

**MALAYSIA'S ECONOMIC GLOBALIZATION IN THE MILIEU OF THE
DECEPTIVE GAME OF CAPITALIST GLOBALIZATION**

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Abstract

Capitalist globalization is the economic policy of integration of national economies with global economy on the basis of free market competition. It is a neoliberal prescription for industrialization and growth of the emerging economies of the South and a project of capital accumulation for the capitalist North through a process of securing disproportionate share of benefits at the expense of the developing South. Operating in this milieu of deceptive game of capitalist globalization Malaysia's cautious and Malaysia-centric globalization approach has been found very successful at the national front, but at the international front it seriously failed to reduce Malaysia's income gaps with its rich trade and growth partners. This therefore reconfirms the strength of deceptive nature of the capitalist globalization. The content analysis and Malaysia's globalization experience poise to support the hypothesis that globalization has high potential to contribute to industrialization and growth of the emerging economies, but at the same time, being pursued under free market competition it has turned out to be a deceptive game of the North and cannot be trusted wholeheartedly for emancipation of the developing economies. The paper suggests for a policy of target oriented 'inclusive globalization', with the underlying theme of internationalization of the economies instead of globalization of trade and the perspective of 'fair market' instead of 'free market', to ensure equitable sharing of benefits of specialization and globalization among the participating nations.

Key words: Economic globalization; Capitalist globalization; Neoliberalism; Fair market; Free market; Economic nationalism; Malaysia-centric economic globalization, Income convergence; Industrial competitiveness.

JEL Classification: C32, F13, F43, O11, O19, O47, O57, P16, P17

Introduction

Economic globalization is the integration of national economy with the global economy. Indeed, it is the natural outcome and the end result of economic development processes in any nation. The internal dynamics of the process of development pushes the economy going global. It is done primarily through - liberalizing trade and liberalizing capital investment. In its fullest form it is a borderless economy where, as opposed to a regime of restriction and protection, there is a regime of free trade of all inputs and outputs. Essentially it is the increased interconnectedness of national markets reflected in the growth and rise in international trade, foreign investment, and especially in international financial flows. It is, thus, a strategy of outward looking industrialization to enjoy the benefits of production for wide world market, specialization, and economies of scale. Traditionally the development process starts with import-substitution based industrialization, to replace imports by domestic production, followed by export oriented industrialization, for foreign market exploration, and finally followed by a technology-intensive high-value adding industrialization. The internal dynamics of specialization, economies of scale, managerial efficiency, product quality, research and development, etc. at the national and firm levels create country-specific and firm-specific advantages that strongly argue for going global. Therefore, for both the developing and developed economies globalization is a fact of life.

Economic globalization is largely thought to be an effective means for making the developed and developing worlds truly become part of *one* World -- forged together by a common economic destiny and guided by the humane principles of peace, friendship, and mutual respect. The strongest economic argument for promoting economic globalization, is the 'gain from trade' arising out of specialization and economies of scale. This 'gain from trade' is an added income for the trading countries to share and increase their welfare. The internal dynamics of specialization, economies of scale, managerial efficiency, product quality, research and development, and quality of products, etc. at the national and firm levels make globalization a more reliable strategy for sustained economic growth and development. In that sense it is a natural outcome and the end result of economic development processes of any nation. It is argued that through this process of globalization the technology transfers from the North would let less developed nations converge to the developed nations' level of economic performances (Crotty and Dymski, 2001:4). Therefore it is prescribed and pushed as a policy strategy for outward looking industrialization and economic growth of the developing countries of the South.

Unfortunately, however, there is a dark and ugly face of capitalist globalization. This ugly face makes it a deceptive strategy and a threat to the cause of developing economies. Development theories that advocate for

globalization as a way forward for global economic growth with equitable sharing of the gains from growth among participating nations are unfortunately founded on the assumption of perfect market which is an unrealistic and wrong assumption for the global economy consisting of national economies widely unequal in terms of political and economic powers and levels of industrialization and competency. Under the circumstances capitalist globalization only leads industrialized powerful countries and developing weak countries enter into a centre-periphery relationship in production power structure in which the developing periphery countries become dependent on the industrialized developed centre countries for their production and trade (Gilpin, 1975). As a result, by pursuing a strategy of globalization, under the present global economic order, the newly industrializing countries are subjecting themselves to sharing either only the least or none of the amount of gains from globalization leaving the industrialized developed partners to enjoy the most or all of it, under the rule 'strongest takes it all'. Thus, Mahathir, the former Prime Minister of Malaysia, alleges that unregulated capitalist globalization has been the cause of greater global inequality and underdevelopment of many developing countries (Billington 2002). As an operational agenda of neoliberalism, globalization is alleged as primarily a project of capital accumulation for the capitalist North through a process of systematic exploitation of the developing South (Harvey, 2005:2 and 2009) through manipulation of international prices of goods and services - highest price for their exports and lowest price for their imports. It is therefore perceived and accused as a deceptive game of the capitalist North. Under the circumstances it is seen as a double-edged sword for the industrializing economies. On one hand, it is an indispensable source of their industrialization and economic growth; and on the other, it is a means of their systematic exploitation by the capitalist countries.

The real world is divided into widely unequal north and south, strong and weak, rich and poor, developed and developing, industrialized and industrializing countries. Taking full advantage of this uneven global economic structure the capitalist countries (North) have driven the globalization agenda ensuring that it garners for them a disproportionate share of benefits, at the expense of the developing countries of the South (Stiglitz, 2002:7). To the industrialized nations economic globalization is to facilitate acquiring their imports, mostly the primary products, at the lowest prices from developing countries and selling their industrial and financial products to those countries at the highest prices to generate maximum capital accumulation. By virtue of their economic strength and bargaining power they always insist to set the prices of their exports and imports closest to the autarky prices of the developing countries for maximizing capital accumulation. As a result the industrialized capitalist countries always get most or all of the gains from trade. Therefore, it is pathologically incapable to benefit developing economies. It is a deceptive game used by the capitalist nations as an exploitative mechanism for enriching themselves at the expenses of the developing countries; it is a project of 'strongest takes it all'. By pursuing a strategy of globalization of economy under the present capitalist framework, industrialized powerful countries and industrializing weak countries enter into a centre-periphery relationship in production power structure in which the developing industrializing periphery countries become dependent on the industrialized developed centre countries for their production and trade. To this extent the era of globalization closely resembles the age of imperialism in the past (Heilbroner and Milberg, 2009:208). Capitalist globalization, thus, earned the international condemnation for its natural blind eye to the interests of the developing economies. As a result, the developing economies must pursue globalization only cautiously and selectively.

Moreover, globalization may be the fact of life and natural outcome and the end result of economic development processes of any nation, but the truth of the matter is that the capitalist globalization is not the mainspring of this development process. In fact, economic nationalism founded on mercantilist perspective is its mainspring. Asian Development Bank, for example, argues for a 'market driven but state steered' globalization model ('Asian Model') as a development strategy for these countries. The unfettered capitalist globalization cannot be trusted and taken for granted as a workable and profitable development policy for the developing countries. The Prebisch-Singer hypothesis that developing economies cannot effectively industrialize under global free-market system lends support to that. We must remember that it was Prime Minister Nehru's first economic policy declaration, 'produce or go without it' - a sound of economic nationalism and stand for effectiveness as against efficiency - and not any call for capitalist globalization, that played the trick to stimulate Indian lion economy to roar. Similarly, with the same magic wand of effectiveness China activated its dragon economy to spread its wings. The East Asian Tiger economies were energized to grow taller by the touch of the wisdom of the flexible and adapted state-led growth policy. That is why we observe that in most cases generally a dual strategy of protection and globalization, which we may like to call a guided globalization, is used to simultaneously ensure fair sharing of the gains from specialization and trade and guarantee growth and security of industrial capacity of the national economy. Malaysia's globalization largely fits into this category.

