

# **Back to the Future:**

## **Malaysian Lessons from the 1970s**

*Tun Hussein Onn Chair Public Lecture*

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*Thursday, 7<sup>th</sup> April 2016,*  
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Kuala Lumpur

# Development after Merdeka

- FDI protection, incentives
- Import-substituting industrialization
- Low rubber prices → oil palm
- Rural development (Felda, etc)
- Malaysian common market
- Increased unemployment, inequality → ethnic lenses
- Affirmative action

# 1970-80: The State Rises

- May 1969: Alliance rejection → BN
- NEP → more affirmative action
- Poverty: more rural development
- ISI → EOI → female employment
- 1974 PDA → fiscal space → public invts: more govt spending, SOEs
- 1975 ICA → K flight
- Counter-cyclical spending: 1974, 1981
- Unsung: palm oil story
- Environment: EQA → 3MP

# GDP growth, 1971-97 (% p.a.)

1971-80

1981-90

1991-97

7.5

6.0

9.2

1971-80	1981-90	1991-97
7.5	6.0	9.2

# Growth by sector, 1965-2012 (% p.a)

	<i>1965-70</i>	<i>1971-75</i>	<i>1976-80</i>	<i>1981-85</i>	<i>2012</i>
Agriculture, forestry & fishing	6.3	4.8	3.9	3.4	1.0
Mining & quarrying	1.1	0.4	8.9	6.0	1.4
Manufacturing	9.9	11.6	13.5	4.6	4.8
Construction	4.1	6.6	12.6	8.1	18.1
Electricity, gas & utilities	8.1	9.8	10.2	9.1	4.3
Transport, storage & communications	3.0	13.0	9.6	8.4	7.1
Wholesale & retail trade, hotels & restaurants	3.2	6.3	8.2	7.0	4.9
Finance, insurance, real estate & business services	5.4	7.2	8.0	7.2	7.6
Government services	5.2	10.1	9.0	9.8	9.5
Other services	4.7	9.3	6.6	5.1	3.8
<b>GDP</b> at purchasers' prices	5.5	<b>7.1</b>	<b>8.6</b>	5.8	5.6

# GDP by sector, 1970-2012

	<i>1970</i>	<i>1980</i>	<i>1990</i>	<i>2000</i>	<i>2012</i>
Agriculture & forestry	29.0	22.9	18.7	8.6	10.1
Mining & quarrying	13.7	10.1	9.8	10.6	10.4
Manufacturing	13.9	19.6	26.9	30.9	24.2
Construction	3.8	4.6	3.6	3.9	3.9
Services	36.2	40.1	41.9	49.3	50.4
Less bank charges, add import duties	3.4	2.7	-1.4	-3.3	1.1

# Employment by sector, 1970-80 (%)

<i>Sector</i>	<b>1970</b>	<b>1980</b>
<i>Agriculture &amp; forestry</i>	<b>53.5</b>	<b>39.7</b>
Mining & quarrying	2.6	1.7
<i>Manufacturing</i>	<b>8.7</b>	<b>15.7</b>
Construction	2.7	5.6
Services	32.5	37.4
Total	100.0	100.0

# Employment creation, 1970-1985 (% increase)

	<i>1970-75</i>	<i>1976-80</i>	<i>1980-85</i>
Agriculture & forestry	7.4	0.2	2.2
Mining & quarrying	1.4	-9.5	-24.5
Manufacturing	107.0	21.2	9.7
Construction	126.4	31.2	40.2
Services	42.9	16.1	-19.9
Total	31.0	10.1	13.5



# Investments, 1970-2012 (% of GNP)

	<i>1970</i>	<i>1975</i>	<i>1980</i>	<i>1985</i>	<i>2012</i>
Savings	21.6	19.2	27.6	27.2	33.1
Investment, <i>of which:</i>	30.1	19.4	28.5	32.1	34.9
Public	17.7	3.3	12.0	15.1	14.7
Private	12.5	16.2	16.5	17.1	20.2
FDI	2.4	3.9	4.0	2.4	-2.4

# Incidence of Poverty, 1970-2009 (%)

1970

1976

1984

2009

49.3

37.7

20.7

3.8

1970	1976	1984	2009
49.3	37.7	20.7	3.8

# Gross monthly household income, 1970-84 (RM)

<i>Year</i>	<i>Income</i>
1970	264
1974	362
1976	505
1979	678
1984	1,098

# Gini coefficients, 1970-84

	<i>1970</i>	<i>1974</i>	<i>1976</i>	<i>1984</i>
Bumiputera	0.466	0.476	0.506	0.464
Chinese	0.466	0.520	0.541	0.452
Indian	0.472	0.451	0.509	0.419
Malaysia	0.513	0.530	0.577	0.483

# Ratios of average household incomes by ethnicity, 1970-2009

	1970	1974	1976	1979	1984	2009
Chinese/ Bumiputera	2.29	2.21	2.28	2.04	1.84	1.38
Indian/ Bumiputera	1.77	1.69	1.50	1.54	1.31	1.10
Chinese/ Indian	1.30	1.31	1.52	1.33	1.40	1.25

