with Malaysia was \$1.16 billion. According to the JOC (Dec., 6, 1988), Malaysia's trade minister vigorously denied that Malaysia is seeking to become an export-oriented powerhouse like the EA-NIEs. Mrs. Rafidah said, "Malaysia does not want to be the fifth dragon nor another dragon...We are a newly agriculturalized, newly industrialized country...We are diversifying so that our growth is not dependent on one sector,...We don't want the world market to dictate the prices of primary commodities...We want to avoid the fluctuations in prices and we see industrialization as a way out of these fluctuations and uncertainties."

The Far Eastern Economic Review (FEER) also seemed curious about the Malaysian government's intention when the front page of its September 7, 1989 issue inquired, "Malaysia: Do you sincerely want to be a NIC?" In the cover story entitled "The next NIC," FEER correspondent Balakrishnan, noted that in mid-July of 1989, Prime Minister Mahathir declared that "Malaysia does not intend to become a NIC.

¹³⁵ The Old Korea opted for self-isolation for a good reason. Sul and Tang armies from China, the Golden Tartar, the Mongols and others have marched on Korean Soil. From the end of the 16th century, Korea deliberately sought isolation, a reaction to the appalling suffering and destruction wrought by two successive Japanese invasions in 1592 and 1597 (not to be confused with the annexation by the Japanese in 1910).

¹³⁶ She was asked this during a private interview with the Journal of Commerce in New York during her stopover in the U.S. before attending the mid-term review of the GATT's Uruguay Round which began in early December, 1988, in Montreal, Canada.

¹³⁷ The American Federation of Civil Liberties Unions (AF-CLU) and other labor unions have petitioned to the U.S. Congress that Malaysia be withdrawn from the U.S. GSP roster. The American Soybean Association and other groups have embarked on a campaign against tropical oil including palm oil. They claim that these oils are high in saturated fats and are dangerous to one's health. Malaysia has launched a \$3.78 million campaign to counter the attack on palm oil.

Happiness, he said, was more important than an economic status symbol" (p.96). The prime minister seemed cautious that the NIC label is a mixed blessing and that once so tagged, a country can expect to lose trading privileges. But Balakrishnan argues that Malaysia's course to becoming the next NIC seems set and there is little to stop it. Malaysian economists are divided on this issue. Dr. Kamal Salih of the Malaysian Institute of Economic Research (MIER) points out that "becoming a NIC is not an act of volition. Others will decide whether Malaysia should be classed as a NIC, not Mahathir. And it seems inevitable that Malaysia will soon be dubbed as a NIC, if it is not already" (p.96). Others take the NIC issue very cautiously for fear of losing trading privileges accompanying a developing country status, and in assessing the impacts Malaysia as a NIC will have on the equation of economic and political powers among the diverse groups and races in Malaysia.

However on balance, the fear of losing trading privileges may well be not significantly relevant in today's changing world because market re-orientation will become easier if the changes in Eastern Europe will lead to an opening of new potential markets for Malaysia. But that is in the longer run. Perhaps the biggest prize to grab is winning access to China and Indonesia which are potentially among the largest markets in the world, both in terms of population and average income (as both economies were predicted to grow at a rapid rate of 6.5% in 1991, relative to their sluggish growth in the past). Vietnam, with a population of 65 million (almost four times that of Malaysia) and a booming economy (predicted to grow at 8.1% in 1991) is another potential market (all data from the Asian Development Bank, April 1990). Already, Vietnam has shown an interest in opening its market. A few years ago, it was unthinkable that the Malaysian Airline System (MAS) would or could fly to Vietnam. In early 1990, MAS commenced its flight to that socialist nation perhaps indicating that there are enough business travelers between the two countries for MAS to profit from the service. But what is important for Malaysia is that it should soon reach the stage when it can live without GSP privileges otherwise it will continue to be a hostage to U.S. trade policies.

10.5 MALAYSIA AS A POTENTIAL NIC

Foreign analysts misunderstand Malaysia's situation just because it is multiracial. In Malaysia it is understood by the people that the country is multi-racial and will always be. Thus all realize that they must learn how to live together as a nation. In reality, any tensions over ethnicity are kept within the people. If