Because of its ugly face the unregulated capitalist globalization, pushed and patronized by the developed industrialized countries, earned international condemnation and is a suspect of deceptions. It cannot be trusted

and must be approached ‘rationally, moderately, and selectively, rather than whole-heartedly’ by the developing economies (Shakur 2002). The demand now is for ‘inclusive globalization’, which is globalization under a new international economic order, guided and regulated to ensure equitable sharing of the benefits of trade and growth among the participating nations. Its underlying theme is internationalization of the economies rather than globalization of trade, production for need fulfillment rather than for profit maximization, and replacement of greed and competition based on the philosophy of ‘survival of the fittest’ by the humanity of cooperation based on the philosophy of ‘live and let live’. It is in this context this paper studies the nature, extent, and approach of Malaysia’s economic globalization and examines how it has been able to neutralize the negative effects of the dark-side and enjoy the positive effects of the bright-side of globalization. Using both quantitative and qualitative methods of analysis, this paper examines how and why Malaysia pursued economic globalization and with what results, during 1970-2006.

The nature and structure of Malaysia’s globalization

From a background of a colonial agrarian open economy Malaysia formally started its industrialization journey in 1957 and proceeded phase by phase through the road map of development to realize its vision of becoming a ‘fully developed’ nation by 2020. Its development process follows the usual pattern that starts with the import-substitution based industrialization followed by export oriented industrialization and finally ends with technology-intensive high-value adding industrialization. However, globalization of its economy effectively started from 1970 with the program of export oriented industrialization added with industrial and social restructurings. Its industrialization and globalization program is characterized by unique features. ‘*Look east*’ and ‘*Malaysia-centric*’ autonomous identity themes are its mastermind and hardcore, and the *export processing zone (EPZ) and economic development corridor (EDC) schemes* are its cornerstones. With these unique features it has become known as a ‘Malaysia model of economic development and globalization’. Its structure and time-path can be summarized from Cheng (2008) as follows:

- (1) 1957-1969: Import substitution based industrialization - to encourage growth of domestic industries for producing simple consumer goods. Targets were production of goods mainly for home consumption and increase in employment. Tax relief and other incentives and protection from foreign competition were given to encourage local and foreign companies to set up factories.
- (2) 1970-1990: Outward looking industrialization and industrial and social restructuring - to encourage increased foreign investment and transfer of technology in the country and to link the export oriented industries with the rest of the domestic sector of the economy. Targets were production for global market, increase economic growth, eradicate poverty, and reduce disparity in income levels, education and skill, economic functions, and employment opportunities among different ethnic groups. It followed the following phases:
 - (i) 1970-1980: Growth of export-oriented light industries - creation of free trade zones (FTZs) and provision for various fiscal incentives to attract local and international investments and production for export.
 - (ii) 1980-1985: Growth of heavy industries - through establishment of some government pushed and supported heavy industries like automobile, still, cement, and petrochemicals, under heavy protection from outside competition. Outputs are meant primarily for local market. This is thus considered as the second round of import-substitution industrialization in the country.
 - (iii) 1985-1990: Trade and investment liberalization - to bring structural adjustments in the industrial sector. Privatization was mooted to transform many government owned companies into government linked companies (GLC). Tariffs were increasingly reduced. Restriction on foreign equity was relaxed allowing foreign investors to be able to hold up to 100% of the equity. This policy-shift toward more market oriented and outward-looking attracted many multinational companies to move their operations to Malaysia.
 - (iv) 1991-2020: This is the phase of taking the economy to its full maturity, through rigorous tests of international competitiveness, and stepping into the state of affluence to mark the full realization of the vision of becoming a fully developed and industrialized knowledge-based country *underscoring national unity and socio-economic justice*. Various plans and policies have been introduced since 1991 towards achieving this goal. Industrialization and globalization base has been broadened to include agriculture and service sectors linking them with the global market.

Management of economic development and globalization

Malaysia’s industrialization and globalization approach is a strategy of growth with equity. It can be best described as a strong market embedded into a strong government and is driven by Malaysia’s vision of

becoming a fully developed and industrialized knowledge-based nation by the year 2020. It is a highly target oriented phase by phase approach strictly monitored and modified as necessary by compromising efficiency for effectiveness. Fostering national unity and growth with socio-economic justice through broader quantitative and qualitative participation of all groups of people at all levels of activities are the hardcore and touchstones of the approach and its tools and strategies. It is guided by long-term plans such as New Economic Policy, Outline Perspective Plans, National Development Policy, various Industrial and Knowledge-based Master Plans, etc. and is pursued through medium-term operational plans such as five-year Malaysia plans. In 1991 Malaysia formally articulated its vision as a blueprint of national development over a period of thirty years under the name Vision 2020, to transform it finally from a developing to a fully developed nation. Table 2 in Appendix summarizes the approaches and actions at different phases of economic development and globalization in Malaysia.

During the import substitution phase (1957-1969) tax exemption as an incentive was given under the Pioneer Industries Ordinance 1958 to encourage local and foreign firms to establish industries in the country. Under Investment Incentive Act 1968 the tax relief period was extended beyond 5 years. Certain 'infant industries' were given protection through import tariff and quota by Tariff Advisory Board and Federal Industrial Development Authority (FIDA).

During the most challenging long period of globalization through export oriented industrialization (1970-1990) all the plans and policy actions and institutions were geared to achieve the national objectives of economic growth with distributive justice, bring about social restructuring through reduction in economic disparity among the Malay, Chinese, and Indian ethnic groups, eradicate poverty, and promote national unity. As a result, in many ways and in many cases intensive government interventions were necessary to ensure increased participation of the Malay ethnic community at all levels of economic activities to enable them increase their wealth sharing and to reduce foreigners' equity ownership. Malays are the Bumiputera i.e., legal land-owners of the country; but they were far behind the non-Bumiputera (Chinese and Indian communities) and foreign investors in respect of ownership of national wealth. In 1970 their equity ownership was only a meager 2.4%. Special state-owned companies under the State Economic Development Corporation (SEDCs) were set up to promote and serve Bumiputera entrepreneurs. In addition, government encouraged and pushed non-Bumiputera and foreign investors to form joint-venture companies with Bumiputera. This was a period of serious challenges and achievements.

During the maturity and affluence period (1991-2020 Multimedia Super Corridor and various other economic development corridors/zones have been set up to broaden the coverage of industrialization and globalization to include agriculture and service sectors, and widen the quantitative and qualitative participation of all groups of people in an economy driven by knowledge and innovations. It is to effect transformation of the economy from production-led to knowledge and innovation driven, so that the vision of becoming a fully developed and industrialized affluent nation with a robust and resilient economy, distributive justice, and strong bond of national unity is fully realized by the year 2020.

Achievements in national and international fronts

Economic globalization in Malaysia increased steadily under its economic development and industrialization strategy during 1970-2007. Index of globalization level increased from 62.94 to 78.03 (3rd continued part of Table 1 in Appendix). Achievements of its development and globalization strategy can be evaluated from the context of national macroeconomic goals and global competitiveness and income convergence (benefits sharing) objectives.

