

## Book Review

*Aiming High: Navigating the Next Stage of Malaysia's Development* by International Bank for Reconstruction and Development/The World Bank, Malaysia, 2021. pp. 192.

The World Bank's *Aiming High: Navigating the Next Stage of Malaysia's Development* report comes at a critical juncture, as the world is searching for recovery plans from the adverse shocks of Covid-19. The report highlights how Malaysia can position itself in transitioning to become a high-income nation, as well as how Malaysia should revitalise its long-term growth. The report is crafted into seven chapters, each focusing on specific themes.

As the background, Chapter 1 sets the stage, outlining Malaysia's progress and benchmarks that progress against its peers, the so called transitional, aspirational, and regional peers: Association of Southeast Asian Nations (ASEAN) members. The report, taking a conventional neoclassical approach, argues that Malaysia's past success was mainly due to factor accumulation. Indeed, the standard growth prescriptions of the Washington Consensus, such as trade liberalisation and macroeconomic stability, have had a profound impact on Malaysia's growth success story. Surely, Malaysia's rise economically was enabled by the supportive ideology of neoliberalism with Malaysia becoming a small open economy. Aided with macro data, the report highlights key challenges that will limit Malaysia in sustaining or even in reaching its aim as a developed economy. Among them include lagging performance in productivity, competitiveness, quality of human capital and institutional reforms. Interestingly, the context in which prosperity is discussed goes beyond the framework of economic growth alone, and the chapter has broadened the discussion to include issues of sustainable development. A social contract, accountable institutions and labour market reforms are seen as critical for future progress. Rightly, in achieving a sustainable and equitable transition to high-income status, the chapter concludes that Malaysia needs to revitalise long-term growth, boost competitiveness, create jobs, modernise institutions, promote inclusion, and finance shared prosperity.

Chapter 2 on revitalising long-term growth, discusses, first, the historical evolution of growth and its drivers, and second, decomposes the baseline

growth to identify the sources of growth and forecasts the future growth prospects under different individual reform options with weak, moderate, and strong scenarios as well as combinations or packages of reforms. Under the baseline path, potential growth is estimated to decline, and among the critical factors that may contribute to the decline is the effectiveness of private investment, followed by population growth, total factor productivity (TFP), human capital growth, working-age-to-total-population ratio and decline in public sector investments. The chapter further argues that reform in these areas will improve Malaysia's growth potentials. In analysing reforms for TFP growth, the chapter then considers education, market efficiency, innovation, institutions, and infrastructure. The chapter concludes that only in the case of a strong reform scenario can Malaysia achieve significant changes, above baseline, in TFP, gross domestic product (GDP) and GDP per capita. Further, the chapter, investigates in detail how reforms in human capital including quality and health could contribute to growth prospects. Indeed, rather than looking at individual reforms, the chapter concludes that combinations of reforms (human capital, TFP and female participation in the labour force, added together) would nearly double the GDP potential under a strong reform scenario. The chapter recommends that for long-term growth, improving human capital, increasing female labour force participation (FLFP) and TFP growth is critical. While those reported are standard growth prescriptions commonly described in the growth literature, importantly, policy coordination is critical given the complexity in maneuvering growth trajectories. Reforms are more complex and dynamic in nature and improving human capital, TFP and FLFP, for instance, without adequate investments or even political stability will not guarantee growth. Policy and reform should be viewed in a complementary way, which requires critical coordination efforts across ministries, agencies, and other stakeholders. Indeed, tradeoffs exist, and it can only work when other complementary assets are in place. For example, handling of weak labour practices (for example enforcement of contracts, discrimination, flexible working arrangements and others) alone would have liberated growth far more, and more so with greater female participation. It is also hard to digest, to what extent TFP, human capital and FLFP can mitigate the diminishing nature of the returns on physical capital accumulation, when capital accumulation itself is declining. At present, issues of political stability and preferential treatment as well as government intervention leading to rent

seeking behaviour and the crowding-out effect would be more contagious for growth. The issues of equality in terms of access to education and employment opportunities are critical.