# Unemployment rates by ethnicity, 1967-2010 (%)

	<i>Malay</i>	<i>Chinese</i>	<i>Indian</i>	<i>Others</i>	<i>All</i>
1970	8.1	7.0	11.0	3.1	8.0
1975	6.1	6.3	10.5	9.2	6.7
1980	6.5	3.9	6.3	3.3	5.6
1983	7.0	4.0	6.4	3.8	5.8

# Occupations by ethnicity, 1970-85 (%)

	<b>1970</b>			<b>1975</b>			<b>1985</b>		
	<i>B</i>	<i>C</i>	<i>I</i>	<i>B</i>	<i>C</i>	<i>I</i>	<i>B</i>	<i>C</i>	<i>I</i>
Senior officers & managers	24.1	62.9	7.8	28.1	38.7	7.3	34.8	57.5	5.1
Professionals	47.0	39.5	10.8	48.0	58.8	11.0	58.8	30.9	8.7
Clerical workers	35.4	45.9	17.2	46.0	40.8	12.0	54.1	37.8	7.6
Service workers	44.3	39.6	14.6	46.8	39.6	12.6	61.6	27.8	10.1
Sales workers	26.7	61.7	11.1	24.8	65.7	9.1	33.2	59.2	6.8
Agriculture workers	72.0	17.3	9.7	70.5	18.2	10.4	75.9	15.2	8.2
Production workers	34.2	55.9	9.6	40.6	48.4	10.5	47.3	41.8	10.5
Total	51.8	36.6	10.6	52.0	36.5	10.6	57.3	33.2	8.8

# Ownership of share capital (at par value) in limited companies, 1970-2008 (%)

	<b>1970</b>	<b>1985</b>	<b>2008</b>
<b>Bumiputera</b>	<b>2.4</b>	<b>19.1</b>	21.9
Individuals	<b>1.6</b>	<b>11.7</b>	18.9
Institutions	0.8	<b>7.4</b>	1.9
Trust agencies			1.1
<b>Non-Bumiputera</b>	28.3	35.8	36.7
Nominee Cos	6.0	19.0	3.5
<b>Foreigners</b>	<b>63.4</b>	<b>26.0</b>	<b>37.9</b>
Total	100.0	100.0	100.0



# Why SOEs?

- Many SOEs set up because **private sector unable or unwilling** to affordably provide services needed
- Such arguments may still be **relevant** in some cases, no longer relevant in others, and perhaps not true or relevant in yet others
- But regardless of original rationale, **many SOEs problematic, often inefficient**
- However, **privatization not universal panacea** to myriad problems of SOEs

# Causes of SOE inefficiency

- **Unclear and contradictory objectives** e.g. maximize sales, spatial balance, generate jobs
- Thus, **performance criteria ambiguous**. Failure on one criterion (e.g., cost efficiency) justified by fulfilling other objectives (e.g., employment generation)
- Many SOEs **lack** adequate **managerial skills**
- **Problems of co-ordination** among govt agencies and inter-departmental rivalries
- Some consequences: **ineffective monitoring, inadequate accountability**, or **alternatively, over-regulation**
- ‘**Moral hazard**’ problem as managers expect financial support from govt – ‘**soft budget constraints**’
- **Little transparency, accountability**
- Many SOEs enjoyed **monopoly powers** *de jure* or *de facto*

# SOE reform often superior

- In many instances, not problem of ownership *per se*, but rather **absence of explicit, feasible or achievable objectives**, or having too many, **contradictory goals**
- The **absence of** managerial and organizational systems (e.g. flexibility, autonomy) and **cultures** supportive of SOE goals may be key problem
- Changes accompanying privatization may facilitate achievement of some organizational goals, but **does not mean that privatization per se responsible**
- Managerial and organizational reforms may well achieve same goals, or even do better, at less cost, and thus be superior option
- **Best option cannot be determined a priori**, but should be outcome of careful study
- New SOE law can be important step forward

# Then and now

- Then: rapid growth, redistribution
- Now: rentiers, finance dominant
- Then: national unity, public purpose
- Now: patronage; 'jobs for the boys'
- Then: banks served real economy, esp. manufacturing
- Now: finance dominant
- Then: promote industrialization
- Now: promote FDI, financial services

# Rentier rule

- **Redistribution** not inherently problematic, but **for whom?**
- Both Malay + non-Malay rent-seeking → **wasteful**, not progressive
- Ethno-populist **patronage, clientelism** debilitating
- Short-termist **corruption** endemic

# Lessons

1. Prioritize **real economy**, not finance
2. **Pragmatism**, not dogma
3. **Nationalism**, not ethno-populist patronage, clientelism
4. **Public**, national **interest**?
5. Transparency → **accountability**
6. Social: **health vs education**
7. **Environment** → SDGs

“if a leader seeks to maintain his position through making popular decisions, the national interest can be jeopardised. In leading a multiracial society, the principle behind every decision must be the promotion of the national interest, and not the fulfillment of the needs of just one group.”

*Tun Hussein Onn*

# Thank you

Noah Foundation

*Datin Paduka Dr Faridah Abdullah*

Institute for Strategic and International Studies  
Malaysia

*Tan Sri Rastam Mohd Isa*

Family of the late Tun Hussein Onn

*Dato' Haris Onn Tun Hussein*

Khazanah Research Institute

And to all of **YOU** for your interest

For more, please see:

*Malaysia@50 Economic Development,*

*Distribution, Disparities.* Jomo and Wee, 2013