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## **Malaysian Economic Development: Some Lessons for Tanzania**

*Bartholomew M. Nyagetera\**

### **Abstract**

Malaysia achieved independence in 1957, but remained a typical underdeveloped country until 1970, with low rates of economic growth, high incidence of poverty and continued dependence on the rural sector, agriculture and mineral extraction. The race riots of May 1969 awakened the government to the need for major reforms and social and economic transformation to push the majority of the population into the mainstream of the economy, and achieve a more equitable distribution of wealth. As a consequence, the government implemented various strategies and programmes, namely, the New Economic Policy, the National Development Policy, Vision 2020 and the Multimedia Super Corridor. The government also implemented the National Economic Recovery Plan in response to the Asian Storm. These various measures have assured for Malaysia high GDP growth rates, and major social and economic transformation which have enabled it to join the group of upper middle income economies from the low income group of countries where it had remained until the 1970s. While Tanzania continues to languish in the group of low income countries since the 1960s, Malaysia shows all the promise of achieving fully developed nation status by the year 2020. Thus the Malaysian development experience widens the scope of lessons available to Tanzania and other developing countries and provides evidence that it is possible for a less developed Third World nation to achieve prosperity and economic development as well as eradicate poverty within the space of a single generation.

### **1. Introduction**

The experience of economic development of the South East Asian countries during the second half of the 20<sup>th</sup> century has been unprecedented. Between 1955 and 1999, South Korea and Singapore had annual GDP growth rates averaging 9% p.a. While Malaysia and Thailand had annual GDP growth rates in excess of 7% p.a., Indonesia's GDP growth rate also averaged 6.5% p.a. Such high rates of GDP growth recorded over four decades have brought about major social and

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\* Economic Research Bureau, University of Dar es Salaam.

## *Bartholomew M. Nyagetera*

economic transformation of the South East Asian nations. These countries have, within a generation, transformed themselves from “poverty-afflicted” to “prosperity-awash” nations. The success of these countries has generated new confidence among Third World nations that it is possible to achieve prosperity and economic development, as well as eradicate hardcore poverty within the space of a single generation.

Malaysia is one of the rapidly developing nations of South East Asia. With a population of 22.2 million in 1998, and a per capita income of US\$3,013 in 1998, Malaysia has transformed itself from a poverty-stricken nation, rural-based and dependent on agriculture and mineral extraction during the 1960s, to one with a rapidly changing economy, where manufactures accounted for 80.5% of its exports in 1998.

Malaysian experiences have special relevance and significance to Tanzania as the Malaysian economy in the 1960s was quite similar to the Tanzanian economy in terms of population size, per capita income, growth rate of GDP, incidence of poverty, and in education and health indicators. By the year 2001, Malaysia and Tanzania are poles apart, and are now at different levels and stages of economic development, with Malaysia in the upper-middle income economies while Tanzania is in the group of low-income economies. This paper will thus examine the experience of Malaysia in economic development, as well as lessons from that experience relevant to Tanzania.

After the introduction in section 1, section 2 discusses the situation of Malaysia in the 1960s. Section 3 presents the Malaysian strategy for economic development which was embodied in the New Economic Policy (NEP), the National Development Policy (NDP), Vision 2020—the strategy for achieving Fully Developed Nation Status, and the establishment of the Multimedia Super Corridor. Section 4 is an assessment of the performance and achievement of the Malaysian “miracle”. Section 5 is about the Asian storm, its impact and the Malaysian response as detailed in the National Economic Recovery Plan. It also examines whether Vision 2020 is still on track. Section 6 then enquires as to whether there are any lessons for Tanzania from the Malaysian experience. Finally section 7 forms the conclusions.

### **2. The Situation of Malaysia During the 1960s and 1970s**

During the 1960s and 1970s, Malaysia was a typical less-developed country, dependent on agriculture—primarily rubber and palm oil, and mineral extraction of mainly tin. Most of the population (mostly Malays) were peasants who lived

## *Malaysian Economic Development: Some Lessons for Tanzania*

in the rural areas. They occupied most of the lower rung of Malaysian society, accounting for most of the urban and rural poor.

Income per capita during the 1960s averaged US\$200 while during the 1970s it averaged US\$360. The incidence of poverty during 1970 constituted 52.4% of the population for the overall average, with the urban average at 24.6% of the population and the rural average at 58.6% of the population.

Life expectancy in 1970 was 61.6 years for males and 65.6 years for females. The infant mortality rate per 1000 of the population was 39.4 in 1970. Other indicative statistics in 1970 were: a doctor /population ratio of 1 to 4302; a literacy rate of 58%; 17 telephones per 1000 of the population; 47.5% of the population with potent water; and 43.7% of the population with access to electricity.

In terms of education, there were very few Malay university graduates in 1970, and even fewer qualified Malay professionals. For instance, of the total registered professionals in 1970, only 4.9% were Malays. Manufacturing industry was largely non-existent, and the services sector was rudimentary, with a very small international trading sector. Public utilities were owned and operated by the government, but they brought in hardly any revenue for the state.

Although Malaysia obtained independence in 1957, for most Malays, independence had not brought any substantial improvement in their livelihood by the late 1960s. The ordinary Malays were not faring any better than during colonial times, and they remained backward in economic and educational terms. Only a handful of Malays were employed by major companies owned by Europeans and others, and the Malaysian Chinese continued to control the economy.

In May 1969, racial riots erupted in Kuala Lumpur the capital, and spread throughout the country. These riots mostly pitted the Malays against the Chinese (Mohamad, 1999). The racial riots resulted mainly from the economic dissatisfaction of the Malays who considered that while the Chinese immigrant communities had benefited from government polices and registered increased prosperity, they practiced favouritism and discrimination, and had in some way exploited the Malays and connived to ensure that Malays remained backward, poor and underdeveloped. After the race riots, the Government quickly recognized that closing the gap between the Malays and other ethnic groups (i.e., Chinese and Indians) would be essential for the long-term stability and prosperity of the country (Mohamad, 1999).

### **3. The Malaysian Strategy for Economic Development**

#### ***3.1 The New Economic Policy (NEP): "Growth with Equity"***

The response of the government to the race riots was to recognise the need and urgency of pulling the majority Malays into the mainstream of the economy by restructuring the economy in order to achieve a more equitable distribution of wealth. The approach adopted was not to expropriate, nationalise or redistribute the wealth of non-Malays to the Malays, but instead to enrich the Malays by expanding the 'economic cake' and apportioning a larger slice to them. The aim was 'leveling-up' rather than 'leveling-down', and with this approach, the non-Malays would also benefit from the expanded economy (Mohamad, 1999:34).

This approach was detailed in the New Economic Policy (NEP) which was launched in 1971. The NEP was implemented between 1971-1990, and was embodied in the Second to Fifth Malaysian Plans. The NEP had two objectives: (a) to eradicate poverty irrespective of race; and (b) to eliminate the identification of race with economic function. The NEP aimed to create more wealth and thereby make the overall cake larger in order to be able to distribute a larger share of the cake to the poorer groups.

