

Economic Cooperation and Human Development in the D-8 Countries: The Malaysian Model

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ABSTRACT

Muslim-majority countries worldwide account for a disproportionately large proportion of the world's illiterate and poor population and are home to millions of out of school children. Many of these countries have grown rather slowly over the past decades. The lack of economic development have further limited economic integration among the OIC member states. Malaysia belongs to the small number of Muslim-majority countries that have proved an exception to this pattern. This paper therefore develops and proposes a three-pillar framework for people-centric economic integration in the D-8, using Malaysia as an engine for talent development and talent recirculation. To motivate the framework, we first provide a comparative assessment of Malaysia's progress in key social and economic indicators vis-à-vis D-8 member countries and critically review some of the main policies and strategies which defined Malaysia's economic transformation. We then introduce the three-pillar framework, explaining how Malaysia can offer a model for greater economic integration among the D-8 member states through (i) trade in cultural goods and services, (ii) international student flow and (iii) skilled labor mobility. We conclude by briefly commenting on some of the policy challenges for implementing the framework.

ملخص

تمثل البلدان ذات الأغلبية المسلمة في جميع أنحاء العالم نسبة كبيرة بشكل غير متناسب من الأميين والفقراء في العالم، وهي موطن لملايين الأطفال غير الملتحقين بالمدارس. وبالرغم من ذلك نما العديد من هذه البلدان ببطء نسبيًا خلال العقود الماضية. ومثل الافتقار إلى التنمية الاقتصادية سببًا للحد من التكامل الاقتصادي بين الدول الأعضاء في منظمة التعاون الإسلامي. فيما تنتمي ماليزيا إلى البلدان

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القليلة ذات الأغلبية المسلمة التي أثبتت أنها استثناء فيما يتعلق بهذا النمط. ولذلك فإن هذا البحث يضع ويقترح إطارا ثلاثي الركائز للتكامل الاقتصادي المبني على الناس في مجموعة الدول الإسلامية النامية الثمانية، باستخدام ماليزيا كمحرك لتنمية المواهب وإعادة توزيع المواهب. ولتحفيز إطار العمل، نقدم أولا تقييما مقارنا للتقدم الذي أحرزته ماليزيا على مستوى المؤشرات الاجتماعية والاقتصادية الرئيسية مقابل الدول الأعضاء في مجموعة الدول الإسلامية النامية الثمانية ومراجعة بعض السياسات والاستراتيجيات الرئيسية التي حددت التحول الاقتصادي لماليزيا بشكل نقدي. ونقدم بعد ذلك إطار العمل المكون من ثلاث ركائز، موضحين كيف يمكن لماليزيا أن تقدم نموذجا لتكامل اقتصادي أكبر بين الدول الأعضاء في مجموعة الدول الإسلامية النامية الثمانية من خلال (1) التجارة في السلع والخدمات الثقافية، و (2) تدفق الطلاب الدوليين و (3) حركة العمالة المهرة. ونختتم بالتعليق بإيجاز على بعض التحديات السياسية القائمة في تنفيذ إطار العمل.

ABSTRAITE

Les pays à majorité musulmane représentent une proportion disproportionnée de la population analphabète et pauvre du monde et abritent des millions d'enfants non scolarisés. Beaucoup de ces pays ont connu une croissance plutôt lente au cours des dernières décennies. Le manque de développement économique a encore limité l'intégration économique entre les États membres de l'OIC. La Malaisie fait partie du petit nombre de pays à majorité musulmane qui ont fait exception à cette règle. Cet article développe et propose donc un cadre à trois piliers pour une intégration économique centrée sur les personnes dans le D-8, en utilisant la Malaisie comme moteur pour le développement et la recirculation des talents. Pour motiver ce cadre, nous fournissons d'abord une évaluation comparative des progrès de la Malaisie dans les principaux indicateurs sociaux et économiques par rapport aux pays membres du D-8 et nous examinons de manière critique certaines des principales politiques et stratégies qui ont défini la transformation économique de la Malaisie. Nous présentons ensuite le cadre des trois piliers, en expliquant comment la Malaisie peut offrir un modèle pour une plus grande intégration économique entre les États membres du D-8 grâce (i) au commerce des biens et services culturels, (ii) au flux international d'étudiants et (iii) à la mobilité de la main-d'œuvre qualifiée. Nous concluons en commentant brièvement certains des défis politiques liés à la mise en œuvre du cadre.

