

Osman-Rani Hassan: A Man Better Known for His Writings Than His Speeches

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1. In Memory of Osman-Rani

This special issue is a tribute to the late Professor Osman Rani Hassan for his vast contribution to Malaysian economics education and research.

Osman-Rani was born on 11 December 1942. Though trained as a language teacher, he subsequently studied economics as an undergraduate student at the University of Malaya. He graduated in 1970, and worked as a school teacher for a year before joining Lembaga Kemajuan Perindustrian Persekutuan (Federal Industrial Development Board, now called the Malaysian Industrial Development Authority). Six months later, he made a career change as a tutor initially, in the Department of Economics and Commerce (later known as the Faculty of Economics and Management) at Universiti Kebangsaan Malaysia (UKM).

Osman-Rani spent a considerable part of his career with the Faculty of Economics and Management, UKM. His journey in UKM began in June 1972 as a tutor. Altogether, he spent 27 years with UKM, completing his services there in 1999. He studied for a Masters degree at the University of the Philippines (UP), Diliman during his tenure as a tutor - an unusual, but curiously interesting choice, as Jomo remarks (this volume), since most of the country's prospective academics then chose to study in the Organization of Economic Cooperation and Development (OECD) countries. Osman-Rani was made a lecturer in 1974 after graduating from UP. He continued to study for his PhD degree at UP successfully completing it in 1977. In 1979, Osman-Rani was made an Associate Professor, and a Professor in 1989.

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The UKM was established in 1970 and Osman-Rani was among the first generation of academics that the University relied upon to chart its growth. He was among the early pioneers who built the Faculty of Economics and Management. Anyone familiar with such environments can testify to the very large amount of spadework that needs to be done in the early years of a faculty's development. Resources, especially trained academics, were scarce.

As a result, promising young academics were co-opted to fill leadership positions and assume administrative duties. If one was deemed as a capable leader, then one was doomed to run an administrative job for many years to come. This was a very characteristic feature of young universities in Malaysia. The young Osman-Rani was among the small, but growing number of academics who had returned for duty, and was almost immediately inducted into different leadership positions in the university. Indeed, he served in positions of academic leadership in 15 of the 27 years he was in UKM.

Notable among these were his stints as Dean of the Faculty of Economics on two occasions, between 1983-1985 and 1991-1993 respectively.¹ He also served as the founding Director of the Institute of Malaysian and International Studies (IKMAS), February 1995 – February 1997, and Director, Bureau of Research & Consultancy, November 1987 – October 1989, and finally as Director, Malaysian APEC Study Centre, December 1997 – April 1999.

Osman-Rani, subsequently joined University Malaysia Sarawak (Unimas), where he served as the Director of the Corporate Master of Business Administration (CMBA) Programme for a year (January 2000 – December 2000), after which he was made Dean at the Faculty of Economics and Business, Unimas, January 2001 – January 2002. He spent the next five years, from July 2002 – July 2007, as Professor of Economics at Universiti Pendidikan Sultan Idris, Tanjung Malim, a fairly recent establishment dedicated to the teaching and training of teachers. His last university appointment was as a Senior Research Fellow with the Centre for Poverty and Development Studies, University of Malaya, (2008 - 2010).

Needless to say, he had considerable influence on the development of economic education, research and scholarship over a relatively long span of time, more so since 1989, the year he was made Professor. He is endearingly remembered as a quiet, good-hearted and easy going person. He had a good sense of camaraderie and, as his many publications attest, he had the gift of blending with a broad array of different individuals to work successfully on any research initiative. He was one of a handful of “movers” who built the Faculty of Economics and Management, and was highly respected by colleagues, and often given the honour to lead a team. Clearly, this was no less due to his indefatigable dexterity and commitment as a scholar.²

Despite the heavy responsibilities of academic leadership, Osman-Rani was a prolific scholar, with a long list of books, monographs and working papers, chapters in books, journal articles, research reports and book reviews to his name. Although his writings are largely related to his career-long interest in industrialisation and economic development, they stretch across a broad spectrum of related areas, including development of manufacturing industries, employment, technology and skills development, wage trends, industrial policies, regional development, and trade. He also ventured beyond these areas including poverty and inequality, public sector growth, and educational development and national integration.