In many other countries, redistribution of wealth has in somewhat simplified terms meant to take from the rich and give to the poor. Malaysian leaders considered this to be a wrong approach as it would be unfair to those races that had already worked hard to achieve a certain standard of living and would moreover incite further racial instability. The solution preferred was to create more wealth and then ensure that the poorest part of the population received its fair share of this increased wealth. The philosophy behind the NEP was growth with equity, to be achieved within the context of an expanding economy.

The NEP had two main strategies: (a) reducing and ultimately eradicating poverty among all Malaysians irrespective of race or ethnic roots; and (b) restructuring Malaysian society to correct economic imbalances so as to eliminate the identification of race with economic functions. To implement the above strategies, the following programmes were adopted in respect of each strategy.

##### ***3.1.1 Poverty Reduction and Eradication***

The programmes for reduction and eradication of poverty focused on raising income levels and increasing employment opportunities. These programmes were distributed among four sectors: agriculture, industry, infrastructure and social services.

## *Malaysian Economic Development: Some Lessons for Tanzania*

Within the agricultural sector, the programmes involved: development of new lands by pushing back the forests and providing access to these lands; development of regions outside Kuala Lumpur; development of integrated agriculture and major agricultural sub-sectors; and an agricultural programme for the hardcore poor. In the industrial sector, the focus was on small scale rural industries, with four programmes, namely: the soft loan scheme for industrial machinery; the industrial premises programme; the programme for training on entrepreneurship and industrial skills; and marketing support programmes.

To achieve rural modernization, the NEP focus was on the development of infrastructure, with programmes for the construction of rural roads, rural electrification, rural water supply, and rural growth centres. The NEP also incorporated social services programmes involving rural health services, rural schools, provision of supplementary food and nutrition to the hardcore poor, provision of low cost housing and housing assistance, village rehabilitation and regrouping, child care and child guidance centres, and community education and community resource centres.

### *3.1.2 Restructuring Society*

Programmes for restructuring society had the objective of eliminating the identification of race with economic functions. These programmes were focused on correcting economic imbalances by assisting those poorer sections of the population to catch up with the rest of the population. The poorer sections of the population were identified with the so-called 'Bumiputeras' or 'the sons of the soil', a description reserved for the Malays. The programmes for correcting economic imbalances were thus targeted at the Malays or indigenous Malaysians. The strategy centred on three main programmes: firstly, restructuring of employment; secondly, creation of Bumiputera Commercial and Industrial Community (BCIC); and thirdly, restructuring of equity ownership.

With regard to the restructuring of employment, the NEP focused on creating more educational and training opportunities for Bumiputeras, creating a more open labour market, and facilitating the employment of Bumiputeras by government-owned agencies and enterprises.

To enable the creation of the BCIC, the NEP programmes focused on allocation of quota of contracts, licenses and permits to Bumiputeras in order to assure the participation of Bumiputeras in business; the provision of education, training and advisory services through the development of MARA (Majlis Amanah Rakyat or the Council of Trust for Indigenous People); the provision of credit facilities and soft loans; the provision of business premises; and the setting up of commercial

### *Bartholomew M. Nyagetera*

enterprises by trust agencies. The objective for the establishment of MARA was to motivate, guide, train and assist Bumiputeras to participate actively and progressively in both commercial and industrial enterprises so as to create a strong and viable business community. MARA programmes endeavoured to create and increase the number of Bumiputera entrepreneurs, increase the number of trained Bumiputera manpower at all levels and in various fields, enable participation in specific commercial and industrial enterprises, and enable the provision of other facilities and services to raise the social and economic status of Bumiputeras.

With regard to restructuring of equity ownership, the NEP programmes involved ensuring that 30% of the total equity of a company listed on the Kuala Lumpur Stock Exchange (KLSE) is allocated to Bumiputera trust agencies, institutions and companies, as well as ensuring that in any listing exercise, 30% of the shares meant for public balloting are allocated to Bumiputera applicants. To address the shortage of Bumiputera capital and entrepreneurs, the NEP programmes established trust agencies to be directly involved in business activities and hold in-trust corporate equity reserved for Bumiputeras for later transfer at the appropriate time.

Also, to ensure that the industrialization process would also benefit Bumiputera groups through equity ownership, employment participation and joint ventures between Bumiputeras and foreign investors in proposed manufacturing projects, the NEP required the enforcement of the Industrial Coordination Act 1975. In addition, the Foreign Investment Committee Guidelines on Regulation of Acquisition of Assets, Mergers and Take-Overs by foreign interests were formulated in 1974 to ensure that the proposed acquisitions of assets, mergers and take-overs are consistent with the NEP objectives.

Finally, the privatization policy was to be implemented in such a way as to be a vehicle for accelerating greater Bumiputera participation in the private sector, firstly, by reserving for Bumiputeras the privatisation of trust agencies' subsidiaries; and secondly, by allocating to Bumiputeras a substantial proportion of the equity in other privatised Government entities.

### ***3.2 The National Development Policy (NDP): "Balanced Development"***

While the NEP with its philosophy of 'growth with equity' was implemented between 1971-1990, the period after 1990 reflecting the substantial changes which the Malaysian economy had undergone clearly called for new efforts and approaches to enable the economy to continue on an expanding sustainable growth path. These new efforts and approaches were concretised in the National

## *Malaysian Economic Development: Some Lessons for Tanzania*

Development Policy (NDP) which was to be implemented between 1991-2000. The NDP philosophy of 'balanced development' differed from the NEP with its philosophy of 'growth with equity'.

The major objectives of NDP were to achieve balanced development in terms of racial, regional and sectoral perspectives, while continuing to engage in poverty reduction and its eventual elimination, as well as in restructuring of society.

The new further dimensions of the NDP vis-à-vis the NEP were to: shift the focus towards the eradication of hard-core poverty; focus on employment creation and the rapid development of active Bumiputera commercial and industrial community (BCIC); rely more on the private sector to help meet the restructuring objectives; and focus on human resource development.

### *3.3 Vision 2020: Achieving Fully Developed Nation Status*

Concurrently with the implementation of the NDP, the Malaysian authorities considered it essential to promulgate a long-term vision of development to which all Malaysians would aspire. This vision incorporated the NDP that was to end in 2000 and included new elements to be extended to the year 2020. Thus, a 30-year vision of development known as 'Vision 2020' was promulgated, with implementation starting in 1991 and ending in 2020, spanning a time horizon of a single generation.

The philosophy of Vision 2020 is 'total development,' implying that by the year 2020, Malaysia would have developed beyond 'balanced development' to a stage of 'total development'. The major objective of Vision 2020 is achieving the status of a fully-developed nation by the year 2020, with a competitive, dynamic, robust and resilient economy. Such an objective would only be achieved if the economy were to maintain a sustainable expansion growth path at all times.

While Vision 2020 continued to espouse the strategy of poverty reduction and its eventual elimination, and the restructuring of society, the main focus was to achieve development on all fronts by overcoming nine major challenges:

- establishing a united Malay nation;
- creating a psychologically liberated, secure and developed Malaysian society;
- fostering and developing a mature democratic society;
- establishing a fully moral and ethical society;
- establishing a matured liberal and tolerant society;
- establishing a scientific and progressive society;



## *Bartholomew M. Nyagetera*

- establishing a fully caring society and a caring culture;
- ensuring an economically just society; and
- establishing a prosperous society.