National macroeconomic goals

From the context of national macroeconomic indicators Malaysia has had made significant and commendable achievements during the study period. During 1970 – 2007 per capita real gross national income (GNI) increased from \$1,110 to \$5140 with an average annual growth rate of 5% (1st part of Table 1 in Appendix), unemployment rate dropped from 8% in 1970 to 3.1% in 2008 (Table 1), inflation rate dropped from 4.49% in 1975 to 2% in 2007 (Cheng, 2008), foreigners' share of equity capital decreased from 63.4 % in 1970 to 28.8% in 2004 (Table 2), poverty rate decreased from 52.4 % in 1970 to 3.6% in 2007 (Table 3).

Table 1. Malaysia's unemployment rates

Year	1970	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Rate (%)	8.0***	2.8**	2.5**	2.5**	3.2**	3.1**	3.1**	3.9**	3.5**	3.8*	3.6*	3.0*	3.6*	3.5*	3.1*

Sources: *Index Mundi (2009), ** International Labor Organization (2003), and ***Cheng (2008)

Table 2. Ownership of share capital (at per value) of limited companies, 1969-2004 (%)

Type of Owners	1969	1970	1975	1980	1985	1990	1995	1999	2004
Bumiputera Individuals and Trust Agencies	1.5	2.4	9.2	12.5	19.1	19.2	20.6	19.1	18.7
Chinese	22.8	27.2	-	-	33.4	45.5	40.9	37.9	40.9
Indians	0.9	1.1	-	-	1.2	1	1.5	1.5	1.5
Others	-	-	-	-	-	-	-	0.9	0.8
Nominee Companies	2.1	6	-	-	1.3	8.5	8.3	7.9	9.2
Locally-Controlled	10.1	-	-	-	7.2	0.3	1	-	-
Foreigners	62.1	63.4	53.3	42.9	26	25.4	27.7	32.7	28.8

Sources: Malaysia (1996, 2001)

Table 3. Malaysia poverty statistics, 1970 – 2007 (%)

	1970	1980	1985	1990	1995	2000	2004	2005	2007
Poverty	52.4	37.4	20.7	16.5	8.9	7.5	5.7	5.2	3.6
Urban Poverty	22.3	-	8.5	7.1	3.7	3.5	2.5	2.4	2.0
Rural poverty	60.0	-	27.3	21.1	15.3	14.0	11.9	11.2	7.1
Hardcore Poverty	-	-	6.9	3.9	2.1	2.4	1.2	1.1	0.7
Urban Hardcore Poverty	-	-	2.4	1.4	0.9	0.8	0.4	0.4	0.3
Rural Hardcore Poverty	-	-	9.3	5.2	3.7	3.1	2.9	2.1	1.4

Source: Malaysia (2006).

Note: A projection for total poverty in 2010 is 2.8%, which was done recently by Economic Planning Unit, Prime Minister's Department, Malaysia

Recently, the country made an inroad to political maturity having attained the *competitive political culture* with less than absolute (two-third) majority by the governing political party/alliance at the parliament. Undoubtedly this is a chapter of great achievements in terms of political maturity and social empowerment.

For ascertaining the contribution of globalization to these achievements firstly a simple log-linear regression analysis of the GNP and gross domestic product (GDP) as functions of the Globalization Index has been made. Results suggest that globalization has a strong positive influence on GNP and GDP; for a one percent increase in globalization GNP and GDP increase by 8.33% and 8.02% respectively (Table 4). This shows that Malaysia effectively enjoys positive effects of economic globalization.

$$\ln Y_{1t} = \alpha + \beta_1 \ln X_{1t} + \varepsilon \quad (1)$$

$$\ln Y_{2t} = \alpha + \beta_1 \ln X_{1t} + \varepsilon \quad (2)$$

Where, Y_{1t} = Total Real GNP/GNI of Malaysia,

Y_{2t} = Total Real GDP of Malaysia,

X_{1t} = Economic Globalization Index,

α = Constant, and ε = Residual.

Table 4. Statistical output of the GNP/GNI and GDP as functions of globalization index in Malaysia (1970-2006)

Equation No.	Dependent Variable	Independent Variables	Coefficient	t-stat	P-value	DW	R ²
1	lnY _{1t}	α	-10.61*	-4.72	0.000	0.67	0.875
		lnX _{1t}	8.33*	15.70	0.000		
2	lnY _{2t}	α	-9.25*	-4.48	0.000	0.71	0.885
		lnX _{1t}	8.02*	16.44	0.000		

* indicates significant at 1% level.

Secondly for a closer and more rigorous examination multiple log-linear regression analysis of GNP and GDP as functions of fixed capital formation, employment, foreign direct investment, and globalization index have been made. There again results show that Globalization positively contributes to GNP and GDP; a one percent increase in globalization increases GNI and GDP by 1.47% and 0.78% respectively (Table 5 and Table 6). However the coefficients were not found statistically significant even at 5%. Therefore, these results cannot be statistically relied upon and these could at best be taken as indicative of globalization having positive influence on national economic growth. It is interesting and encouraging to note that globalization appears to have relatively more influence on GNI than GDP.

$$\ln Y_{1t} = \alpha + \beta_1 \ln X_{1t} + \beta_2 \ln X_{5t} + \beta_3 \ln X_{6t} + \beta_4 \ln X_{4t} + \varepsilon \quad (3)$$

Where, Y_{1t} = Total Real GNP/GNI of Malaysia,

X_{1t} = Economic Globalization Index,

X_{5t} = Local Fixed Capital Formation in Malaysia,

X_{6t} = Total foreign direct investment (FDI) outflow from Malaysia,

X_{4t} = Total Employment in Malaysia,

α = Constant, and ε = Residual.

Because of non availability of local labor employment data for all the years of the period of study total employment data (X_{4t}) have been used in equation 3.

Table 5. Statistical output of the GNP/GNI as a function of globalization index and other variables in Malaysia (1970-2006)

Equation No.	Dependent Variable	Independent Variables	Coefficient	t-stat	P-value	DW	R ²
3	lnY _{1t}	α	-1.66	-0.89	0.379	0.64	0.979
		lnX _{5t}	0.52*	9.35	0.000		
		lnX _{6t}	-0.01~	-1.70	0.100		
		lnX _{4t}	0.53~	1.92	0.064		
		lnX _{1t}	1.47	1.23	0.229		

* and ~ indicate significant at 1% and 10% levels, respectively.

$$\ln Y_{2t} = \alpha + \beta_1 \ln X_{1t} + \beta_2 \ln X_{2t} + \beta_3 \ln X_{3t} + \beta_4 \ln X_{4t} + \varepsilon \quad (4)$$

Where, Y_{2t} = Total Real GDP of Malaysia,

X_{1t} = Economic Globalization Index,

X_{2t} = Total Fixed Capital Formation in Malaysia,

X_{3t} = Total FDI Inflow in Malaysia,

X_{4t} = Total Employment in Malaysia,

α = Constant, and ε = Residual.

Table 6. Statistical output of the GDP as a function of globalization index and other variables in Malaysia (1970-2006)

Equation No.	Dependent Variable	Independent Variables	Coefficient	t-stat	P-value	DW	R ²
4	lnY _{2t}	α	1.87	0.81	0.425	0.74	0.979
		lnX _{2t}	0.41*	4.66	0.000		
		lnX _{3t}	0.01	0.17	0.863		
		lnX _{4t}	0.64**	2.12	0.042		
		lnX _{1t}	0.78	0.55	0.584		

* and ** indicate significant at 1% and 5% levels, respectively.