2. Osman-Rani and His Generation

His many years attending to administrative duties never seemed to have distracted him from serious scholarship. He was part of an emerging group of young social scientists who bore witness to large-scale convulsions in the post-colonial economy.³ It was also an intellectually exciting time, as different strands of critical political and economic ideas emerged as the Vietnam War persisted, offering the developing world with a new, hopeful vocabulary for change. Although the Vietnam War and the eventual defeat of the USA to Ho Chin Minh's ragtag army raised fundamental questions about the role of the state, democracy and civil society, the intellectual heritage was also inspired by experiments that were as diverse as Mao's refreshing views of the peasantry, the Non-Aligned Movement, Nyerere's "Arusha Declaration", rapid but dependent industrialisation in Latin America, followed by successful export-oriented industrialisation in Korea, Taiwan and Singapore.

There was also a sense of novelty and excitement in Malaysian social science then, since for the first time in its history, there was a growing community of social scientists outside of the confines of the University of Malaya, the country's only university until 1969. Needless to say, they were still a very small group, and represented the first generation of students/academics who had lived through the early reconstruction experiments of post-independent Malaysia. Many knew each other, either through their undergraduate years at the University of Malaya, or other universities abroad. Others could trace their acquaintances from the few feeder schools that offered the pre-university Higher School Certificate education, or were their friends' friends. In a sense, they were all part of a new "imagined community" that Benedict Anderson had so astutely coined.

The new universities were all part of a national reconstruction initiative, of which the New Economic Policy was but one important part. While the New Economic Policy is indelibly associated with the state's pro-Bumiputra policies, it was, indeed, part of the post-colonial reconstruction effort: with a

new role of the state, expansion of the public sector, increased diversification of the economy (especially with sustainable management of petroleum resources), with successful export-oriented industrialisation providing fresh confidence in the country's march to progress. Indeed, the new universities were entrusted to supply the large pool of talents that were required for the envisioned changes.

Thus, teaching and conducting social science research in the universities was at once an important part of the reconstruction project, a novelty, and a privileged mark of success for the emerging middle class. They were also the pioneering generation of academics, since social science studies was a relatively new academic discipline in the country. The rapid socio-political and economic transformations that were unfolding then meant that there was much to do, just as there was a lot that one could do to develop social science teaching and research. Social scientists in UKM were at the heart of these changes. Indeed, UKM was born out of a resurgent Malay nationalism. The young academics there were part of this important fragment of history. The Faculty of Economics and Management, UKM was a hive of activity throughout the 1970s, 1980s and 1990s, with so many of its academics researching and publishing actively, either individually or in groups. On occasions, the Faculty undertook research, and work was distributed among its members.⁴ Thus, Osman-Rani and his colleagues at the Faculty of Economics and Management, UKM were part of an emergent group of social scientists who were very much in the forefront, as academics and concerned intellectuals, of the massive changes that were underway.⁵

3. Key Contributions

He is probably best known for his work titled "*The Political Economy of Malaysia*" (1982), which he edited with Fisk, E.K. This was his first book which was very well received, and served as a much needed reader in Malaysia at that time. He went on to edit several more books and published articles in journals as well contributed chapters to books. He was crowned with the honour of editing Didier Millet's 13th volume, *The Encyclopedia of Malaysia* series, which was published in 2007. This 13th volume dealt with Malaysia's rapid transformation from an agrarian economy at the time of independence in 1957 into a thriving industrial and service economy.

Osman-Rani's writings on Malaysian economics are insightful, and is empirically well informed. He tackles diverse subjects with considerable rigour, whether on industrialisation and trade, poverty and inequality, development or national integration.

His most important contributions to Malaysian economics are from his studies about industrialization. His PhD thesis, entitled "*Technology and Size of Manufacturing Industries for Regional Balance and Labour Employment*",

was completed in 1977. It was among the earliest studies on Malaysia's industrialization. He went on to extend his research into rural industrialization, employment, training and skills development, technology transfer, foreign and direct investment. He was often concerned with the spatial distribution of industries, which he felt is instrumental to raising productivity in the less developed regions. Promoting a better spread of industries was critical to achieving equity and welfare, more so in the transitional years, from the 1970s right through to the 1990s, when the cultural division of labour- under which participation in the different economic sectors was coterminous with membership in different ethnic groups- was very evident. In particular, the spatial re-distribution of industries held the prospect of freeing the rural population of poverty.

Another important theme that runs through his analyses of industrialisation, predating the government's call for a New Economic Model in 2010 by nearly two decades, is the need to improve technological capabilities and skill sets for sustained competitive edge and economic growth (Osman-Rani, 1982).