To deal with the above challenges, a number of policies were devised to:

- (a) create a conducive environment for growth by maintaining political and social stability, as well as economic, financial and price stability;
- (b) downsize the role of government in economic production and business;
- (c) ensure healthy fiscal and monetary management;
- (d) deregulate and liberalise the economy further;
- (e) accelerate industrialization;
- (f) accelerate privatization;
- (g) promote science and technology and information technology;
- (h) develop human resources;
- (i) increase capital formation and efficiency; and
- (j) enhance third factor contribution, including organization, linkages, research and development.

### ***3.4 Establishment of the Multimedia Super Corridor***

As part of Vision 2020, and the goal of achieving fully developed nation status by 2020, the Malaysian government has recognised that mastery of science and technology is crucial to that goal. At the same time, the Malaysian Government believes that to master science and technology requires the mastering of information technology (or multimedia technology), which is considered to be the leading-edge industry of the future (i.e., of the third millenium).

To assure Malaysia of a place in the new era, in 1996 the Government established the Multimedia Super Corridor (MSC). This is a hub of information technology in an area 15km by 50km known as Cyber-Jaya extending south from Kuala Lumpur, where companies wishing to create, distribute and employ multimedia products and services can locate markets in Malaysia, East Asia, Asia and the rest of the world. The mission of the MSC is to create the best environment in the world for private sector companies to pioneer the development and use of the multimedia. High on the agenda of the Multimedia Super Corridor is the employment of knowledge workers in Malaysia and the transfer of technology and/or knowledge to Malaysia by companies establishing themselves at Cyber Jaya.

In creating the Multimedia Super Corridor, the following four key elements were first put in place:

## *Malaysian Economic Development: Some Lessons for Tanzania*

1. The best possible physical infrastructure, including a new modern world-class airport and integrated logistics hub, rapid rail links to Kuala Lumpur, a smart highway, and two new intelligent garden cities. Thus, at Cyber Jaya has been established one of Asia's most advanced IT city, located south of Kuala Lumpur. It has top-quality residential housing, leisure/entertainment facilities, schools, hospitals and transport infrastructure, and a green environment with strict zoning.
2. New laws, policies and practices designed to enable and encourage electronic commerce, facilitate the development of multimedia applications, and position Malaysia as the regional leader in intellectual property protection. In this respect, Malaysia is said to have the world's first comprehensive framework of 'cyber laws' as well as the world's first Multimedia Convergence Act. The MSC also incorporates highly attractive incentives, unrestricted import of foreign knowledge workers into Malaysia, and a generally sharper focus on multimedia education in Malaysia.
3. A world-class information technology network incorporating high-capacity global telecommunications and logistics infrastructure revolving on the 2.5-gigabit to 10-gigabit digital optical fibre backbone which was built using the latest ATM switches to provide fibre to the MSC network. This network will have a 5-gigabit high capacity international gateway with direct optical fibre links to Japan, the USA, Europe and South East Asia. This facility which is based on 100% digital open multimedia network also has what are considered as most cost-competitive telecommunication tariffs.
4. The Multimedia Development Corporation (MDC) is designed as a high-powered one-stop shop. It is empowered to attract leading IT multimedia companies from around the world, and is committed to ensure a world-best multimedia environment in order to facilitate the achievement of its core or primary responsibility of facilitating the transfer of knowledge, technology and wealth.

Enterprises wishing to operate in the Multimedia Super Corridor (MSC) must first obtain 'MSC status'. Enterprises with MSC status are entitled to incentives and benefits, which are backed by the Malaysian Government's Bill of Guarantees. This Bill commits the Malaysian Government to provide ten guarantees, namely to:

- (a) provide a world-class physical and information infrastructure;
- (b) allow unrestricted employment of local and foreign knowledge workers;

*Bartholomew M. Nyagetera*

- (c) ensure freedom of ownership by exempting companies with MSC status from local ownership requirements;
- (d) give the freedom to source capital globally for MSC infrastructure and the right to borrow funds globally;
- (e) provide competitive financial incentives, including no income tax for up to ten years or an investment tax allowance, and no duties on the importation of multimedia equipment;
- (f) become a regional leader in intellectual property protection and cyberlaws;
- (g) ensure no censure of the Internet;
- (h) provide globally competitive telecommunications tariffs;
- (i) tender key MSC infrastructure contracts to leading companies willing to use the MSC as their regional hub; and
- (j) provide a high-powered agency to act as an effective one-stop super shop (Multimedia Development Corporation (1999:8)).

To promote and spearhead the development of the MSC and allow it to take shape, the Multimedia Development Corporation identified seven primary areas for multimedia applications. These seven areas—called MSC Flagship Applications—have been initiated since December 1996, and are divided into two distinct categories: Multimedia Development Flagship Applications, and Multimedia Environment Flagship Applications.

The Multimedia Development Flagship Applications involve projects which have long-term objectives that go beyond the confines of the MSC. Supporting Vision 2020, they aim to transform core elements of Malaysia's technology infrastructure and social systems in areas such as education or public administration, using multimedia technologies as a critical catalyst in the process. Four flagship applications have been identified for the Multimedia development component: Electronic Government, Multipurpose Card, Smart Schools, and Telemedicine.

The Multimedia Environment Flagship Applications involve projects which need an environment of close cooperation with leaders in the multimedia industry, research and academic institutions and customers, whereby the applications allow companies to build centres of excellence for their R&D activities, create hubs to efficiently deliver value-added services throughout the region, and innovate entire businesses by using MSC's unique environment and infrastructure. Three flagship applications have been identified for the Multimedia environment component: R&D Cluster, World-wide Manufacturing Webs, and Borderless Marketing.

## *Malaysian Economic Development: Some Lessons for Tanzania*

Behind the development of the flagship applications are government ministries and agencies that report directly to the MSC Implementation Council which is chaired by the Prime Minister and the Deputy Prime Minister of Malaysia. The major responsibility of the government ministries and agencies is to work in close partnership with leading international and Malaysian multimedia companies to clarify the concepts and create detailed implementation plans. Joint government-private sector teams developed concrete proposals for each flagship application between December 1996 and June 1997, and these have now entered the phase of implementation since July 1997.

### **4. Performance and Achievements of the Malaysian Strategy**

#### *4.1 Critique of the New Economic Policy Strategy*

Among the Chinese of Malaysia and Singapore, the NEP and its policy of uplifting the Malays through special favours was considered as doomed from the start, since "... Malays are not good businessmen and are not sufficiently industrious in accumulating capital and investing it profitably." (Josey, 1968:74). Indeed, Dr. Judith Djamour (1950) in her study "*Malay Kinship and Marriage in Singapore*" had noted that, while the Chinese (in Singapore and Malaysia) were indefatigable workers and keen businessmen, and on the whole considered the acquisition of wealth to be one of the most important aims in life and also an end in itself, the Malays on the other hand did not like to work hard in order to acquire greater wealth but preferred to spend what they earned as they earned it, and leading as leisurely a life as possible (Josey, 1968:74-75). Thus, to the Chinese and other non-Malays, the poverty of the Malays was purely a problem of Malay culture and attitudes, the attitude of preferring leisure to hard work.

Lee Kuan Yew, a long time Singapore Premier, argued that the problem was the attitude of the Malays, and to strike at the root causes of this attitude, Malays must be given a chance to develop through education and contact with other races, and not to be encouraged to rely forever on special rights (Josey, 1968:75).