these tensions leak out, they are expressed at the most through "mouth wars." The "politics of compromise" at discussion tables has saved multiracial Malaysia from civil war. Its pluralistic nature should provide a strengthening force and an interesting mix of ingredients for growth; not a hindrance to trade and development. It has turned out that while Sri Lanka, Myanmar, the Philippines, China, India, and other LDCs are facing turbulent internal problems, Malaysia has demonstrated the political maturity not to repeat the unfortunate May 13 Incident. The rich blend of three distinctive cultures should be an invitation to tourists. But Thailand has been the favorite tourist spot in the region. "Tourism earns more foreign exchange for Thailand than any of its exports and the country receives three times as many tourists as India" (FEER, May 4, 1989:78). It is true that the tourism industry depends on the possession of natural attraction and management skills, but with that "special" attraction (in pleasure business) no other countries can compete with Thailand or to a lesser extent with the Philippines and Korea. Malaysia would have attracted more visitors which would have provided foreign exchange and a stimulus for job creation if the country had had a higher profile in the Western media. If financial analysts from the West (especially from the U.S) knew Malaysia as much as they know other countries in East Asia, Malaysia would have been included in the "where to put your money in Asia" section in the BusinessWeek or Fortune magazine. Consider the following: the Malaysian ringgit, as already noted, is readily convertible internationally as certified by the IMF. But at many banks in the U.S., the ringgit's convertibility is very limited. The ringgit is not even listed in the foreign exchange section of major American newspapers except the Wall Street Journal. On the other hand, the Korean won or the Thai baht, which belong to the non-convertible currency group, are relatively better known in the U.S. Very few Americans know that Malaysia's equity market is "almost completely open to foreign investment, unlike [that of] Taiwan or South Korea, and many European countries" (FEER, Sept. 7, 1989:97). Infrastructure is another plus for Malaysia. "As...industrialists who have experienced the delays at the Bangkok port can testify, the infrastructure of Malaysia is so good that it is almost up to developed country standard...[And] the infrastructure is of even quality throughout the country and does not deteriorate outside the capital city, as it often does in Thailand, the Philippines and Indonesia" (FEER, *ibid.*). What is more, as many Americans have complained of the language barrier with the Japanese, Koreans, and Thais, Malaysia is just another Singapore where English

is used widely. Even the Malaysian court system uses English to be definitive and accurate on wordings of a judgement. This may be helpful for Americans (who are known to have a penchant for suing people to court) for protection (of their patents for instance).

10.6 IMPLICATIONS FOR DEVELOPMENT THINKING IF MALAYSIA GAINED NIC STATUS

If Malaysia gained NIC status, it would have important implications for development thinking. Just as the emergence of Buddhist Thailand has undermined Westerners' convenient association or connotation of an Asian NIC with Confucianism--or the so-called *chopstick theory of development*--the emergence of Malaysia as a NIC "would test those theories which similarly hold that ethnic homogeneity is a prerequisite for economic development. Malaysia may soon become the first multi-ethnic NIC. Singapore, which can claim that status, has chosen to emphasize its supposed Confucian heritage" (FEER, Sept. 7, 1989:100).

Perhaps more importantly, Malaysia will be the first Muslim NIC. As Balakrishnan puts it "...[the NIC] which will achieve a high income for Muslims without too much help from oil [unlike their Muslim "brothers" in Saudi Arabia]. Islam is no more other-worldly than other religions. Yet many have been skeptical about the possibility of fusing Islam and non-resource-based economic development. Malaysia's emergence as a NIC may challenge that assumption" (FEER, *ibid.*).

10.7 POLICY RECOMMENDATIONS

The key to Malaysia's future economic growth is two-fold: being attractive for investment, and diversifying its manufacturing sector from unskilled-labor electronics to human capital and technology intensive manufacturing given its large pool of educated but unemployed graduates and relatively small work force.

The influx of foreign investments has created strong demand for labor in Malaysia. This has pushed up wages because of the shortage of engineers. Therefore, manpower training, especially in technical and engineering skills, must be an immediate priority because the nation will have to wait for sometime before it can fully benefit from the training. Research and development must also be encouraged.

Malaysia must remain competitive. It must bolster the businessmen's confidence, for instance, by avoiding the infrastructure bottleneck which has occurred in Thailand.

There should not be growth at any "price." The growth and distribution policy of the "old" NEP must be continued in order to rectify the racial economic imbalance and to assure national unity. But to be competitive, as learned from the 1986 relaxation of the NEP requirements, the "new" NEP (still in the making) must be flexible so as not to scare off investors.

Finally but not least, the Malaysian government and its citizens alike must take initiatives to correct the misrepresentations of and the misconceptions about Malaysia overseas, and to make Malaysia better known to the Western business communities.

10.8 CONCLUSION

Both Malaysia and Thailand are impending NICs. Compared to Malaysia, Thailand is better-known to analysts in the West and where most of the "NIC talk" is published. But from the comparisons in chapter 6, we believe that Malaysia is at a better position than Thailand to take the fifth place on the Asian NIC roster. Thailand grew rapidly between 1987 and 1990. With the publicity that Thailand had gained, little-known Malaysia whose economy grew at a double digit rate in 1990, did not excite most analysts until Thailand's rapid growth was halted by its infrastructure bottleneck. After the latest military coup, says an analyst, "A lot of foreign fund managers are quite worried, and [they] have to report to trustees...who will say, 'Thailand is too risky. Let's go to Malaysia'" (AWSJ, March 6, 1991:8). With the current situation, the fifth spot on the Tiger roster will be decided by how much and how long Malaysia can attract foreign investments that would have otherwise gone to Thailand. Latest predictions indicate that Malaysia will be the fastest growing economy in 1991 (at 8.6%) while the rate for Thailand predicted to grow 6.5% (data from FEER March 28, 1991).