In Chapter 3 on boosting competitiveness, the report highlights the role of the manufacturing sector in Malaysia. Again, productivity and innovation become the critical points of discussion. Within this, the critical role of trade and investment policy is emphasised. Compared with other regions, Malaysia is lagging in transitioning to become an innovation-driven economy. The role of small and medium enterprises (SMEs) is highlighted, however, there is a need to embrace digital technologies as well as modern finance. The chapter concludes with nine recommendations. Among them include improving trade connectedness and participation in regional integration, liberalising the key service sectors, improving the competition policy implementation, incentivising collaboration with the private sector, strengthening intellectual property rights, modernising the investment ecosystem, workers' technological readiness, increasing firm capabilities and developing effective and inclusive financial services.

Focused on employment, in terms of job creation, Chapter 4 provides a critical discussion on the workforce challenges and the changing future of work. What is striking is the negative association between labour productivity and employment share in recent years. In other words, it is evident that unproductive sectors have expanded their labor share which has an implication for living standards. Skill deficiency has still been a major challenge with firms reporting difficulties in recruiting workers with advanced skills. Likewise, estimates show that half of all jobs are at risk of replacement because of automation. Interestingly the report uses the notion of education-health to capture human capital holistically. The under-utilised labour supply, especially in terms of women and youth, if improved, would ensure higher growth and inclusiveness. Among others, foreign labour has been critical for the progress of the country and, importantly, retaining domestic talent and attracting skilled foreign labour are important in supporting economic growth. High-skilled jobs should be the focus. In mitigating the job challenges, upskilling, and reskilling are essential. In creating better jobs that are inclusive, the report suggests strengthening the foundation of human capital, maximising the gains from labour mobility, improving education outcomes, upskilling and reskilling, and promoting opportunities for women.

Chapter 5 rightly highlights the importance of institutions as the key limits of growth. While acknowledging the limits of the measures used to represent the institutional variables, the report suggests that Malaysia lags far behind compared to the so called “transitional and aspirational” nations on corruption, accountability, and civil service capacity. Thus, institutional modernisation is seen as a viable solution. The report, however, highlights the challenges that occur in the efforts of modernising institutions. One overarching commonality with the challenges of modernisation relates to the political economy constraints. This commensurate well with the notion that modernisation lies upon political foundations, and when the bargaining power of civil society is weak, the sincerity of the government to even modernise institutions in the first place is critical. Improvements in civil service capacity and capability in delivering services remain a challenge. It is important to note that preferential treatment does not only distort competition and hinder innovation, as the report rightly mentions, but also dents the nature of citizenship and leads to a trust deficit, which will be the ultimate root cause of many other problems. The chapter concludes with the need for state-business nexus reform, strengthening Parliament as well as centres of government and the public services.

Promoting inclusiveness is discussed in Chapter 6 and financing shared prosperity in Chapter 7, with both chapters highlighting how Malaysia could move along the path of sustainable and inclusive development. Commendable achievement is evident in poverty reduction, which shows inclusiveness. However, the recent contentions are that growth is less inclusive with higher income inequality, especially within ethnicity and relative to other comparable countries. Likewise, absolute income inequality sees a rising trend, but this is manageable if relative income inequality remains in decline, and equal access to employment and education are made available. Managing fiscal policy is critical in addressing income inequality via redistributive policies and in creating the needed social safety nets. In achieving prosperity for all Malaysians, the report highlights six recommendations, namely facilitating high-skilled and high-paying jobs, equitable access to education, updating the deprivation standards that are commensurate to the country’s income levels, promoting need-based social assistance programmes, and devoting public resources to promote economic and social inclusion. Expanding revenue streams, through tax system reforms, are seen to be very critical in financing the shared prosperity agenda.

The report is a must-read for those who want to understand the progress of the Malaysian economy, as well as its limits. Aided with critical statistics the report demonstrates key challenges that limit Malaysia's growth potential. While the report provides useful information on the question of why Malaysia's prospects staggered and what matters for progress, the more important question of "how" is left to the policy makers to figure out. Nevertheless, it is totally unfair to demand for such a report to provide the "how", however, the future debate should move beyond highlighting the well-known shortcomings, known for decades, to reflecting upon how the government should design and manage these reforms. Indeed, reforms should start with new thinking, learning and experimentation among policy makers, if government is made responsible for a prosperous growth trajectory. In complementing this report, we require more studies on the "how", as well as a greater knowledge of what works and what does not. This is rarely assessed in the context of prosperity in Malaysia, and more must be done. It is timely that policy makers share data and information with researchers and scholars to share the responsibilities in ensuring greater prosperity for all Malaysians. Indeed, addressing past policy failures and designing instruments to solve market imperfections requires collective action.

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