The major weakness of the NEP from the standpoint of its critics was thus the fact that it hoped to transform the Malays or Bimuputera overnight into businessmen through affirmative government intervention. It was argued that businessmen and entrepreneurship could not be artificially created through government interventions and favouritism. The NEP was thus considered as merely a ploy for retaining political power among the Malay elite, but served no useful economic purpose and would be a drain on national resources.

#### **4.2 Performance of the NEP and the NDP**

Both the NEP and the NDP were implemented through the agency and programmes of the 5-year (national) Malaysian Plans (MP). The period of the NEP covered the Second Malaysian Plan (2MP) (i.e., 1971-75) to the Fifth Malaysian Plan (5MP) (i.e., 1986-90), while the NDP period covered the Sixth Malaysian Plan (6MP) (i.e., 1991-95) to the Seventh Malaysian Plan (7MP) (i.e., 1996-2000).

##### *4.2.1 Economic Growth and Macroeconomic Indicators in Malaysia*

Table 1 shows that the NEP period covering the period 1971-1990 recorded an average real GDP growth of 6.7% p.a., which is above the 6.0% p.a. growth recorded during the 1960s. The NDP period average GDP growth was much higher during the period before the onset of the Asian crisis of 1997. Thus an average growth of real GDP of 8.7% p.a. was recorded during 1991-95, and 8.2% p.a. during the period 1996-97. The impact of the Asian storm in Malaysia resulted in severe negative real GDP growth in 1998 of -6.7%. This was the first and only time that real GDP growth had recorded negative figures in Malaysia since the implementation of the NEP and NDP programmes.

**Table 1: Average Real GDP Growth in Malaysia**

<b>Period</b>	<b>(% p.a.)</b>
1960s	6.0
1970s	7.5
1980s	5.9
1991-95	8.7
1996-97	8.2
1998	-6.7
1999-2000	5.0

*Source:* Economic Planning Unit, Prime Minister's Department, Malaysia

The National Economic Recovery Plan which was devised and adopted in August 1998 to address the effects of the Asian Storm in Malaysia reversed the decline in real GDP which had been recorded in 1998, resulting in positive real GDP growth of 5% p.a. during the period 1999-2000. It is clear that barring the effects of the Asian crisis of 1997, economic growth performance in Malaysia was quite successful. This result is confirmed by the performance of the macroeconomic indicators presented in Table 2. Thus, for instance, gnp per capita rose from US\$360 in the 1970s to US\$2,255 in 1990, US\$3,890 in 1995 and US\$3,013 in 1998. As a result, Malaysia is now an upper middle-income country.

## *Malaysian Economic Development: Some Lessons for Tanzania*

**Table 2: Malaysia - Macroeconomic Indicators**

Particulars	1970s	1990	1995	1998
GNP per capita (US\$)	360	2255	3890	3013
Unemployment rate (%)	7.8	5.1	n.a.	4.9
Inflation rate (% p.a.)	1.6	3.1	3.3	5.2
Exchange rate (RM/US\$)	3.08	2.70	n.a.	3.80

**Note:** RM - Malaysian Ringgit (the Malaysian currency).

**Source:** Economic Planning Unit, Prime Minister's Department, Malaysia; and World Bank, *World Development Report 1997* for 1995 data.

### *4.2.2 The Structure of Production in Malaysia*

Changes in the structure of production in Malaysia are presented in Table 3 which shows continuous positive changes with the growth of the economy. Thus, for instance, as the share of manufacturing and services in GDP continued to rise, so too has the share of agriculture and mining continued to decline. Consequently, Malaysia now compares quite favourably with other upper-middle income economies.

**Table 3: Malaysian Structure of Production (as % of GDP)**

Sector	1970	1980	1990	1995	1998
Services	36.2	40.0	42.5	44.0	48.1
Construction	3.8	n.a.	3.6	n.a.	4.1
Manufacturing	13.9	21.0	26.9	33.0	35.4
Mining	13.7	n.a.	9.8	n.a.	7.0
Agriculture	29.0	22.0	18.7	13.0	11.8

**Source:** Economic Planning Unit, Prime Minister's Department, Malaysia, and World Bank, *World Development Report 1997* for 1980 and 1995 data.

### *4.2.3 Malaysian Composition of Exports*

Changes in the composition of exports are a good indicator of the extent to which the NEP and NDP programmes, as implemented through the agency of the 5-year Malaysian Plans, have been successful. Tables 4 and 5 present these changes. Table 4 shows the extent to which the composition of exports has changed in almost revolutionary proportions. For instance, the share of rubber in total exports has changed from 33.4% in 1970 (just before the introduction of the NEP) to 1.1% in 1998. Similarly, the share of tin and forestry products in total exports have fallen from 19.6% and 16.3% respectively in 1970 to 0.2% and 1.5% respectively in 1998. This decline in the share of these primary product exports was accompanied by the extremely significant rise in the share of manufactures in total exports, which rose from 11.9% in 1970 to 80.5% in 1998. These very significant changes in the structure and composition of exports were

accompanied with a truly significant change in the volume of exports, with the value of exports rising over 55 times between 1970 and 1998.

**Table 4: Malaysia - Product Composition of Exports**

Particulars	1970	1998
Volume of Exports (RM Million)	5,163	284,516
Product as % of Total Exports:		
Rubber	33.4	1.1
Tin	19.6	0.2
Forestry Products	16.3	1.5
Oil and Gas	3.9	5.1
Manufactures	11.9	80.5
Palm Oil	5.1	5.8
Others	9.8	5.8

*Source:* Economic Planning Unit, Prime Minister's Department, Malaysia.

Table 5 shows the major changes, which have occurred during the NDP period in the structure and composition of exports.

**Table 5: Malaysia - Sectoral Composition of Exports**

Sector	1990	1995	1998
Total Exports (RM Million)	79,646.4	184,986.5	286,750.1
Sector share of Total Exports (%):			
Manufactured goods	56.8	77.4	81.2
Primary Commodities	42.9	21.3	17.9
Agriculture	23.1	13.9	11.4
Mining	19.8	7.4	6.5
Others	0.3	1.2	0.9

*Source:* Malaysia International Trade and Industry Report 1998/99, Ministry of International Trade and Industry, Malaysia

While the share of primary commodities in total exports has declined from 42.9% in 1990 to 21.3% in 1995 and 17.9% in 1998, the share of manufactured goods rose from 56.8% at the end of the NEP period in 1990 to 77.4% in 1995 and 81.2% in 1998. The volume of total exports also more than doubled between 1990 and 1995, while it more than tripled between 1990 and 1998.

#### *4.2.4 Poverty Reduction and Income Disparity Reduction*

As shown in Table 6, while the incidence of poverty in 1970 was 52.4% for the national average, 58.6% for the rural incidence and 24.6% for the urban incidence, by 1990 these averages had declined to 17.1% for the national average, 21.8% for the rural incidence, and 7.5% for the urban incidence. By 1997, the incidence of poverty had further declined to 6.8% for the national average, 11.8% for the rural average and 2.4% for the urban average.