Global competitiveness and income convergence goals

Industrial performance/ competitiveness

At the level of international competitiveness Malaysian economy maintained a steady improvement moving from 40th in 1980 to 21st position in 2007 in terms of global industrial performance/competitiveness ranking (Table 7).

Table 7. Competitive industrial performance of selected countries – rank

Economy	1980*	1990*	2000*	2008**
United States	13	14	11	1
Singapore	2	1	1	7
Japan	5	4	6	8
United Kingdom	12	13	17	9
Korea	23	18	10	11
Malaysia	40	23	15	21
Thailand	47	32	23	28
China	39	26	24	34
South Africa	36	44	35	44
India	38	36	40	48
Mexico	31	29	26	52
Indonesia	75	54	38	54
Philippines	42	43	25	71
Brazil	24	27	31	72

Sources: * United Nations Industrial Development Organization (2004) & ** World Economic Forum (2008)

This may suggest that globalization has created an attractive and efficient industrial environment and caused transfer of technology in management, process, and products to increase economy's competitiveness and performance level.

Income convergence with industrialized partner countries

Income convergence analysis signifies the nature of change in income gaps between countries over time. It can be conveniently used to study the political economy of globalization - to test how fairly a developing country, by pursuing the strategy of economic globalization, shares the gains from trade and growth with its industrialized rich trading partners. If the income gap between the rich and developing country trading and growth partners decreases over time it may signify that the developing country partners are sharing the gains from trade and growth more than proportionately with the rich country trading partners. When the income gap between them increases it may signify sharing of the gains from trade and growth less than proportionately with the rich trading partner countries. Bernard and Durlauf (1994), however, provided the definitions of the convergence hypothesis that are interpretable in terms of unit roots and co-integration theory. Specifically, there will be income convergence over time if a stationary process with zero mean forecast value, integrated order I(0), shows a stable long run co-movement between two countries' income; otherwise the result would be income divergence. Oxley and Greasley (1995) defined the concept of long-run convergence as the attainment of long-run steady-state equilibrium in the income differential between two contrasting economies. They also

defined the concept of long-run catching up as a narrowing down of income gap between two contrasting economies over time and hence the convergence process is yet to be completed. In fact, the log-linear model of time series frameworks shows both long-run convergence and catching up when the trend in income differential between two economies is found to be stationary.

Observations also reveal that during 1970s, 1980s, and 1990s there were at least three structural breaks in the economies of Malaysia, Japan, and the United States of America. In order to test whether the income ratios of these three economies have had really experienced such breaks during the aforesaid periods we have transformed equations 5, 6, 7, and 8 in the form of lag. This allows us first to transform these equations onto Least Squares (NLS and ARMA) form. With these transformed equations we have then employed a stability test, namely Chow Breakpoint Test to ultimately identify the structural breaks using a single series of data set. With results from Chow's Breakpoint Test we have then conducted a recursive estimation, namely CUSUM Test in order for us to graphically view the structural breaks, if any, for the above three economies. The Chow Breakpoint Tests, however, reveal that at 1% level of significance only income ratio of Japan and Malaysia has had experienced structural breaks in terms of GDP during the periods 1980s, 1990s, and 2000s. But in respect of GNI, only at 5% level of significance their income ratio has had experienced structural breaks during these periods. Income ratio of the USA and Malaysia does not have any structural break in respect of both GNI and GDP. Researchers in this area are generally reluctant to accept the validity of the test results if they are significant only at more than 1% level. Since we are more interested in the convergence of GNI, we have selected and applied the augmented Dickey-Fuller (ADF) model for income convergence analyses in this study.

Liew and Ahmad (2006) noted that by adopting augmented version of the linear Dickey-Fuller (DF) test with constant trend the following can be concluded:

- Income divergence - if the null hypothesis of non-stationary cannot be rejected.
- Long-run convergence - if the null hypothesis of non stationary has been rejected but the trend term is statistically insignificant.
- Catching up - if the null hypothesis of non-stationary has been rejected and the trend term is statistically significant.

When trend term (i.e., β_1) is significant, the decision criteria can be broken down further based on the values of β_1 and β_2 , as in the Table 8.

Table 8. Interpretation of the ADF tests (when both β_1 and β_2 are significant)

β_1	β_2	Process
0	0	Divergence
> 0	< 0	Lagging-behind
> 0	0	Loose Lagging-behind
< 0	0	Loose Catching-up
< 0	< 0	Catching-up
0	< 0	Convergence

Source: Gomez and Ventosa-Santaularia (2007)

In fact, there are two measurements of growth convergence: β -convergence and δ -convergence. The β -convergence describes an inverse relationship between initial income levels and growth differences among countries, where the δ -convergence focuses on the actual income differences among countries. There will be β -convergence if an initially poorer economy grows faster than an initially richer one, and δ -convergence if income differences between the economies decrease over time. This paper focuses on the δ -convergence criteria, which has been determined by the augmented Dickey-Fuller (ADF) test using time series data.

$$\Delta Y_t = \alpha + \beta_1 T + \beta_2 Y_{t-1} + \sum_{k=1}^n \delta_k \Delta Y_{t-k} + \varepsilon_t$$

Where, ε is a pure white noise error term, T is a deterministic trend, α is a constant term, β_1 and β_2 denote the parameters of convergence to be estimated. The unit root test of the income convergence hypothesis for the time

series properties is the logarithm differences of real GDP or GNI per capita between country i and country j, where,

$$Y_t = \ln(Y_{it} / Y_{jt}) = \ln Y_{it} - \ln Y_{jt}$$

The framework can further be defined as:

$$\Delta(\ln Y_{i,t-k} - Y_{j,t-k}) = \alpha + \beta_1 \ln T + \beta_2 (\ln Y_{i,t-1} - \ln Y_{j,t-1}) + \sum_{k=1}^n \delta_k \Delta(\ln Y_{ij,t-k} - \ln Y_{j,t-k}) + \varepsilon_t$$

The usable format of the model is presented below:

$$\Delta \ln Y_{3t} = \alpha + \beta_1 \ln T + \beta_2 \ln Y_{3,t-1} + \sum_{k=1}^n \delta_k \Delta \ln Y_{3,t-k} + \varepsilon \quad (5)$$

$$\Delta \ln Y_{4t} = \alpha + \beta_1 \ln T + \beta_2 \ln Y_{4,t-1} + \sum_{k=1}^n \delta_k \Delta \ln Y_{4,t-k} + \varepsilon \quad (6)$$

$$\Delta \ln Y_{5t} = \alpha + \beta_1 \ln T + \beta_2 \ln Y_{5,t-1} + \sum_{k=1}^n \delta_k \Delta \ln Y_{5,t-k} + \varepsilon \quad (7)$$

$$\Delta \ln Y_{6t} = \alpha + \beta_1 \ln T + \beta_2 \ln Y_{6,t-1} + \sum_{k=1}^n \delta_k \Delta \ln Y_{6,t-k} + \varepsilon \quad (8)$$

Where, Y_{3t} = USA per Capita Real GNI / Malaysia per Capita Real GNI,

Y_{4t} = USA per Capita Real GDP / Malaysia per Capita Real GDP,

Y_{5t} = Japan per Capita Real GNI / Malaysia per Capita Real GNI,

Y_{6t} = Japan per Capita Real GDP / Malaysia per Capita Real GDP,

T = A deterministic trend, α = Constant, and ε = Residual.