In addition to his work on industrialisation in Southeast Asia, Osman-Rani collaborated with his colleagues to address two major questions on Malaysian industrialisation. The first goes to the heart of why Malaysia is stuck in the middle income trap. Severe shortage in skilled personnel has undermined Malaysia's capacity to upgrade manufacturing activities from low to high value added activities (Rasiah and Osman-Rani, 1998). In the second, Rasiah et al., (2000) analysed why Malaysia managed to avoid the pitfalls of composition quagmire (Prebisch, 1950; Singer, 1950; Sarker and Singer, 1991) by diversifying primary exports and promoting export-oriented industrialisation. Hence, Malaysia was able to check chronic falls in terms of trade that many developing economies faced.

Osman-Rani's studies on poverty (Osman-Rani, H., 2011, 1995, 1987) and (Osman-Rani, H. and Abd. Majid, 1991) are both interesting and enlightening especially his work on Malay communities in the Malay Reservation Areas (MRAs) in Kuala Lumpur (1991), undertaken with Abd. Majid Mat Salleh. This study sought to establish if urban Malay poverty, widespread in the squatter settlements, was also evident in Kuala Lumpur's long-established settlements in the MRAs. Clearly, the cost of settling in the MRAs was higher than building or renting homes in the squatter settlements. This study was conducted in 1988 when the economy had just commenced on a decade-long path of rapid growth. By then, the large waves of in-migration to Kuala Lumpur had also waned.⁶ It was also an interesting study because Osman-Rani and Abd. Majid, following Sen (1976), employed a broader, more holistic definition of poverty, incorporating absolute (access to basic needs, level of income) and relative measurements (share of total income and wealth), that also incorporated

respondents' subjective assessment of the minimum income required to stay out of poverty. This was a rich study offering readers an overview of the conditions of poverty and inequality in Kuala Lumpur's MRAs.

Osman-Rani's macro-level study of poverty in the first decade of the NEP period (1987), district-level studies of poverty in Kemaman, Terengganu (Osman-Rani, 1995), and Sarawak (Ishak and Osman-Rani, 1996), and his study of poverty and low student performance with Rasiah (2011) reflect his interest in rural poverty. For Osman-Rani, the persistence of rural poverty, especially up till the turn of the century, could threaten national unity since the Bumiputera communities formed the bulk of the economically backward rural population.

For him, rural poverty stems from an unequal distribution of resources between the urban and rural sectors, and between different sub-sectors in each of the sectors, and between different groups in each sub-sector. A broad range of structural and institutional arrangements was needed to address rural poverty. One of these includes land reform (1995). The specific form could range from land consolidation and rehabilitation or redistribution of land to the tillers with appropriate compensation to owners. Other measures could include favourable incentives for agricultural smallholders, enhancing the role of state marketing agencies, broadening contract farming arrangements, and tightening the value chain links to integrate supply with demand even more efficiently. To ensure a more efficient use of surplus labour as a result of population increase and sub-division of land due to inheritance, appropriate industries and services are needed in rural areas.

His study of poverty and its impact on student performance with Rajah Rasiah (2011), provides a rich insight of the experience that poor households undergo. It examines why children of poor families tend to be low academic achievers. The larger burden of school expenditure for poor families and their larger number of school-going children have a detrimental effect on their children's academic performance. Thus, the prospects for inter-generational upward mobility through education are still very much class-bound.

4. Issue Outline

There are five articles in this issue – four are written by former colleagues of Osman-Rani at the Faculty of Economics and Management, UKM. They are Ragayah Md Zin, who was with the Faculty of Economics from 1975 until 2000, Zulkifly Osman (1978-present), Jomo Kwame Sundaram (1977-1982), and Rajah Rasiah (1992-1999). Rajah Rasiah was also a colleague of Osman-Rani at Unimas (2000-2001), and at the Faculty of Economics, University of Malaya (2008-2010). Suresh Narayanan, also a contemporary of Osman-Rani, is a Professor at the Economics Section of the School of Social Sciences, Universiti Sains Malaysia (USM).