## *Malaysian Economic Development: Some Lessons for Tanzania*

**Table 6: The Incidence of Poverty and Hardcore Poverty in Malaysia (as % of Population)**

Description	1970	1990	1997
Incidence of Poverty			
National Average (%)	52.4	17.1	6.8
Rural (%)	58.6	21.8	11.8
Urban (%)	24.6	7.5	2.4
Hardcore Poverty ( $\leq$ RM 260)			
National Average (%)	n.a.	4.0	1.4
Rural (%)	n.a.	5.2	2.4
Urban (%)	n.a.	1.4	0.5

*Source:* Economic Planning Unit, Prime Minister's Department, Malaysia.

At the same time, the extent of hardcore poverty (i.e., proportion of persons earning less than RM 260) declined to 4%, 5.2% and 1.4% for the national average, rural average and urban average respectively in 1990. By 1997 the extent of hardcore poverty had declined further to 1.4% for the national average, 2.4% for the rural average and 0.5% for the urban average. Clearly, the record of performance in poverty reduction has been significant and substantial.

The reduction in income disparity has however been modest as shown in Table 7. While reduction in income disparity between the Malays or Bumiputeras and the other racial groups had been notable by 1990, the effects of the Asian crisis seem to have had a negative impact, with income disparity rising to some extent by 1997. These results are also shown by the performance of the Gini coefficient, which declined from 0.513 in 1970 to 0.446 in 1990 and then recorded a rise to 0.470 in 1997.

**Table 7: Income Disparity Ratios in Malaysia**

Description	1970	1990	1997
Income Disparity Ratios			
Bumiputera: Chinese	1:2.3	1:1.7	1:1.8
Bumiputera: Indians	1:1.8	1:1.3	1:1.4
Rural : Urban	1:2.1	1:1.7	1:2.0
Gini coefficient	0.513	0.446	0.470

*Source:* Economic Planning Unit, Prime Minister's Department, Malaysia.

### *4.2.5 Changes in the Quality of Life*

The impact of the NEP and NDP on the quality of life in Malaysia can be observed in Table 8, where very clear improvements are noted in terms of life



expectancy for both males and females, significant decline in infant mortality rates, improvement in the doctor/population ratio, a rise in the literacy rate, and access to telephones, potable water, electricity and housing.

**4.2.6 Employment Restructuring**

As one of the principal goals of the NEP and NDP was to improve the position of Bumiputeras by increasing their access to facilities and employment, Table 9 provides an account of employment restructuring in Malaysia in terms of registered professionals for Bumiputeras, Chinese, and Indians.

**Table 8: Changes in the Quality of Life in Malaysia**

Particulars	1970	1990	1997
Life Expectancy (years)			
Male	61.6	68.9	69.6
Female	65.6	73.5	74.5
Infant Mortality rate (per 1000)	39.4	13.0	8.8
Doctor/Population Ratio	1:4,302	1:2,656	1:1,521
Literacy Rate (%)	58	85	93
Telephones per 1000 of population	17	114	184
% of Population with:			
Potable Water	47.5	78.3	91.0
Electricity	43.7	87.5	96.0
Housing (persons/living quarters)	5.4	4.4	4.2

Source: Economic Planning Unit, Prime Minister's Department, Malaysia.

**Table 9: Employment Restructuring for Professionals in Malaysia  
(As % of Total Professionals)**

Profession	1970				1990				1998			
	B	C	I	O	B	C	I	O	B	C	I	O
Accountants	6.8	65.4	7.9	19.9	11.2	81.2	6.2	1.4	15.7	77.6	5.6	1.1
Architects	4.3	80.9	1.4	13.4	23.6	74.4	1.2	0.8	28.5	69.7	1.6	0.2
Dentists	3.1	89.1	5.0	2.8	24.3	50.7	23.7	1.3	32.1	45.1	21.1	1.7
Doctors	3.7	44.8	40.2	11.3	27.8	34.7	34.4	3.1	31.3	31.2	26.8	10.7
Engineers	7.2	71.0	13.5	8.3	34.8	58.2	5.3	1.7	37.0	56.1	6.9	0
Lawyers	0	0	0	0	22.3	50.0	26.5	1.2	30.9	42.2	25.9	1.0
Surveyors	0	0	0	0	44.7	49.6	3.7	2.0	47.4	44.7	2.8	5.1
Veterinary Surgeons	40.0	30.0	15.0	15.0	35.9	23.7	37.0	3.4	40.3	25.2	31.9	2.6

Key: B - Bumiputeras, C - Chinese, I - Indians, O - Others.

Source: Economic Planning Unit, Prime Minister's Department, Malaysia

By 1998, there was a very substantial increase in the proportion of professions held by Bumiputeras, particularly vis-à-vis the Chinese, although the latter were still dominant in almost all professions. This increase was a result of the positive

## *Malaysian Economic Development: Some Lessons for Tanzania*

affirmative actions which were undertaken during this period in favour of Bumiputeras particularly through MARA (Majlis Amanah Rakyat) or the Council of Trust for the Indigenous People. For instance, MARA had 323 centres spread throughout the length and breadth of Malaysia, with a total staff complement of 6,419 made up of 2,311 professionals and 4,108 supporting staff covering the sectors of education, entrepreneur development, services and transport. MARA allocated RM 6,476.2 million for education and entrepreneur development. A total of 280,535 entrepreneurs were trained under the Entrepreneurship Training Programmes during the period of the 3<sup>rd</sup> to 7<sup>th</sup> Malaysian Plans. MARA also provided education sponsorship for 148,985 Bumiputeras both locally and abroad through educational loans for tertiary education in science and technology in order to increase the number of Bumiputera professionals and manpower towards creating a Bumiputera Commercial and Industrial Community. A total of RM 4,543.1 million were allocated by MARA for education sponsorships and a total of 59,129 students graduated at MARA Vocational Institutes, while 70,034 students were trained at GIATMARA Centres which provided training in automotive, building, electrical, manufacturing, tailoring, electronic, furniture, and printing trades.

### *4.2.7 Equity Ownership Restructuring*

A major goal of both the NEP and NDP was to restructure equity ownership such that the share of Bumiputeras rises to a higher level. Table 10 presents the changes in equity ownership over the NEP and NDP periods. The position in 1990 showed that there had been restructuring in favour of Malaysian nationals, with the share of Bumiputeras rising from 2.4% in 1970 to 19.3% in 1990, and that of other Malaysians also rising from 32.3% in 1970 to 46.8% in 1990, while the share of foreigners declined from 63.3% in 1970 to 25.4% in 1990. The impact of the Asian crisis in 1997 resulted in a negative effect on equity ownership of nationals such that the share of Bumiputeras and other Malaysians ground to 19.4% and 41.1% respectively in 1998, while the share of foreigners increased to 31.8% in 1998. Nevertheless, the overall record is one of positive change in equity ownership in favour of Malaysian nationals.