1. Introduction

The Developing-8 Organization for Economic Cooperation (henceforth D-8) countries face a range of development challenges. Despite some success in trade creation compared to other regional groups among OIC

countries such as the Economic Co-operation Organization (ECO) (Hassan, Sanchez & Hu, 2010), they rank poorly in human development (Bayraktar, 2004). Bangladesh, Pakistan, Indonesia and Nigeria account for a significant proportion of the world's illiterate and poor population. Some member countries (e.g. Egypt) have grown rather slowly over the past decades while others (e.g. Iran) face the prospect of a growth collapse. Malaysia belongs to the small number of Muslim countries that have proved an exception to this pattern. Not only has it sustained growth by modernizing the economy, it has done so by achieving human development. Today, it ranks among the top 10 richest Muslim countries in terms of per capita income (in purchasing parity terms), is the world's 20th-largest exporter, and has the most advanced manufacturing sectors in the Muslim world. No wonder, Malaysia is frequently referred as a development miracle (Dadzie, 2013), an example for other Muslim nations (Wilson 1998; Van der Westhuizen 2004).

As the world has to achieve a new set of global development goals by 2030, many in the Muslim world will look to replicate the Malaysian model. This is also true for D-8 countries which collectively account for one fifth of the world's population. Yet human resources development is yet to be identified as an area for cooperation among member states.³ Trade integration is also far from complete within the Muslim world (Acar, Alpay, Bskimli and Koc 2009). This calls for policy innovations to facilitate regional cooperation among the member states. To this end, this paper builds on the Malaysian experience to develop a three-pillar conceptual framework for people-centric economic cooperation and human development in the Developing-8 countries. The focus of the framework is on higher education and labor mobility. The contribution of this study however is not limited to D-8 economies. The human resources development is also a priority cooperation area for Muslim majority countries as per the OIC Action Plan. Therefore, our three-pillar framework is also expected to inform existing policy efforts for human development within the wider Islamic world.

The rest of the paper is organized as follows. **Section 2** describes key development achievements of Malaysia. **Section 3** briefly discusses the

³ Current areas of cooperation include agriculture & food security, trade, transportation, industrial cooperation, energy and minerals, tourism and health. For further details, see <http://developing8.org/> (accessed on 30 Dec 2019).

main policies and strategies which defined the country's underlying economic model. **Section 4** presents the three-pillar framework for human development in D8 countries and explains how Malaysia can serve as the model in this context. **Section 5** summarizes the model highlighting various challenges and its potential (including the issue of the extent of trade with OIC countries). **Section 6** concludes by commenting on the factors that can limit the application of the Malaysian development model to other D-8 member countries.

2. Study background: Malaysia vs D-8

More than 240 million people are in extreme poverty in the OIC Member countries (COMCEC 2018). In contrast, income poverty in Malaysia has been historically lower than the average for the D-8 and other OIC countries. The biggest fall in poverty occurred in the 1970s coinciding with the New Economic Policy (NEP), an ethnicity-based affirmative action program. Malaysia achieved MDG target of halving the number of people in poverty -- the fall in rural poverty surpassed the MDG target of halving the proportion of people whose income is less than US\$1 a day between 1990 and 2015 (Rodrigo and Mansor 2013). This is remarkable because historically Malaysia had a high level of natural resource dependence. Yet it has low poverty levels, compared to other natural resources dependent D8 economies (e.g. Indonesia and Nigeria). This is partly because other oil-rich D-8 countries failed to use natural resource wealth for poverty reduction (Venables 2016).

Malaysia also ranks favorably in poverty when compared to ethnically diverse D8 countries. It also enjoys similar advantages in other development indicators such as literacy rate, secondary school enrolment, infant mortality and immunization rates. Asadullah, Mansor and Savoia (2019) examined Malaysia's development journey in a comparative setting between 1970 and 2010. In a range of social indicators, Malaysia was ahead of ethnically-diverse and resource rich D-8 member country Nigeria.