Other contributors – co-authors of articles in this volume include Hazrul Shahiri, Senior Lecturer at the Faculty of Economics and Management, UKM since 2007, and Mershad Parvin Hosseini, a graduate student at the School of Social Sciences, USM. Jebamalai Vinanchiarachi, currently Director of the Cardinal Cleemis School of Management Studies in Thiruvananthapuram, Kerala, India, was a Senior Research Fellow at the Faculty of Economics and Administration, University of Malaya (2010-2012), and an ex colleague of Osman Rani at the University of Malaya. Finally, Padmanand Vadakkepat is a Distinguished Visiting Faculty at the Entrepreneurship Development Institute of India.

All five articles focus on economic development with the first four dealing with different aspects of the Malaysian experience and the last one outlining the way forward for Timor Leste.

The first article is by Ragayah Haji Mat Zin, until recently a professor at IKMAS, UKM, who has contributed immensely to the study of poverty and inequality in Malaysia. The paper by Ragayah Haji Mat Zin, titled “*Malaysian Development Experience: Lessons for Other Developing Countries*” examines Malaysia’s experience at sustaining growth, reducing poverty and redistributing income and wealth across its major ethnic groups, with a view of teasing out lessons that may be relevant for other developing countries.

The paper sets out with this task by first examining why Malaysia chose its peculiarly distinct path to achieving growth with equity. It is argued that the evolution of Malaysia’s development policies and experience may be best understood with an appraisal of key issues relating to the unequal distribution of income and wealth between its major ethnic groups, especially up till the turn of the millennium. This is followed by a brief tour of Malaysia’s development policies, which evolved from a “market-led” laissez faire phase (1957-1970) to a “state-led” interventionist phase (1971-1985), and from there, transformed from 1986 onwards to become a more liberalised, deregulated economy that is more closely conditioned by a global economy.

The brief description of development policies sets the stage for an examination of the impacts of the country’s key development policies and programmes on poverty and inequality. Aided by the state’s affirmative employment drive, the greatly improved levels of education enabled large sections of the rural, mainly Bumiputera, population, that once languished restlessly in unproductive agricultural pursuits to seek employment opportunities in the rapidly expanding state apparatus, and in labour-intensive factories that appeared with the promotion of export-oriented industries in the early 1970s. Simultaneously, an educated elite of Bumiputera professionals emerged. The rise of selected sections of the Malay middle classes was greatly enhanced by the provision of government largesse for the creation of a “Bumiputera

Commercial and Industrial Community”, a capitalist class to match other ethnic groups. With large numbers finding employment in manufacturing and the service sectors, and the remaining rural population provided with a very broad array of support, poverty declined significantly. The tightening of the labour market that accompanied sustained growth from the late 1980s to mid 1990s enhanced income levels. The main beneficiaries of the rapid expansion of employment in manufacturing were Malay women, a theme that forms the subject of another discussion in this number.

As a result, the economy underwent enormous changes. It transformed from being predominantly agricultural into an industrial economy with the services sector accounting for a major share of GDP within a short span of 30 years. Expectedly, the quality of life index improved dramatically. By 2009, poverty which affected slightly more than one half of households in 1970, was reduced to only 3.8 percent of households. The income gap between different ethnic groups declined. Bumiputeras recorded the highest Gini Ratio in 2009. However, over the 40 years, the Gini Ratio fluctuated only modestly, with no clear trend indicating greater inequality.

Wealth ownership was concentrated in the hands of the Chinese although the Bumiputera community made enormous gains over the last years. The same may be said of the distribution of professional jobs. Even so, the Bumiputera community made enormous progress in education, and made vast inroads into professional occupations, where they were so poorly represented before. The paper drew several key lessons and highlighted a few pitfalls of the Malaysian development experience. The paper concluded that although the NEP succeeded in bringing about growth and equity, it also sapped the economy of its dynamism, raising concerns about national unity, the ultimate objective for which the NEP was set to achieve.

The second paper, titled “*Deep Roots of Ethnic Inequality Under the New Economic Policy (NEP)*”, by Zulkifly Osman and Hazrul Shahiri, from the Faculty of Economics and Management, UKM, examines the country’s ethnic division of labour from an interesting angle, that is, whether persisting ethnic division of labour could be related to ethnic gender occupational differences. It is argued that the ethnic division of labour perpetuated with the country’s export oriented industrialisation strategy, under which foreign investments were limited to processing and assembling imported inputs. Due largely to competition among countries for such investments, conditions were made favourable to foreign investors. This explains the tightening of labour regulations, particularly with respect to trade unionisation.