**Table 10: Equity Ownership Restructuring in Malaysia<sup>+</sup>**

Particulars	1970	1990	1998
Bumiputeras	2.4	19.3	19.4
Other Malaysians	32.3	46.8	41.1
Nominee Companies	2.0	8.5	7.7
Foreigners	63.3	25.4	31.8

**Note:** + Excludes shares held by Federal, State and Local Governments

**Source:** Economic Planning Unit, Prime Minister's Department, Malaysia

## **5. The Asian Storm and its Impact on Malaysia**

### *5.1 The Asian Crisis*

The average annual rate of growth of GNP of the South East Asian countries has by all means been phenomenal. Between 1955 and 1999, the average rate of GNP growth in South Korea was 9% p.a., and over 8.9% in Singapore between 1961 and 1999. Thailand had an average growth rate of 7.5% p.a. between 1955 and 1999, while Malaysia's growth rate averaged 7% p.a. between 1966 and 1999. Indoneasia's growth rate averaged 6.5% p.a. between 1961 and 1999, while the Philippines, long considered the 'sick man of Asia', had an average growth rate of 3.9% p.a. between 1955 and 1999 (Ries, 2000:11-12; Mohamad, 1999:47). Most of South East Asia thus had an exceptional period of economic growth even when compared with such other outstanding period examples in recent economic history such as the 19<sup>th</sup> century industrial revolution in Britain, the emergence of the United States at the beginning of the 20<sup>th</sup> century, and the reconstruction of Japan after the Second World War.

A World Bank study—*The East Asian Miracle*—in 1993 covering the period 1960-1985 found that when ranked in terms of GNP per capita, eight high-performing Asian economies were among the top twenty. Six Asian economies were ranked from second to seventh, while Malaysia was ranked seventeenth and Thailand twentieth in the world. This was quite clearly unprecedented, and was justifiably called the 'East Asian Miracle.'

The events of the Asian storm that unfolded from 2<sup>nd</sup> July 1997, have called into question that description of the economic development experience of the East Asian nations. Indeed some economists have argued that the East Asian economic development experience was not an economic miracle at all, but merely a mirage, a bubble which was over-inflated by corruption, cronyism and bad loans (Ries, 2000:11-12; Mohamad, 1999:47). East Asians are thus now blamed for having impoverished themselves and brought onto themselves such a monumental economic malaise (Krugman, 1994; Mohamad, 1999). A number of serious questions easily come to mind: what caused the Asian crisis? How did it unfold? What were its essential features?

#### *5.1.1 The Crisis and Its Essential Features*

The Asian crisis began as a crisis in the Thai currency market which then overflowed into the Thai stock market. Because of concerns over the onset of property deflation, the continued accumulation of short-term foreign debt, and the large and increasing current account deficit, there were increasing doubts that the implicit baht-US dollar peg could not be maintained under speculative pressure. These concerns fueled increasing downward pressure on the baht, as

## *Malaysian Economic Development: Some Lessons for Tanzania*

both foreign and local players amassed short baht positions to speculate against the implicit baht-US dollar peg in May 1997.

At the same time, increasing problems in the property sector with property deflation, and rising problems in the domestic financial sector with increasing financial strains in the domestic economy, together with the rise in external imbalances, fueled the downward slide in the Thai stock market.

The joint defense of the baht against speculative attacks in the spot and forward markets by the Bank of Thailand and the Monetary Authority of Singapore in May 1997, and the introduction of restrictions in order to segregate the baht currency market into on-shore and off-shore segments further weakened confidence as it intensified speculative pressure as market participants sensed that the resources available to the Bank of Thailand were almost depleted, and that further defense was almost impossible and futile. Indeed, on 2<sup>nd</sup> July 1997, following the massive depletion of its foreign exchange reserves, the Bank of Thailand abandoned its defense of the baht, and allowed it to be traded under a managed float.

The *de facto* devaluation of the Thai baht brought into question the viability of the exchange rate arrangements in the other ASEAN countries. Consequently, financial contagion effects spread quickly to the other ASEAN-4 countries, i.e., Indonesia, Malaysia and the Philippines. While, before the baht float, the Malaysian ringgit (RM) and the Philippine peso had only experienced minor speculative pressure, they now weakened significantly against the US dollar under intensified selling pressure, on account of concerns over these countries highly leveraged balance sheets. Moreover, both currency and stock market volatility intensified, stimulated by uncertainties over the direction of exchange rate policies and fears of further imposition of capital account controls. As a consequence, firstly the Philippine peso, followed by the Malaysian ringgit and then the Indonesian rupiah fell to speculative pressure, with their monetary authorities abandoning their futile defense of their currencies' exchange rate pegs with the US dollar.

The crisis spread to other East Asian countries, with the appreciation of the US dollar against most Asian currencies reinforcing perceptions that these currencies were overvalued, further leading to intensified selling pressure against their currencies. The currency and stock market crisis spread, fueled by problems in the property sectors, the declining health of the domestic financial sectors, the liquidity squeeze and corporate debt overhang, increasing corporate failures, the rising cost of servicing private sector debt, and rising inflation (Emerging Markets Committee, IOSCO, 1999:86-101).

### *5.1.2 Causes of the Asian Crisis*

Critical to an understanding of the causes of the crisis are the role of vulnerabilities, triggers and causal factors. Certain vulnerabilities exposed certain economies to the risk of crisis, and a confluence of certain factors including market activity as well as policy stances and responses were responsible for triggering the incidence of the crisis in various economies (Emerging Markets Committee, IOSCO, 1999:10). Thus, the causes of the crisis can be grouped into domestic vulnerabilities and crisis triggers.

Among the domestic vulnerabilities which exposed the regional economies to the risk of crisis were the following:

- surges in capital inflows and the build-up of financial and macro-economic vulnerability;
- the build-up in short-term foreign debt;
- exchange rate rigidities;
- over-dependence on the banking system for financing and under-developed capital markets;
- poor corporate governance;
- inadequate disclosure and lack of transparency;
- poor risk management leading to a build-up in risk exposures of corporate and banking balance sheets; and
- vulnerabilities related to issues concerning the financial sector and liberalization.

Among the crisis triggers were:

- (a) Investor behaviour within liberalized international capital markets, and the role of globalization.
- (b) The influences of currency market activity.
- (c) The role of financial contagion (Emerging Markets Committee, IOSCO, 1999:11-38).

### *5.2 The Impact of the Asian Storm in Malaysia*

The impact of the Asian storm on Malaysia was severe and devastating. While the initial impact focused on the severe fall in the value of the Malaysian ringgit, a severe crash in the stock market and a sharp rise in capital flight, the period until 1999 saw an extreme worsening in macro-economic fundamentals.

Thus, the performance of the Malaysian ringgit against the US dollar saw a 34% depreciation between 2<sup>nd</sup> July 1997 and 28<sup>th</sup> September 1999. Kuala Lumpur Stock Market capitalisation in US dollar terms declined by 53.9% between 30<sup>th</sup>

## *Malaysian Economic Development: Some Lessons for Tanzania*

June 1997 and 31<sup>st</sup> August 1999. The growth rate of real GDP—which had recorded 9.4% in 1995, 10% in 1996, and 7.5% in 1997—declined severely to -7.5% in 1998 and 3% in 1999. The risk-return profile of the Kuala Lumpur Composite index recorded an annualised return of 12% and an annualised return volatility of 44.5% by 28<sup>th</sup> September 1999. Firm bankruptcies had also soared since the onset of the crisis, while estimates for the banking sector in Malaysia indicated that non-performing loans accounted for 15-25% of all loans outstanding. Malaysian firms were also facing severe liquidity problems, with an interest coverage ratio of only 3.25% in 1998. At the same time, Malaysia experienced sharp reversals in capital flows between 2<sup>nd</sup> July 1997 and the latter half of 1998. The severe decline in GDP growth and the rise in unemployment during 1998 resulted in a dramatic decline in per capita consumption and standards of living (Nyagetera, 2001).

