



WORKING PAPER NO.27

# Economic Growth and Development in Malaysia: Policy Making and Leadership

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Malaysia is a multiethnic, upper-middle-income country that has relied heavily on income from its natural resources to engineer successful diversification into manufacturing and sharply increased incomes for all ethnic groups. This paper examines the role of the policy-making process and national leadership in effecting this structural change and growth with equity. It discusses the government's role in transforming corporate ownership patterns while nurturing industrial enterprises into niche products within complex value-added chains. At the same time, the paper underscores the difficulties and costs of attempting to move into areas where an economy has no strong advantages, in this case heavy industries. Privatization, although a powerful tool for expanding private enterprise despite limited entrepreneurial skills, is questionable as a sustainable strategy. Aggressive formation of new firms seems to offer better long-term prospects, along with an appropriate policy-making and implementation regime characterized by political determination, stability, high attention to growth with equity, experimentation, and an ability to learn through implementation—both at home and from the experience of others. Furthermore, evidence suggests that the “reform cluster” approach to policy implementation can address effectively several coordination problems at the same time.

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