Increasingly, large segments of the labour force were female, which were concentrated mainly in semi-skilled and low-paying jobs, particularly in components assembly in the electronics industry and sewing in textile industries.

Consequently, this led to a decline in average wages in the manufacturing sector, which had a detrimental effect on the income of the Malay ethnic group. Thus, new employment opportunities, while a boon to the economically depressed Malay community, had the unintended effect of maintaining and consolidating income inequality between different ethnic groups.

Using data generated by the Malaysian Population Census of 1970, 1980 and 1991, the authors found that gender segregation across and within all ethnic groups, widened during the NEP period. It was further discovered that gender segregation between Malay males and females also widened by the end of the NEP, and that the male-female segregation index was higher than the overall male-female segregation index. Gender segregation in the workplace among the Chinese worsened during the NEP period, but was slightly lower than the overall gender segregation index, and much lower than gender segregation among the Malays. On the other hand, gender bias among Indians in the workplace was less distinct.

Thus, the authors concluded that gender occupational segregation in the workplace increased among the Malaysian population as a whole. However, it was more evident among the Malays compared with the Chinese and Indians. Thus inequality between the different ethnic groups was perpetuated by policies that were designed to increase Malay participation in the modern economy. By drawing a significantly large pool of female Malay labour into the lower-end jobs, ethnic inequality persisted right through the NEP period.

The third paper by Jomo Kwame Sundaram, currently Assistant Director General and Coordinator for Economic and Social Development at the Food and Agriculture Organization of the United Nations, is titled “*Malaysia Incorporated*’: *Corporatism a la Mahathir*”. This is an account of Mahathir’s “Malaysia Incorporated” strategy as well as an insightful and analytical study of the changing role of the state, leading to the divergent interests among Malay politicians and politically influential businessmen on the one hand, and Chinese businessmen, on the other. The diverging interests between these different parties seems to have become more prominent over time, and are the main reason why the “Malaysia Incorporated” slogan failed to catch on or resonate well with a broader cross-section of society.

The first part of the article traces the role of the state, and how this has evolved over the early NEP years, the circumstances under Mahathir found himself in, the options that were available, and the eventual course of “Malaysia Incorporated”. The NEP marked the development of a highly interventionist state that was committed to promoting the development of a Bumiputera commercial and industrial capitalist class. One very clear expression of this shift was the rapid development of the public or state-owned enterprises. A second

and more invasive expression of this development took the form of regulatory controls of businesses owned by non-Bumiputera and foreign capital.

These made it difficult for investors, particularly the Chinese commercial and industrial interests, who had prospered under *laissez faire* policies of the state prior to 1970. As a result, this led to a very significant decline in private domestic investments which also threatened UMNO of electoral support from its non- Bumiputera component parties in the Barisan Nasional coalition.

Mahathir's "Malaysia Incorporated" policy was to reverse this trend. However, this invoked a corporate identity that went against the assertion of Malay political hegemony, the political expression that stood for "state dominance, and growth of government regulation and public sector expansion to advance ethnic redistribution in the Malay interest". Expectedly, Malaysia Incorporated did not make much headway as a political platform among Malay politicians, but found expression in economic liberalisation policies and supply side oriented policies of the Government since the mid 1980s, especially as a policy response to the recession of 1985-86, with support from Malaysian Chinese businessmen.

The swift and smooth transition to a more liberal environment in the mid 1980s was aided by a combination of numerous co-optation and exit strategies for (Malay) politicians and senior members of the bureaucracy, who were offered very attractive opportunities for privatisation of state assets and rent-seeking avenues.

This swift change to "Malaysia Incorporated" was greatly aided by a fortuitous set of circumstances, including the effective depreciation of the Malaysian Ringgit, and the significantly increased investments from Northeast Asia (Japan, Korea and Taiwan), that led to a resurgence of export-oriented manufacturing. Thus, Mahathir's "Malaysia Incorporated" brought about liberalisation of the economy and favourable growth.

Even though liberalisation was adopted fairly rapidly with little resistance, there was widespread belief that lingered on for some time among Malay politicians and bureaucrats on the one hand, and Chinese politicians and businessmen on the other; that Malay interests were better served by foreign rather than local Chinese capital.

In much the same way, business associations have not had much history of collective action, with Chinese business associations traversing unfriendly territory in their engagement with the British colonial state and, later, senior Malay political partners, especially under the NEP years. If business associations have remained on the sidelines, politically influential businessmen advanced their business interests through state intervention, gaining considerable rents, especially monopolistic privileges. Thus, again, Malay and Chinese business interests remained at odds.