### *5.3 The Malaysian Response to the Asian Storm: The National Economic Recovery Plan (NERP)*

In response to the economic crisis facing Malaysia as a result of the Asian storm, on 7<sup>th</sup> January 1998 the Malaysian government established the National Economic Action Council (NEAC) as a consultative body to the Cabinet to deal with the economic crisis. The NEAC prepared the National Economic Recovery Plan (NERP) which was approved by the government, and set off immediately for implementation by August 1998.

The NERP focused on six objectives (National Economic Action Council, 1998), namely to:

- (a) stabilise the ringgit;
- (b) restore market confidence;
- (c) maintain financial market stability;
- (d) strengthen economic fundamentals;
- (e) continue with the equity and socio-economic agenda; and
- (f) revive the adversely affected sectors.

The following plan of action involving the six objectives was adopted:

#### 1. Stabilising the ringgit by:

- adopting an appropriate choice of exchange rate regime;
- reducing over-dependence on the US dollar;
- increasing external reserves; and
- adopting a balanced interest rate policy

#### 2. Restoring market confidence by:

## *Bartholomew M. Nyagetera*

- improving transparency and the regulatory environment;
  - establishing rules for assisting industries and firms in trouble;
  - increasing the consistency of policies;
  - adopting liberal and market-based policies;
  - improving public relations; and
  - improving the dissemination of economic information.
3. Maintaining financial market stability by:
- preserving the integrity of the banking system;
  - establishing agencies along the lines of the United States Federal Deposit Insurance Corporation (FDIC) and the Resolution Trust Corporation (RTC);
  - recapitalising the banking sector;
  - monitoring closely overall credit expansion;
  - improving the capital market; and
  - developing the private debt securities (PDS) market.
4. Strengthening the economic fundamentals by:
- increasing the quality of investments;
  - improving the balance of payments;
  - maintaining a balanced public sector financial position;
  - maintaining an appropriate monetary policy;
  - maintaining price stability; and
  - increasing labour competitiveness
5. Continuing the equity and socio-economic agenda by:
- ameliorating the hardship from poverty;
  - addressing the issues on Bumiputera equity ownership;
  - expanding employment opportunities;
  - expanding tertiary education;
  - addressing the problem of graduate unemployment;
  - controlling the influx of foreign workers;
  - gearing up state corporations to face the crisis;
  - revamping cooperatives and cooperative banks; and
  - protecting the environment for sustainable development.
6. Revitalising the affected sectors, by addressing and restoring the following sectors:
- primary commodities and resource-based industries;
  - mining and petroleum;
  - manufacturing;

## *Malaysian Economic Development: Some Lessons for Tanzania*

- information technology and the Multimedia super corridor;
- motor industry;
- construction;
- property;
- infrastructure;
- transportation;
- freight forwarding;
- tourism;
- industrial development finance institutions; and
- insurance and reinsurance.

For each objective, each line of action was to be implemented by putting into operation a number of detailed measures, which this paper cannot delve into on account of space limitations. Nevertheless, in brief summary, detailed measures dealing with lines of action involving the first three objectives dealing with market stabilisation issues are based on the recognition that the economic crisis facing Malaysia was set off by the ringgit depreciation and the precipitous fall of the Kuala Lumpur Stock Exchange (KLSE). The increasing pessimism and uncertainty, as well as falling income, resulted in a fall of private consumption and investment. Businesses faced rising losses and debt, and the time was no longer right for them to turn to the stock market to raise capital for new investment and debt retirement. Banks were also burdened with increasing non-performing loans as a result of business failures. At the same time, the volatility of the ringgit complicated business decisions, and increased the risk of losses due to foreign exchange fluctuations. The lines of action adopted and the measures implemented were thus designed to stabilise the ringgit, shore up market confidence, strengthen the financial system, preserve the integrity of the banking system, improve the capital market and develop the private debt securities market.

Although the economic fundamentals of Malaysia were generally strong, nevertheless, there were particular areas requiring attention. There were indications that the rapid economic growth in the 1990s was fuelled by high investment rates but less productive use of capital. The country was faced with increasing current account deficits, inflationary pressure, and falling labour competitiveness. The lines of action adopted and the measures implemented were designed to strengthen the country's economic fundamentals by appropriate fiscal and monetary policies conducive to price and currency stability, while promoting business activities with public spending and adequate credit growth.

As the economic crisis had badly affected household income, the poverty level, employment opportunities and Bumiputera share ownership, the lines of action



and measures were designed to focus on the equity and socio-economic agenda, expanding tertiary education, revamping state owned enterprises and cooperatives, and preserving the environment. The lines of action and measures designed to revitalise the sectors badly affected by the crisis focus on the 12 sectors identified to be most vulnerable to the currency and stock market crisis, and which have been afflicted by the ringgit depreciation, poor stock market performance, financing problems, high interest rates, and economic slowdown.

The NERP also incorporates policy measures designed to strengthen the ringgit and the financial system, as well as improve the level of transparency and corporate governance, in order to ward off the occurrence of future attacks or minimise the severity of adverse effects in case of future attacks.

#### ***5.4 Is Vision 2020 Still on Track?***

Following the onset of the crisis in Malaysia in July 1997, as part of the 1998 Budget, the government announced in October 1997 a 2% reduction in government expenditure, and deferred mega projects. The additional package of measures announced on 5<sup>th</sup> December 1997 to deal with the protracted crisis included applying stricter criteria for approvals of new reverse investments, deferring the implementation of non-strategic and non-essential projects, and reducing government expenditure by 18% in 1998. Other additional measures introduced as well as the measures related to the National Economic Recovery Plan implemented since August 1998 have been designed to address the economic crisis, and revitalise as well as restore the sectors which had been badly affected by the crisis.

The implementation of the various measures shows that while during 1998 the growth rate of real GDP had declined by -7.5%, this reversed to a positive 3.0% during 1999, and it was projected at a positive 5% during 2000. The Malaysian economy is thus expected to resume its traditional high growth path from 2001.

While the progress to Vision 2020 was certainly marred by the Asian Crisis, yet the measures adopted and implemented in response have assured continued progress towards Vision 2020. Vision 2020 is thus still on track, though its pace was retarded by the Asian Crisis.

### **6. Lessons for Tanzania from the Malaysian Experience**

To examine whether there are any lessons for Tanzania from the Malaysian experience, this section firstly identifies the lessons from the Malaysian

## *Malaysian Economic Development: Some Lessons for Tanzania*

development experience, and subsequently enquiries into whether the Malaysian lessons are relevant for Tanzania.

