We find the proposed Country Assistance Strategy for Malaysia quite candid and comprehensive. The CAS document has not only provided us with a critical assessment of Malaysia’s development issues, including those that fueled the recent crisis, but has also articulated the Government’s policies aimed at restoring economic growth. We commend staff for their clear diagnosis of the current economic and social situation and putting in place a well-crafted document which goes beyond itemizing achievements and problems by providing detailed monitoring benchmarks as set out in Table 5.

Prior to late 1997, Malaysia registered one of the most impressive growth records in the world, reflecting a strong macroeconomic management and stability. As noted in the document, this impressive track record, evidenced by a 9 percent annual GDP growth in real terms up to the mid-1990s, contributed to the substantial reduction in poverty and enhancement of the quality of people’s lives in Malaysia. Equally impressive has been the gains in education and health. In spite of this robust performance in many areas of the economy, however, a number of structural issues which were not adequately addressed, as in the case of other East Asian countries, gave rise to factors that eventually undermined and threatened to further erode the achievements made over the years. Efforts made so far by the Malaysian authorities to reverse the situation have not fully produced the desired effects yet. This has prompted the Government to change the course by developing a National Economic Recovery Plan (NERP) which focuses on restoring growth by stimulating domestic demand, and on tackling transitional poverty through preventing further deterioration in the social sectors.

We find the proposal in the Bank’s Country Assistance Strategy broadly in line with Malaysia’s development priorities and we consider the approach of clearly defining the short-term and medium-term objectives quite appropriate. What is even more appealing about the CAS is that it benefited from the
participation of a broad spectrum of stakeholders, including the Government, and a wide range of development partners notwithstanding the urgency imposed by the current situation. The CAS is also broadly consistent with the overall regional strategy for restoring East Asia to sustainable growth.

We endorse the focus of this CAS on providing policy advice to Malaysia through high quality analytic work; capacity building; and investment lending in the social sectors and in rural infrastructure development. We also endorse the proposed lending scenarios and their associated triggers. We, however, find the program triggers in Table 4, page 25 of the document to be too detailed and would urge that their application be made flexible in the context of the prevailing circumstances in Malaysia.

On the medium-term development challenges outlined in Box 3, we are pleased to note that a number of vital issues have been fully covered. However, given that Malaysia’s prospects for expanding export growth are slim, because of the sluggish regional demands, we wonder what policies are being put in place to help diversify the country’s basket of exports and widen the direction of trade. This, in our view, is a major challenge to reducing Malaysia’s external vulnerability.

We welcome the intensified donor consultations and the lead role taken by the Government to ensure that complementarity of donor assistance is maintained. We particularly welcome increased Bank collaboration with the UNDP in areas such as capacity building where the latter has a wealth of experience in Malaysia. However, as donor activities continue to expand and become complex, we would urge for greater Bank involvement in aid coordination. This, in our view, is one justification for continued Bank presence in Malaysia.

Finally, we wish to give our support to the three projects accompanying this CAS: Education Sector Support Project; Social Sector Support Project; and Year 2000 Technical Assistance Project. All these projects provide a critical component of program support to maximize gains from ongoing reform efforts, while at the same time, making sure that the social effects of the crisis on the poorest and vulnerable segments of the population is minimized. We also wish the authorities and people of Malaysia every success in meeting the challenges of reform.