To ensure sustained growth under conditions of a more open, competitive economy, Malaysia needed to meet expectations of a larger set of business stakeholders, either in terms of deciding on a clear English language policy or the skill sets and talents that it would need to develop to attract high value-added investments. Although generous allocations had been set aside for educational development, it failed to provide the required skill sets required by industry. This is partly because the education system has been preoccupied with achieving inter-ethnic parity rather than meeting the challenges of an advanced economy.

“Malaysia Incorporated” is overtly employer biased. The changes that Mahathir introduced to accompany liberalisation were aimed at industrial harmony even if this was at the cost of clamping down on unions by encouraging worker loyalty, in-house unions, flexible wage systems and eventually, due to the constraints of a low-wage economy, promoting immigrant labour.

Mahathir’s “Malaysia Incorporated” was limited to bridging the gap between politicians, businessmen and the bureaucracy rather than a serious attempt at forging a corporate identity from across a broad social base.

In conclusion, Jomo Kwame Sundaram saw that Mahathir’s corporatism was limited to promoting company-level corporatism through in-house unions and better government-business relations. It is suggested that this is related to the country’s heavy dependence on foreign capital, technology and markets. A more sustainable industrial base needs to be forged on the basis of collaboration between the state and genuine Malaysian industrialists.

In the ensuing article, titled “*Drivers of Innovation in the Malaysian Services Sector: An Analysis Based on Firm Level Data*”, Suresh Narayanan and Mehrshad Parvin Hosseini examine innovation in the Malaysian services sector. Their study is based on the Productivity and Investment Climate Survey 2 conducted by the Malaysian government in collaboration with World Bank in 2007.

With an excellent introduction, the paper locates the critical importance of the services sector, particularly with the government’s recent emphasis on promoting innovation to lift the Malaysian economy out of the “middle income trap” that it had found itself in. This is a pertinent issue for the services sector since its productivity growth is lower than the national average, even more so when compared with the manufacturing sector.

On the basis of the definition used in this study, it was found that half of the 303 firms reported some form of innovative activity. It further found that a higher percentage of companies in information technology and communications subsectors carried out more innovative activities than in the three other subsectors, namely accounting and related professional services, advertising and marketing and business logistics. The innovations were mainly improvements in quality and cost as well as new technology in service delivery.

The authors identified age of firm, firm size, foreign ownership, market power and competition, exposure to export markets, R & D infrastructure, incentives received for R & D, sourcing technology for innovation and supply relationships with MNCs as the key variables that could influence innovation. These were tested against data that was available. Much of innovation in the services sector are led by companies that collaborate with the outside parties, receive technology from parent establishments or gain technology as suppliers of multinational corporations. Thus, innovating firms are more often than not from among those that are associated with multinational firms.

The innovating firms are also younger, export-oriented and larger than non-innovating ones, and had dedicated R & D staff and received government incentives for research. In addition, they tended to be among firms that sub-contracted out R & D activities and paid royalty fees. It was further found that conducting collaborative R & D activities had the largest positive impact on the odds of being innovative. This is followed by adoption of technology imposed by parent companies. Finally, the odds of being innovative is larger if a firm is engaged as a supplier to multinational companies. The study further showed that collaboration in R & D had the strongest marginal effect on the probability of innovating, more so if this takes place in the information technology sector.

The following article by Rajah Rasiah, Jebamalai Vinanchiarachi and Padmanand Vadakkepat entitled "*Catching-up from Behind: How Timor Leste Can Avoid Dutch Disease*" assesses the capacity of Timor Leste to steer away from over-dependence on its rich oil and gas resources (expected to last until 2023), particularly as it was still reeling from devastation due to Indonesian invasion and various insurgencies, while poverty continued to be widespread and rising, and agricultural yields are declining.

The authors argued that if left to the market and limiting the role of the state to infrastructure development, underdeveloped economies such as Timor Leste will eventually face resource outflows with little prospect for development of its domestic capabilities. Instead, the state needs to take the lead in developing technological capabilities to promote sustained growth, as witnessed in Sub-Saharan countries as well as Singapore, South Korea and Taiwan. In the absence of pro-active measures to develop domestic technological capabilities, the over dependence on oil and gas, or any other non-renewable resources, can be self-perpetuating. This is underscored by the Nigerian experience. On the other hand, the Netherlands has averted such a prospect by actively promoting the development of its agricultural and manufacturing sectors.