Table 9. Summary of unit root test results for income convergence hypotheses for Malaysia (1970-2006)

Eq. No.	Data Set	Adjusted Observations	Coefficient (β_1)	t-stat (β_1)	Coefficient (β_2)	Decision	ADF t-Value
5	$\Delta \ln Y_{3t}$	32	-0.003	-1.20	-0.337*	Divergence	-2.64~
6	$\Delta \ln Y_{4t}$	32	-0.003	-1.10	-0.328**	Divergence	-2.48~
7	$\Delta \ln Y_{5t}$	35	0.005	1.39	-0.221**	Divergence	-1.99~
8	$\Delta \ln Y_{6t}$	35	0.005	1.40	-0.224**	Divergence	-2.01~

* and ** indicate significant at 1% and 5% levels, respectively.
 ADF t-critical values for 32 observations are -4.27, -3.56, and -3.21 at 1%, 5% and 10% levels, respectively.
 ADF t-critical values for 35 observations are -4.24, -3.54, and -3.20 at 1%, 5% and 10% levels, respectively.

The above results of the ADF unit root tests are very sensitive to the selection of lag length. Too few lags cause to reject the null when it is true (i.e., adversely affecting the dimension of the test), but too many lags reduce the power of the test (since unnecessary nuisance parameters reduce the effective number of observations). Hence, for a proper selection, this study used the Akaike Information Criterion (AIC) to determine the optimal lag length.

The USA and Japan are Malaysia's two rich and industrialized major trading and growth partners. An analysis of Malaysia's income convergences with USA and Japan shows that there exists a unit root with a significant ADF test t-value even at 10% level (Table 9). That means Malaysia's income is diverging over time with the incomes of USA and Japan and therefore its income gaps with these countries have been widening. This may imply that Malaysia has been having unfavorable terms of trade with them and thereby has been sharing the benefits of globalization proportionately far less than its rich trading and growth partners. The general findings of income convergence studies show that lower income industrializing countries are 'catching up' to the higher income industrialized countries, even when the developing countries in a group does not have income convergence with the rich industrialized countries as a group (Hubbard and O'Brien, 2006). In that sense Malaysia's globalization has failed even to match with the general findings of income convergence

studies. This unexpected departure from the general findings, therefore, calls for further investigation, more particularly, in respect of Malaysia's terms of trade with the USA and Japan.

Income ratios and globalization

A simple log-linear regression analysis of the income ratios of Malaysia with the USA and Japan as functions of Malaysia's economic globalization index, nonetheless, are found inclined to support a phenomenon of convergence or 'catching up' with USA and a phenomenon of divergence or 'lagging behind' with Japan. Results show that with increase in globalization income gap between Malaysia and the USA has a tendency to decrease – a convergence or 'catching up' phenomenon - and that of between Malaysia and Japan has a tendency to increase – a divergence or 'lagging behind' phenomenon (Table 10). The results are found to be statistically highly significant but the R² of the equations are found rather low. It may signify that Malaysia's economic globalization may not be the most reliable and accountable factor for explaining these relationships.

$$\ln Y_{3t} = \alpha + \beta_1 \ln X_{1t} + \varepsilon \quad (9)$$

$$\ln Y_{4t} = \alpha + \beta_1 \ln X_{1t} + \varepsilon \quad (10)$$

$$\ln Y_{5t} = \alpha + \beta_1 \ln X_{1t} + \varepsilon \quad (11)$$

$$\ln Y_{6t} = \alpha + \beta_1 \ln X_{1t} + \varepsilon \quad (12)$$

Where, Y_{3t} = USA Per Capita Real GNI / Malaysia Per Capita Real GNI,

Y_{4t} = USA Per Capita Real GDP / Malaysia Per Capita Real GDP,

Y_{5t} = Japan Per Capita Real GNI / Malaysia Per Capita Real GNI,

Y_{6t} = Japan Per Capita Real GDP / Malaysia Per Capita Real GDP,

X_{1t} = Economic Globalization Index,

α = Constant, and ε = Residual.

Table 10. Statistical outputs of regression analyses of income ratios of the USA and Japan with Malaysia and globalization of Malaysia (1970-2006)

Equation No.	Dependent Variable	Independent Variables	Coefficient	t-stat	P-value	DW	R ²
9	lnY _{3t}	α	12.57*	5.95	0.000	0.33	0.410
		lnX _{1t}	-2.44*	-4.90	0.000		
10	lnY _{4t}	α	13.07*	6.31	0.000	0.34	0.440
		lnX _{1t}	-2.57*	-5.26	0.000		
11	lnY _{5t}	α	-14.21*	-5.69	0.000	0.41	0.540
		lnX _{1t}	3.78*	6.42	0.000		
12	lnY _{6t}	α	-13.27*	-5.34	0.000	0.41	0.511
		lnX _{1t}	3.55*	6.06	0.000		

* indicates significant at 1% level.

Figure 1. The trend of relationship between Malaysia's income ratio with USA and Malaysia's economic globalization index

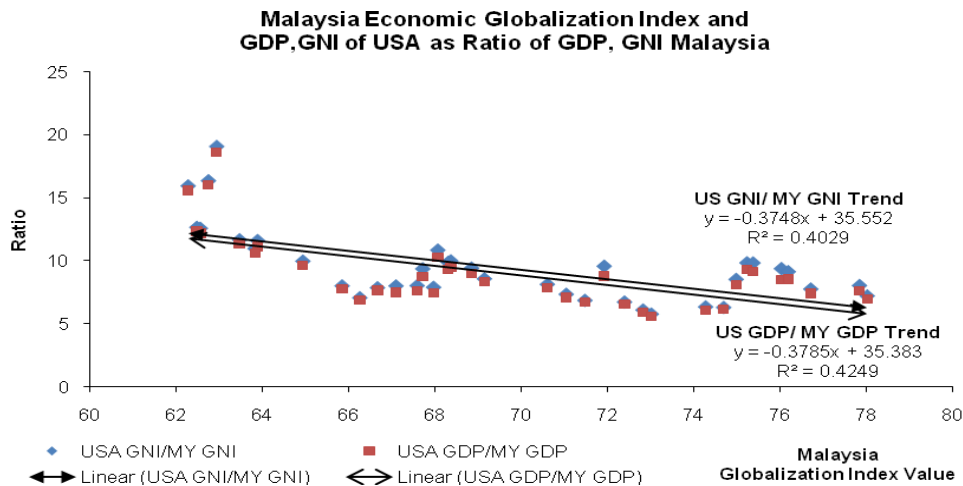
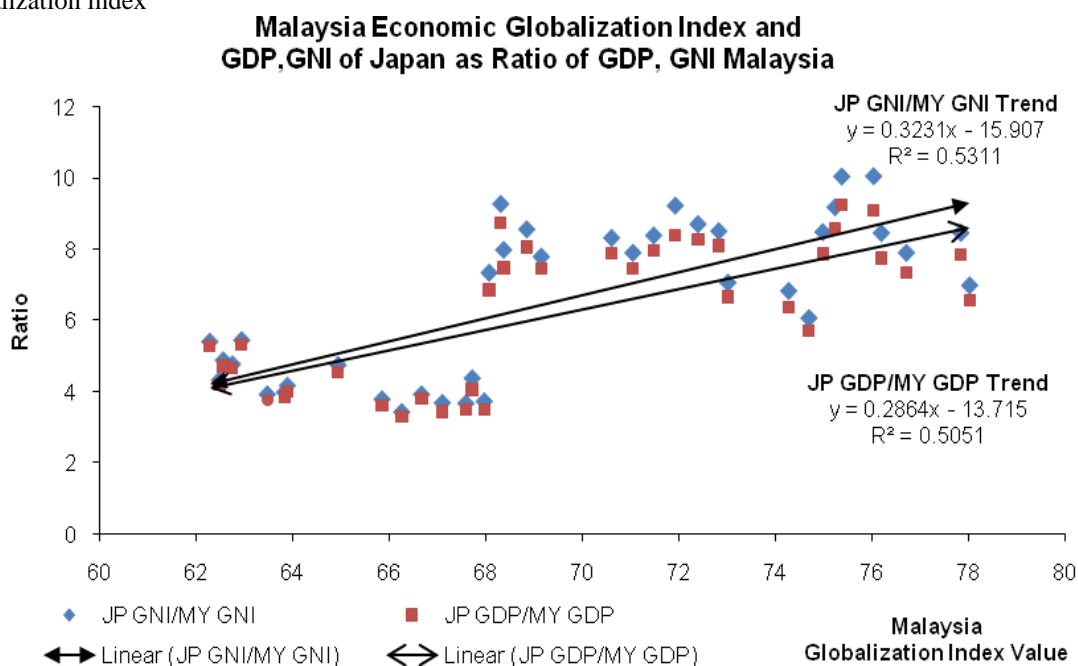


