

Book Review

Tiger Economies under Threat: A Comparative Analysis of Malaysia's Industrial Prospects and Policy Options, by Shahid Yusuf and Kaoru Nabeshima, Washington D.C.: The World Bank, 2009, 281 pp.

There have been many studies on the spectacular economic performance of the newly industrialized countries, so-called Asian Tigers, during the 1960s up to early 1990s (among others, Cline, 1982; Amsden, 1989; Vogel, 1991; World Bank, 1993; Cotterel, 1993; Gough, 1998; Kim, 1998). These countries are of interest to development economists in that they were able to move from the Third World status to the First World in a few decades. Some authors (like World Bank, 1993; Naisbitt, 1995; Yoshihara, 1999) have suggested that if the positive trends continue, these countries would easily catch up and eventually surpass the per capita incomes of at least some of the leading developed economies. However, economists like Krugman (1994) and Young (1995) are more sceptical. They claim that the growth of the Asian Tigers is not going to be long-lived because diminishing returns to physical and human capital are bound to set in, just like what the conventional Solow growth model would predict. Figures too tend to show that the total factor productivity growth in the Asian Tigers has never been noticeably greater than the technological progress found in most developed countries. True enough, by late 1990s and a decade after that the Southeast Asian tigers have been affected by economic slowdown. The image of the Asian Tigers was heavily tainted by the Asian Economic Crisis, which affected the Tigers to varying degrees. Although the financial crisis that have caused many of the recent economic problems are not related to Solow's prediction, the future growth of Asian Tigers tends to rely on their ability to increase their rates of technological progress. It is within this context, and the complex process of how technological progress can be achieved, that Shahid Yusuf and Kaoru Nabeshima, both senior economists working for the World Bank, are questioning whether these Tigers are now under threat considering, among others, their low rates of total factor productivity, low rates of investment, lack of innovativeness and dynamism, and inability to exploit the presence of MNCs.

The book is presented in nine chapters. For those who are less familiar with the Asian Tigers, the book will give them an up-to-date overview of the

evolution of the Tiger economies and the place of Malaysia in the overall development. After the introductory first chapter, Chapter 2 provides a brief economic background of Malaysia and developments in industrialization. Chapter 3 analyzes the export sector, comparative advantage and industrial change, while Chapter 4 examines the significance of imports, FDIs, R&D and technology transfer. In Chapter 5, Malaysia's three critical industrial sub-sectors – electronics and electrical engineering, automotive parts, and palm oil and food products – are presented in greater details. Chapters 6 and 7 are perhaps the most crucial and interesting chapters. I recommend readers not to skip these chapters even though they are in a hurry to finish reading the book. Chapter 6 seeks to answer the fundamental question: Can Southeast Asian Tiger economies become innovative? Chapter 7 addresses the questions that bear on the development of the knowledge economy and of a culture of innovation in Malaysia. Chapter 8 compares the performance of Malaysian economy with other Southeast Asian economies and assesses the possibility that these economies can grow fast again as in the earlier phases. The concluding Chapter 9 suggests policies to help Malaysia move forward into the next stage of industrial development.

The publication of this book comes at the right time when the Tigers are facing a number of critical challenges – structural changes and the shift of labour and capital in the global economy, the emergence of new industrial powers, competitiveness and increasing industrial sophistication, and slowing of middle-income economies – and desperately seeking for solutions to their current economic woes. Overall, the book delivers an impressive work that outlines the existing weaknesses, problems and their causes – problems such as those related to growth and composition of exports, imports and technology transfer, human infrastructure, education and domestic innovation capability, MNCs and global competitiveness, and industrial base and directions. Many of the causes and treatments are applicable to other Tiger economies, but some may differ and more specific to the Malaysian situation.

Shahid and Nabeshima attempt to find answers to three current issues: (1) whether the Southeast Asian Tigers are caught in the *middle-income trap*, (2) if the threat is real, what are the causes, and (3) can the problems be resolved and the rapid growth of these nations restored? This book provides a comparative analysis of the Tiger economies, particularly the Southeast Asian economies, but with the main focus on Malaysia that has often been compared with higher-income economies (Japan, Republic of Korea, Singapore and Taiwan) and lower-income economies (China, Indonesia, Thailand, and the Philippines). Their analysis goes beyond Krugman's argument and the Solow model on which Krugman bases his conclusion. This book is rich in references and comparative economic data (summarized in tables, graphs or

charts) as they are effectively used to support their analysis, including trade data, foreign direct investment (FDI) and domestic investment, industrial growth, research and development (R&D) and patenting, research universities and institutes, and world competitiveness indexes. Most data are from 1970s to as recent as 2008.

Treating technical progress as endogenous in their analysis, this book emphasizes the need to accelerate technology development and innovation as the key to future growth of the Southeast Asian Tigers; and hence the need for incentive policies to encourage R&D and technology acquisition, to upgrade labour skills, to stimulate MNCs to transfer technology and increase domestic sourcing of inputs, to lower the barriers to entry of new firms, to expand basic and applied research in universities, to increase the supply of university graduates, to increase linkages between universities and business firms, and to attract the return of knowledge workers from abroad. Specific to Malaysia, the writers identified the country's apparent comparative advantage in "products and services associated with electronics, agricultural biotechnology, food processing, and – possibly down the road – specialized financial services."

While the writers have given a lot of attention to the industrial and technological development issues, the need to promote and link with the services sector and urban agglomeration economies is not sidelined. In all, the book assembles a fairly detailed road map for Malaysia in particular and for the other Southeast Asian Tigers in general to escape from the middle-income trap. Suffice to say, the policy recommendations are broad ranging and persuasive. The information, analysis and policy implications are certainly useful for researchers, policy-makers and business stakeholders who are looking for empirical-based policy guides.

One possible shortcoming in the book is in its approach to be industrialization-centred and urban-biased. There is nothing about rural engagement, perhaps under the pretext of Malaysia's already low levels of poverty. Does this mean that poverty and inequality will not be a concern for the future survival of a Tiger economy?

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