Due to severe demand constraints, underdeveloped countries such as Timor Leste will need to spend heavily on infrastructure before boosting productivity. This may be complemented with greater integration in the global economy, particularly through exports with value added through technical development

and diversification. This is an important consideration since sustainable growth can only be achieved with greater productivity.

However, Timor Leste has a very small population and economic niches are smaller. To embark on such a journey, Timor Leste would need to and “can pursue the Schumpetrian Mark I and Mark II activities by focusing on the few sectors where it enjoys either natural or potential advantages”.

Though agriculture is Timor Leste’s most important non-oil primary sector its technological capabilities are very low. Even so, the authors argue that efforts to increase productivity of existing crops need to be enhanced since there is sufficient domestic demand, which is projected to increase further. In addition, investment in new crops or products needs to be promoted. Developing its manufacturing capabilities (engineering support, light consumer goods and complementary industrial processes to support the key sectors) would be another desired outcome. To finance the development of technological capacities considered necessary for sustainable growth, the Petroleum Fund ought to be mobilised. In the final section, the article offers an extended but interesting discussion of policy recommendations on how Timor Leste could avert the Dutch Disease.

The first component of the policy recommendations is a “Policy Typology to Initiate Catch-up”. Central to this is the “systemic quad” matrix that depicts on the one hand different phases in the value chain, and different phases of development on the other.

Basically, the country’s growth trajectory must go through different levels in the value chain and development phases. The “value chain quad” and “phases of development” are to be orchestrated and synchronised by the apparatus of the state, particularly through meso organisations tasked with enabling the business environment, promoting the clustering and business linkages and participation of the rural population and women in society.

Notes

- ¹ He first served as Head of the Department of Economic Analysis and Public Policy in the Faculty of Economics and Management from May 1976 to February 1980. Subsequently, from April 1981 to April 1983, he was made the Deputy Dean of the same Faculty.
- ² Muhammad Ikmal wishes to record his gratitude to Tan Sri Professor Anwar Ali, a long-time colleague at the Faculty of Economics and Management, UKM (who subsequently served as the Vice Chancellor of UKM and currently President of Open University Malaysia), and to Halim Ali, a close friend who served at the Department of Anthropology and Sociology, UKM, for sharing their recollection of him.

- ³ The excitement and freedom arising from the declaration of independence and common citizenship was quickly replaced with anxieties about political identities and rights. Simultaneously, the colonial economy was breaking down: the rubber and tin industries could no longer offer sustained growth. Underemployment, unemployment and poverty in the rural sector were rife, driving its lowly educated and unskilled residents to the urban centres. Yet, efforts at economic diversification, including import-substituting industrialisation fell short of expectations and failed to generate sufficient employment opportunities for a rapidly growing population. The massive frictions accompanying these changes sparked a riot along the country's ethnic fault lines on 13 May, 1969. If the 13 May riots in 1969 was a violent expression of the breakdown of the colonial rule, student demonstrations highlighting the economic desperation of rubber smallholders in 1974 exposed the trails of marginalisation of the peasantry.
- ⁴ Academics from the Faculty of Economics and Management UKM initiated and/or produced a large number of important research publications. See, for example, Osman Rani (ed.), (1995); Osman-Rani, Jomo and Ishak (eds.), (1981); Rasiah and Ishak (2001), Rasiah and Osman-Rani (1998).
- ⁵ Osman Rani and a few colleagues from the Faculty of Economics were part of a larger informal group of academics, drawn mainly from the Faculty of Social Science, drafted the country's "national agenda" (*Kumpulan Penelitian Sosial*, UKM, 1990). They were also part of a larger fraternity of economists, including non-academics, who congregated regularly over the much anticipated conferences of the *Persatuan Ekonomi Malaysia* (interview with Tan Sri Anuwar Ali).
- ⁶ Indeed, this study showed that slightly more than half of the residents were born outside of their immediate vicinities, and had settled in Kuala Lumpur's MRAs, mainly from other towns. However, it was also found that there was only a minimal increase in the population of the MRAs, suggesting that some out-migration had taken place. A tightening of the labour market took place followed by an increase in wages. However, these were checked by the increasing reliance on cheap foreign labour.

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