Figure 2. The trend of relationship between Malaysia’s income ratio with Japan and Malaysia’s economic globalization index



The Figure 1 above reveals the fact that Malaysia’s income ratio with USA and Malaysia’s economic globalization index are to some extent supportive with the income convergence theory. That is to say Malaysia is slightly catching up with the USA in terms of its income ratio. The Figure 2, on the other hand, reveals the fact that Malaysia’s income ratio with Japan and Malaysia’s economic globalization index are not supportive with the income convergence theory. That is to say Malaysia is ‘lagging behind’ with Japan in terms of its income ratio. On the basis of the above income convergence and income ratio analyses, however, it may reasonably be concluded that Malaysia’s economic globalization has in fact failed to reduce its income gaps with the rich trading and growth partners.

A critical assessment

Having had created an investment and business friendly production and industrial environment Malaysia is now a fast growing open economy in the region. It has earned the respect as a ‘Malaysia model of economic development and globalization’ with ‘autonomous identity’ and priority to realization of country objectives. On the account of international political economy it is found to have failed unexpectedly. It appears that as a developing small economy Malaysia has a very limited scope to play its card at the international front. But at the national front it has the will, courage, and strength to play all its cards to promote and safeguard its national interest, growth, and security. As a result, its success so far on most of the national accounts is undoubtedly commendable and attractive for other developing nations to emulate.

In recent times, however, even the very architect of the Vision 2020 Tun Dr Mahathir Mohamad expressed reservations that because of some political and administrative mismanagement the goal of the Vision 2020 may not be fully achieved by 2020 (see The Malaysian Insider, 2008). Similarly the immediate past Prime Minister Tun Abdullah Ahmad Badawi was worried for the recent low economic growth rate (see The People’s Portal - MalaysiaToday.com, 2008). Others like Lim Kit Siang, parliamentary opposition leader, are critical about government’s overly concern about the fully developed nation status but at the negligence to the fundamental issues like Merdeka “social contract”, creation of Bangsa Malaysia (Malaysia Nation), and the issue of social, religious, cultural, and national cohesion (see Dapmalaysia.org, 2006). There is no denying the fact that these are important observations that need to be taken care of during the remaining one decade at hand. Errors, failures, corrections, and moderations are routine matters of management for necessary adjustments to continue. Having had one more decade at hand for necessary adjustments and modifications these are possibly only unnecessary worries.

Moreover, the notion of developed or ‘fully developed’ nation status is not an absolute measure. It is very much a relative matter; it depends on the mindset of the people. Development is, as Sen (1987, p 9) likes to put

it, 'a life we want to lead and the freedom we want to enjoy' and, *economic development is*, as a former minister of Uganda in mid-1970s stressed, 'a means towards building the kind of society we want to build'. Westernization can not be the necessary criterion to measure it. Similarly the capitalist globalization cannot be the relevant strategy for economic emancipation of the developing countries. As noted earlier that India's lion economy was stimulated to roar not by any call for globalization but by Nehru's first economic policy declaration: 'produce or go without it' – a project of effectiveness as against efficiency; and by the touch of the same magic wand of effectiveness China activated its dragon economy to spread its wings. Therefore having had all the achievements thus far along the road map of development and a decade more at hand to work on, there is no scope now for anyone to doubt about the full realization of the goals of Vision 2020 as long as the mindset of the Malaysians and their leaders do not become corrupted by what the late president Julius Nyerere of Tanzania called the 'catching up with the north syndrome', and 'westernization' does not take precedence over the 'look east' vision of development. Scholars will always have research interest to identify the core factors that contributed to this commendable achievement. There are reasons to believe that the wisdom of a 'Malaysia-centric' development strategy and application of the strict political and administrative discipline at all levels played the pivotal role in this game of success. But we leave this for some other studies to cover more rigorously. Moreover, for maintaining and enhancing its image, further studies are required to identify the limitations and scopes of Malaysia's management strategy of globalization specifically for realization of the international goal of reducing income gaps with the industrialized economic partners.

Conclusions

Malaysia's economy is considered as one of the most globalized and successful among the developing countries. Its economic globalization is a kind of guided globalization. 'Malaysia-centric' and 'look east' strategies are its unique features. Its success in respect of achieving the national macroeconomic goals is found commendable. But it has clearly failed in respect of the international political economy objective; it has failed to reduce Malaysia's income gaps with its industrialized economic partners like USA and Japan. This tends to suggest that even a guided and regulated globalization like that in Malaysia will have the tendency to yield relatively more benefits to the developed industrialized economic partners. It, therefore, confirms the fact that the developing countries must pursue globalization only selectively, rationally, and prudently without joining the bandwagon of the industrialized countries. Therefore, the paper suggests for the model of target oriented 'inclusive globalization', under the framework of internationalization of the economies instead of globalization of trade and the perspective of 'fair market' instead of 'free market', to ensure equitable sharing of benefits of specialization and globalization among the industrialized and industrializing partner nations. The focus should be on reducing the income gap between nations and societies. This gap has become so wide that the U.N. High-Level Panel on Financing for Development, in 2001, had to sadly comment that "Increasing polarization between the haves and have-nots has become a feature of our world. Reversing this *shameful* trend is the preeminent moral and humanitarian challenge of our age" (reported in Toderro, M.P. & S.C.Smith, 2006).