### *6.1 Lessons from the Malaysian Development Experience*

The Malaysian development experience is replete with useful lessons. While some of these lessons are unique to Malaysia, others may have relevance to countries far beyond Malaysia's borders. The following lessons are identified to flow from the Malaysian development experience:

1. An important and leading lesson is the psychological liberation of Malaysian society, with Malaysians having faith and confidence in themselves and their capacity to achieve accomplishments and face successfully all manner of adversity.
2. The confidence and new hopes generated among the least developed countries that it is possible for a low income Third World nation to eradicate hardcore poverty and achieve prosperity and economic development within the space of a single generation.
3. The importance of peaceful coexistence among different groups in society of differing ethnic, racial, religious and other persuasions, for assuring political stability and unhindered economic development.
4. The importance of closing existing gaps between ethnic, racial and religious groups for the long-term stability and prosperity of a country.
5. The importance of eliminating the identification of race with economic function by restructuring society to correct economic imbalances and by creating more wealth and making sure that the poorest part of the population receives its fair share of this increased wealth.
6. The importance of major investments in education and training particularly for the poorer part of the population.
7. The importance of continuous and rapid economic growth for the expansion of productive employment and the eradication of poverty.
8. That in order to achieve rapid economic change and expansion, the economy must maintain a sustainable expansion growth path at all times.
9. That in order to achieve an economy which maintains a sustainable expansion growth path all times, it is necessary to devise and implement policies which:
  - create a conducive environment for growth by maintaining political and social stability, as well as economic, financial and price stability;

## *Bartholomew M. Nyagetera*

- downsize the role of government in economic production and business;
  - ensure healthy fiscal and monetary management;
  - deregulate and liberalise the economy, but proceed with capital account liberalization with care;
  - accelerate privatization;
  - promote science and technology and information technology;
  - develop human resources;
  - increase capital formation and efficiency; and
  - enhance third factor contribution, including organization, linkages, research and development.
10. The importance of investing and developing facilities involving new technologies and promoting their use by foreign and local investors.
  11. The importance of addressing unabashedly, the problem of promoting entrepreneurship and participation in economic empowerment programmes particularly for the poorer and weaker groups in society.
  12. The importance of having a clear vision of development which is capable of implementation and to which all in society aspire.
  13. The importance of addressing currency and stock market instability by adopting measures which: stabilize the currency, restore market confidence, maintain financial market stability, strengthen economic fundamentals, and revive adversely affected sectors.
  14. The importance of good governance in ensuring a culture of accountability at both government and corporate levels in eliminating corruption and rewarding good performance.

### ***6.2 Are Malaysian Lessons Relevant for Tanzania?***

In order to examine whether the lessons from the Malaysian development experience have relevance for Tanzania, this section first details briefly the development problems afflicting Tanzania, and then subsequently proceeds to examine how Malaysian lessons may be relevant to addressing Tanzania's development problems.

#### ***6.2.1 Tanzania's Development Problems***

The *Tanzania Development Vision 2025* identifies the development problems or impediments to development which afflict Tanzania to be the following (URT Planning Commission 1999:7-11):

## *Malaysian Economic Development: Some Lessons for Tanzania*

1. Donor dependence syndrome and a dependent and defeatist developmental mindset.
  - (a) External dependence and the erosion of confidence, dignity and determination have demobilized the ability to effectively utilize human, physical and mental capacities to take initiative and search earnestly for creative options to solve developmental problems.
  - (b) The mindset of both the leaders and the people not being supportive of hard work, ingenuity and creativity, as well as not providing a conducive environment for these attributes to emerge.
  - (c) The level and quality of education not being adequate to address growing development challenges and the search for solutions to development problems, as well as not being adequately geared to integrating the individual into the community and innovatively engaging its graduands in entrepreneurship and self-employment.
  
2. A weak economy and low capacity for economic management.
  - (a) The economy has remained largely untransformed, with agriculture the backbone of the economy continuing to be dependent on rainfall and backward technology, with resultant low and erratic productivity.
  - (b) There have been low productivity levels in other sectors which also reflects low levels of creativity, innovativeness, and utilization of science and technology.
  - (c) Available domestic resources have neither been adequately mobilized nor effectively utilized to promote development in a robust and sustainable manner.
  - (d) The structure of the economy is still dominated by primary production with a consequent vulnerability of the economy to volatility in international commodity markets and newer technologies.
  - (e) The capacity for economic management has not kept pace with the demands for macroeconomic stability and changing economic conditions. Policy response to changing economic conditions has been low and slow.
  - (f) The economic environment has generally not been conducive to the sustenance of economic stability which is necessary for a high rate investment inflow.
  - (g) The excessive use of administrative controls and regulations have precluded the mobilization of capabilities outside the government and negated the possibility of harnessing market forces to achieve development objectives.

3. Failures in governance and organization for development.
  - (a) Recently, there are indications of taking shape risk of cracks in social cohesion and national unity.
  - (b) Corruption and other social vices have been increasing.
  - (c) The rule of law and voices of the people in the development process have been weak.
  - (d) The national institutional and organizational structures have not been sufficiently reviewed to cope with the demands of the on-going reforms, and as a consequence have not been supportive of evolving social relations which promote the participation of all stakeholders in development.
  - (e) The national institutional and organizational structures have not been able to effectively mobilize domestic resources and capabilities to address the emerging challenges of market-oriented and private sector led development.
4. Ineffective implementation syndrome.
  - (a) There has developed a propensity to prepare and pronounce plans and programmes, and ambitions which are not accompanied by effective implementation, monitoring and evaluation mechanisms.
  - (b) Implementation of plans and programmes has been weak.
  - (c) As a consequence of the above, there is an erosion of trust and confidence among the people on their leaders, and apathy and lack of enthusiasm in participating in national endeavours.

#### *6.2.2 Malaysian Lessons Relevant to Tanzania's Development Problems*

As mentioned above, the Malaysian development experience is replete with useful lessons. However, some of these lessons are unique to Malaysia, while some others may have relevance to countries far beyond Malaysia's borders. It is, therefore, important to carefully examine and identify the non-unique lessons which may be of relevance to Tanzania, given Tanzania's development problems. Given Tanzania's development problems, there are various lessons relevant to Tanzania. Among these are giving importance to:

- (a) the psychological liberation of the mindset;
- (b) peaceful coexistence among different groups in society;
- (c) closing existing gaps between differing groups for the long-term stability and prosperity of a country;
- (d) using explicit programmes of economic empowerment to uplift the poorer sections of the population;

## *Malaysian Economic Development: Some Lessons for Tanzania*

- (e) undertaking major investments in education and training to develop human resources and uplift the entire population, including the weaker sections;
- (f) continuous and rapid economic growth for expanding productive employment, eradicating poverty, improving standards of living, and bringing about major positive social and economic transformation;
- (g) having a clear vision of development which is capable of implementation and to which all in society aspire, and which is accompanied with appropriate and effective measures of gauging implementation, monitoring, follow-up and review;
- (h) maintaining a conducive environment for economic growth, with social, political, economic, financial, and price stability;
- (i) a liberalized economy, and yet proceeding with capital account liberalization with care; and
- (j) good governance, transparency, and accountability at both government and corporate levels.

### **7. Conclusions**

The Malaysian development experience provides interesting lessons for study. This paper has touched on some of these lessons, but has not exhausted all the experiences and lessons which a deeper analysis of specific areas would evoke.

Nevertheless, it is clear that the Malaysian development experience provides new lessons to other developing countries, and it is certainly important that more people from developing countries should be exposed to these notable experiences. This paper is a contribution to that effort of widening the scope of lessons available to Third World nations for achieving faster, sustainable and rapid economic development.

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***Bartholomew M. Nyagetera***

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