In conclusion, we believe that being dubbed the Fifth Tiger, Asian Dragon or a NIC will not hurt the future of an emerging economy such as Malaysia. It will be a plus as the more publicity the country gains the more investment it can attract. Sooner or later Malaysia will have to graduate from the developing country status. The country cannot expect to be on the GSP roster forever. As demonstrated by the Asian NIEs, there are many ways to cushion the impact of losing the GSP privileges. Two of them are price-segment market re-orientation and geographic market re-orientation.

10.9 LESSONS TO BE LEARNED

1) There are no such thing as magic formulas, pat models, universal recipes, infallible strategies for development. Even though similarities between Malaysia and the 4-tigers do exist, they are outweighed by differences. An outright application of the industrial strategies employed by the early Tigers may not be compatible with Malaysia's situation. This brings us to the second lesson.

2) There is no single "right" way to develop an economy. There is no such thing as the correct path to development. There is no such thing as an "economic miracle" either, for it precludes any repetition. But the success of the 4-tigers provides a country such as Malaysia with a demonstration that export-oriented strategy is superior to import substitution. However, the success story would not have happened without a synergetic public-private cooperation. Learning the lessons from the Tigers does not hurt a country, but slavishly imitating them is not a wise thing to do. Adapting the lessons to local conditions and circumstances has been recognized as necessary. But saying is easier than doing which brings us to the third lesson.

3) The third lesson is that deeds, not words make a nation successful. Development arises not out of policies, strategies, plans and the like but rather out of implementation. The former are nothing more than a starting points. Until they are put into practice, they are just noble sentiments and wishful thinking. Far more attention must be paid to formulating constructive policies, creating appropriate institutions, providing physical infrastructure and applying appropriate technology, and finally implementing appropriate strategy. All of these need some learning from others, and this brings us to the fourth lesson.

4) There is no hope of economic development unless one is willing to learn from others. With its Look East Policy, Malaysia has been a serious pupil of Japan and South Korea. This does not mean blind admiration or blanket approval, but it at least implies an admission that for certain things others know better. This brings us to the fifth lesson.

5) There is no hope of constructive changes and progress if higher education is characterized only by quantity but not quality, if the society reveres a PhD degree but looks down at vocational (factory-oriented) diplomas, if students are not taught liberal, creative thinking rather than memorization to pass standardized exams, and if the education system fails to provide curricula which are applicable to the real world situation. This connects us with the next lesson.

6) There is no hope of being competitive internationally if there is no effort in "mapping global competition" beginning from our primary schools, if the education system neglects foreign affairs, if the history education is forgotten, if the importance of geography to international competitiveness is slighted while the young generation is not prepared with knowledge of world (economic) geography and if the mass public is ignorant of the outside world. This brings us to the next lesson.

7) There is no economic advantage in being a little-known nation in this rapidly changing world. Being a hermit will not be conducive to development.

8) The government should be, and more importantly must be seen, as an "invitor" of investments and industrial development. It ought to be a "facilitator" for business undertakings. It must become the "regulator" but only in appropriate matters. Without any regulation the privileged ones will exploit the disadvantaged ones, and either the rich will become richer at the expense of the poor or the poor will be a burden on the rich. The government can provide the leadership in industrial development through its positive intervention and its active but supportive role in the economy while the private sector takes on the role as the actual performer, all within a synergetic relationship. Regulations will become an obstruction to industrial development only when it is inappropriate and when it can distort the market signal. Thus, the next lesson.

9) Internal stability is crucial for continuing economic growth especially in a pluralistic country. A *laissez-faire* approach to development is not justified in a pluralistic society. A trickle down process did not happen, resulting in economic imbalances which bring about racial tensions. In multiracial Malaysia, internal stability is to be achieved through the promotion of national unity and is a necessary condition for economic growth. Like a circle, economic growth is also a necessary condition for internal stability.

10) Finally, industrialization is meaningless if it does not lead to the attainment of the fundamental purpose of economic development which generally aims to enhance the quality of our lives. Other purposes may vary depending on the need and circumstances of each country. Malaysia has shown that the fundamental purpose of economic development in a multiracial country is to promote national unity which will ensure continuing economic growth. The strategy is growth with distribution.

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