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Appendices

Table 1. The economic data series used in the paper for analyses (1st Part)

Year	Total Real GNI Malaysia (US\$) ¹	Total Real GDP Malaysia (US\$) ¹	Per Capita Real GNI Mal (US\$) ¹	Per Capita Real GDP Mal (US\$) ¹	Mal Total Real GNI Growth Rate (%) ²	Mal Total Real GDP Growth Rate (%) ²	Mal per Capita Real GNI Growth Rate (%) ²	Mal per Capita Real GDP Growth Rate (%) ²
1970	12055027703	14747121876	1110	1141				
1971	14822557869	15566671448	1331	1366	23	6	20	20
1972	17050805863	17881193813	1493	1530	15	9	12	12
1973	22656924909	23972614024	1938	2002	33	12	30	31
1974	24264163428	25899651282	2026	2112	7	8	5	5
1975	22937902376	24122827551	1871	1928	-5	1	-8	-9
1976	26343077233	27984700952	2100	2178	15	12	12	13
1977	29887604952	31761996800	2330	2416	13	8	11	11
1978	34637327557	35443239217	2638	2753	16	7	13	14
1979	43995129852	45005512533	3275	3415	27	9	24	24
1980	48230449698	48896168659	3504	3623	10	7	7	6
1981	44899796670	45469710629	3182	3287	-7	7	-9	-9
1982	44400117417	45478604800	3068	3207	-1	6	-4	-2
1983	47443266813	49488004129	3195	3399	7	6	4	6
1984	51531807695	54009139200	3380	3611	9	8	6	6
1985	46457291328	48880375335	2963	3179	-10	-1	-12	-12
1986	41489655071	43450928837	2572	2747	-11	1	-13	-14
1987	47511085614	49510302326	2860	3040	15	5	11	11
1988	50938306918	52644598066	2978	3144	7	10	4	3
1989	55372706007	56302268475	3145	3321	9	9	6	6
1990	61860308985	62005882592	3417	3557	12	9	9	7
1991	65702360172	66397095438	3532	3707	6	10	3	4
1992	75790351419	76819857621	3970	4179	15	9	12	13
1993	82944311428	83618063360	4236	4435	9	10	7	6
1994	89000195857	89735918111	4433	4641	7	9	5	5
1995	102607151917	103293547163	4983	5208	15	10	12	12
1996	112576780996	113316613178	5329	5570	10	10	7	7
1997	108550124263	110075660941	5010	5275	-4	7	-6	-5
1998	74099672386	75182617600	3335	3514	-32	-7	-33	-33
1999	78308176916	80763699200	3442	3686	6	6	3	5
2000	86182105263	90319740928	3703	4030	10	9	8	9
2001	85189161022	87129755121	3583	3864	-1	0	-3	-4
2002	91505365355	92392438058	3772	4036	7	4	5	4
2003	100261133603	99992410585	4055	4285	10	6	8	6
2004	111630089375	111755712242	4431	4672	11	7	9	9
2005	120759075387	119972456279	4707	4934	8	5	6	6
2006	134227897674	131805626223	5140	5300	11	6	9	7

Table 1. Continues... (2nd Part)

Year	Per Capita Real GNI USA (US\$) ¹	Per Capita Real GDP USA (US\$) ¹	Per Capita Real GNI Japan(US\$) ¹	Per Capita Real GDP Japan (US\$) ¹	Malaysia Total Fixed Capital Formation (constant (US\$)) ³	Malaysia Local Fixed Capital Formation (constant (US\$)) ⁴
1970	21191	21210	6044	6079	1681786747	1397282333
1971	21792	21870	6344	6379	2129990222	1889291042
1972	23838	23845	8063	8094	2506330010	2255439922
1973	24446	24377	9453	9488	3348558576	3015010156
1974	23572	23497	8433	8483	4328010473	3302364706
1975	23726	23794	8076	8117	3587133916	3049898103
1976	24567	24679	8230	8271	3841104544	3241356929
1977	25631	25656	9263	9304	4718555119	4076598817
1978	26400	26458	12524	12569	5471139840	4795778237
1979	26348	26495	12383	12417	6574277284	5900746257
1980	24915	24981	11995	12046	8051571777	7065322712
1981	25138	25121	12470	12542	9422567314	8099892938
1982	24750	24475	11244	11286	9826016221	8416370950
1983	25348	25411	11899	11932	10569106568	9342546404
1984	27190	27039	12440	12466	10477192251	9705976096
1985	27853	27787	12956	12960	9484135669	8776642331
1986	27983	28169	18871	18883	7205441378	6723427567
1987	28686	28709	22826	22792	7190361857	6771448256
1988	29517	29267	27601	27554	8139852328	7440302864
1989	29751	29826	26911	26843	10459258880	8914931053
1990	29418	29580	26615	26557	13291110400	10905537600
1991	28875	29081	29379	29307	16144117459	12490274579
1992	29319	29663	31357	31225	18673563562	14245158442
1993	29242	29726	35527	35368	21264074524	16569541923
1994	30014	30520	38573	38432	26042187200	22062325036
1995	30599	30874	42383	42245	32242125203	27399801285
1996	30993	31230	37620	37217	35168252749	29180327325
1997	31992	32140	34201	33758	24869922221	21228742626
1998	32943	32808	30607	30192	14520262872	12484892642
1999	33959	33705	34559	34122	13570526585	10519677805
2000	34863	34280	37211	36742	17155789878	14416489407
2001	34436	33986	33047	32504	16592104825	16197812878
2002	34613	34442	31887	31363	16644473263	14393090708
2003	34720	34694	34392	33804	17094736842	15383150538
2004	35795	35620	37486	36776	17630525979	14511781491
2005	36713	36526	37177	36319	18564814425	15962605423
2006	37279	37065	35887	34898	19816946946	16141178017

Table 1. Continues... (3rd Part)

Year	FDI Inflow in Malaysia (US\$) ⁵	FDI Outflow from Malaysia (US\$) ⁵	Malaysia Total Labor Employment ⁶	Malaysia Local Labor Employment ⁷	Economic Globalization Index of Malaysia ⁸
1970	94000000	0	3231413		63
1971	100000000	0	3417100		63
1972	114000000	0	3498934		62
1973	172000000	0	3644745		63
1974	570820000	0	3762255		64
1975	350490000	0	3861154		62
1976	381260000	0	4008257		63
1977	405890000	0	4149714		64
1978	499990000	0	4294551		65
1979	573470000	0	4461808		66
1980	933900000	201113520	4787400		66
1981	1264690000	292953492	5067100		67
1982	1397200000	260085039	5249000	5112700	68
1983	1260530000	225783522	5457000	5285600	68
1984	797480000	242443379	5566700	5364800	67
1985	694710000	209783169	5653300	5441400	68
1986	488870000	248930829	5760100	5558200	68
1987	422680000	214475084	5983900	5774100	68
1988	719420000	198336630	6175800	5916500	68
1989	1667870000	273068915	6390900	6160800	69
1990	2611000000	129000000	6685000	6443100	69
1991	4043000000	175000000	6866400	6570900	71
1992	5138000000	115000000	7047800	6698700	71
1993	5741000000	1063000000	7383400	6942300	71
1994	4581000000	2329000000	7514200	7054000	72
1995	5815000000	2488000000	7645000	7165700	73
1996	7297000000	3768000000	8399500	7499100	73
1997	6323000000	2675000000	8569200	7623800	74
1998	2713995728	863000000	8599600	7600000	75
1999	3895263158	1422368421	8837800	7784100	75
2000	3787631579	2026052632	9321700	8337900	76
2001	553947368	266842105	9357000	8448200	72
2002	3203421053	1904736842	9542600	8612600	76
2003	2473157895	1369473684	9869700	8892000	75
2004	4624210526	2061315789	9979500	8997600	78
2005	3967162122	2971410767	10045400	9030000	77
2006	6047522204	6041415634	10275400	9255600	78

Sources:

- UN online database. Total GNI data are available at: <http://data.un.org/Data.aspx?d=SNAAMA&f=grID%3A103%3BcurrID%3AUSD%3BpcFlag%3A0>, total GDP data are available at: <http://data.un.org/Data.aspx?q=gdp&d=CDB&f=srID%3a29919>, per capita GNI data are available at: <http://data.un.org/Data.aspx?q=per+capita+gni&d=SNAAMA&f=grID%3a103%3bcurrID%3aUSD%3bpcFlag%3a1>, per capita GDP data are available at:

- <<http://data.un.org/Data.aspx?q=GDP+per+capita&d=SNAAMA&f=grID%3a101%3bcurrID%3aUSD%3bpcFlag%3a1>>, and CPI data are available at: <<http://data.un.org/Data.aspx?d=CDB&f=srID%3a5980>>.
2. Growth Rate data has been calculated from the table itself.
 3. UN online database. Total Fixed Capital Formation data are available at: <<http://data.un.org/Data.aspx?q=Fixed+Capital+Formation&d=CDB&f=srID%3a29930>>. Year End Exchange rates (RM/\$) are available at: <<http://data.un.org/Data.aspx?q=+Exchange+rate&d=CDB&f=srID%3a6100>>.
 4. UNCTAD online database. *Local Fixed Capital Formation* has been calculated from *Total Fixed Capital Formation* (Table 11) adjusted with *Inward FDI flows as a percentage of Gross Fixed Capital Formation*. Available at: <<http://www.unctad.org/Templates/Download.asp?docid=10589&lang=1&intItemID=3277>>.
 5. UNCTAD online database. FDI Inflow available at: <<http://www.unctad.org/Templates/Download.asp?docid=10590&lang=1&intItemID=3277>> and FDI Outflow is available at: <<http://www.unctad.org/Templates/Download.asp?docid=10597&lang=1&intItemID=3277>>.
 6. Malaysia Total Labor Employment Data (1980-1990, 1992-1993, 1995-2007). Data from 1989 to 2002 are compiled from: Department of Statistics Malaysia (2004). Malaysia Labor Force Survey 2003: Country Report. Department of Statistics, Putrajaya, Malaysia. Total Employment Data for 1991, 1994 are interpolated (average of previous and next year data). Employment data (1970- 1979) was calculated from Unemployment Rate (Prime Minister's Department of Malaysia: <<http://www.epu.ipm.my/ses/pdf/1.3.1.pdf>>, and Total Population, Population ages 15-64 (% of total), Total Labor force participation rate (% of total population ages 15-64 of 1980) (World Development Indicator, 2007. World Bank, Washington, DC).
 7. Malaysia Local Labor Employment Data from 1989 to 2002 are compiled from: Department of Statistics Malaysia (2004). Malaysia Labor Force Survey 2003: Country Report. Department of Statistics, Putrajaya, Malaysia. Data from 1982 to 1988 and from 2003 to 2006 are compiled from ILO Labor Statistics, Available at: <<http://laborsta.ilo.org/STP/do>>.
 8. KOF Index of Globalization is available at: <<http://globalization.kof.ethz.ch/>>.

Notes to above table:

- (i) Data available on current price has been converted to real value by CPI (value of year 2000 = 100).
- (ii) Formula for Growth Rate Calculation = $(t_1 - t_0) / t_0$.
- (iii) Total Fixed Capital Formation data is available in RM which is converted by exchange rate. Formula: *Total Fixed Capital Formation / Exchange rate (RM/\$)*.
- (iv) Local Fixed Capital Formation (Constant USD) has been calculated by “*Total Fixed Capital Formation * (1- FDI flows as a percentage of Gross Fixed Capital Formation)*”.
- (v) FDI Outflow data is not available for 1970-1979, which is considered as 0.
- (vi) Total Employment Data (1970-1979) Formula = Total Population* Population ages 15-64 (% of total) * Total Labor force participation rate (% of total population ages 15-64 of 1980)* Employment rate (1- unemployment rate).
- (vii) As Local Employment data is not available from 1970, this paper considers Total Employment instead of Local Employment in Equation No. 3 (Table 5).
- (viii) In the index of 100.00 for globalization was considered as the maximum value for full globalization and one is the minimum value. Higher values denote greater globalization.

Table 2. International trade objectives, strategies, and policies in Malaysian development plans

Period	Objectives and Strategies	Policies
PRE-NEP 1960-1970	Fuller and more efficient use of natural resources. Expansion of economic base to reduce dependence on raw material exports.	<ul style="list-style-type: none"> ● Import substitution policy ● Promotion of traditional and new export possibilities
First Malaysia plan, 1966-1970	Generation of higher income through expanding domestic production and increasing exports of manufactured products.	<ul style="list-style-type: none"> ● Industrial development led by private sector ● Favourable investment climate, industrial estates, and transport; power and communication provided by government ● Foreign private entrepreneurship and capital welcomed ● Protective tariff for selected infant industries. ● Tax intensives and subsidies to facilitate industrial development

Period	Objectives and Strategies	Policies
NEP; OPP1 1971-1990 Second Malaysia Plan, 1971-1975 Third Malaysia Plan, 1976-1980 Fourth Malaysia plan, 1981-1985 Fifth Malaysia Plan, 1986-1990	Based on two pronged approach of i. Poverty eradication and ii. Restructuring of society Increased production for export, including new industrial and agricultural items. Greater processing of raw materials. Further substitution of domestic production for import. Malaysia incorporated emphasizing cooperation between government and private sector.	<ul style="list-style-type: none"> • Increased direct government participation in industrial development • Improved export incentives / Export oriented policies • Free trade and export processing zones established • Promotional and publicity efforts by government to attract foreign capital and expertise. • Promotion and domestic production of intermediate and capital goods • Emphasis on productivity increased and more intensive production methods • Progressive and selective privatization of government services • Overall protection in industry reduced to reasonable level • Encouraging joint ventures with international corporations, using foreign technology and local resources • Ensuring availability of finance for exports • Liberalized equity guidelines
NDP, OPP2, 1991-2000 Sixth Malaysia plan 1991-1995 Seventh Malaysia plan 1996-2000	Promotion of a balanced, broad-based, resilient and internationality competitive economy. Enhance potential output growth, achieve further structural transformation and attain balanced development. Moving towards capital-intensive and technology sophisticated industries.	<ul style="list-style-type: none"> • Accelerating productivity and efficiency, primarily through private sector initiatives • Accelerating the diversification of industries • Reorienting industries of target production for the world market • Encouraging large-scale production for the economies of scale • Further liberalization and deregulation of industries • Development of a modern, competitive and technologically innovative small and medium industry (SME) sector <p>Greater role of trade and industry associations to improve standards and quality</p> <ul style="list-style-type: none"> • Establishment of new trade and networks, especially within regional trade blocs • Development of industrial estates • Developing domestic industries to be globally competitive • Strengthening resilience to external shocks • Focus on more efficient use of labour and capital as well as improvement in skills, technology, and managerial capability • Greater application of information and communication technology and knowledge • Increased intra-regional trade using AFTA and other bilateral arrangement mechanisms • Identifying and developing new sources of growth, particularly in services, to become the regional centre or hub.
NVP; OPP3 2001-010 Eighth Malaysia Plan, 2001-2005 Ninth Malaysia Plan, 2006-2010	Greater responsiveness to challenges and opportunities from global competition. Enhance position as strategic and cost-effective location for foreign investment. Improve knowledge management; accumulate new skills, change mindsets, and human capital development.	<ul style="list-style-type: none"> • Development of a modern, competitive and technologically innovative small and medium industry (SME) sector • Greater role of trade and industry associations to improve standards and quality • Establishment of new trade and networks, especially within regional trade blocs • Development of industrial estates • Developing domestic industries to be globally competitive • Strengthening resilience to external shocks • Focus on more efficient use of labour and capital as well as improvement in skills, technology, and managerial capability • Greater application of information and communication technology and knowledge • Increased intra-regional trade using AFTA and other bilateral arrangement mechanisms • Identifying and developing new sources of growth, particularly in services, to become the regional centre or hub.

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NVP = National Vision Policy; NEP = New Economic Policy; NDP = National Development Policy.