Overall, Malaysia's record on reducing income poverty and improving related social indicators, such as literacy rate, child mortality and immunisation rate during 1970-1990, has been remarkable by regional and world standards. Cross-country regression analysis confirms that Malaysia outperformed other countries in terms of progress in reducing

poverty with similar level of economic development in the early stage of its economic transformation (Asadullah, Mansor and Savoia 2019). Regarding other non-income poverty indicators, Malaysia outperformed other Muslim and D8 countries with similar levels of economic development on a number of indicators such as universal primary education and child mortality (both infant and under-5). In the 1976-1980 period, 9 percentage points more of Malaysia's young population was more literate than is normal for a country of its income level, reflecting 'excess' literacy of 6 percentage points for males and 12 percentage points for females. Malaysia's cross-country ranking in female schooling in 1970s and 1980s was also superior (Asadullah, Mansor and Savoia 2019).

3. Malaysia's Development Achievements: The Role of Government Policies and Programmes

Malaysia's exceptional development progress originates from a combination of public expenditure led initiatives for social development. Education expenditure (as a % of total development budget) increased sharply from 6% in 1970 to 21% in 2003 (UNDP 2005). Public resources favored primary school education, rather than secondary school. The government also increased spending on public goods such as communication and transport infrastructure. Foreign aid inflow increased 10 times between 1996 and 2000 (UNDP 2005). However, evidence does not suggest that development progress in Malaysia was driven by foreign aid (Asadullah, Mansor and Savoia 2019). Instead, the domestic investment including the role of public infrastructure growth was more important. Such public investment in physical and communication is likely to have facilitated greater inward foreign investment and sustain macroeconomic growth. In this section, we further elaborate on the policy origin of the country's economic transformation with a focus on human development.

Post-independence Malaysia went through a rapid structural transformation. The state initially supported industrial development through import-substitution but later on increased support for export promotion. In the 1970s, high growth was driven by labour-intensive export oriented manufacturing industries like textiles and electronics assembly. Soon it graduated from the world's largest rubber producer to becoming a diversified manufacturing exporter. A high rate of economic growth was sustained for most part of the period 1970-2000

(Thillainathan and Kee-Cheok 2016). At the same time, the state intervened heavily to redistribute gains from economic growth. Budgetary allocations prioritized agricultural modernization and rural development in the five-year plan documents (Henderson et al., 2002).⁴

The government further emphasized rural development in under the NEP, whereby the focus was addressing ethnic group income inequality, particularly between the Bumiputeras⁵ and non-Bumiputeras, to be achieved by 1990. Specific targets were also set for poverty reduction and the ethnic restructuring of employment and business ownership. Budgetary allocations to poverty reduction initiatives increased significantly during the NEP era (Henderson et al. 2002) while new pro-poor interventions (e.g. the “Program Pembangunan Rakyat Termiskin” (PPRT)) for the hard-core poor were introduced.

In post-NEP era, much of the past poverty strategy continued through the National Development Policy (NDP) launched in 1991. The ethnicity focus' was retained alongside a range of redistributive policies to close the income and wealth gaps between the Bumiputera and non-Bumiputera citizens. At the same time, there was a shift in policy favoring macroeconomic growth (Henderson et al. 2002).

In general, much of the poverty reduction in the 1970s is attributed to the NEP (Edwards 2005). In Addition, the policy of openness to foreign capital and skills set Malaysia aside from other Muslim nations. In contrast to other D-8 countries which were largely aid-dependent, Malaysia embraced a trade-dependent model where poverty alleviation benefited from outward-oriented industrialization alongside public investment building capabilities of the native workforce. Historically, many developing countries including D-8 members resisted FDI (Meerman 2008). In contrast, the government in Malaysia strategically promoted foreign investment, emerging as an attractive global destination for FDI. This also had a multiplier effect in the labor market, creating thousands of jobs for locals and foreign nationals. In the process, FDI and

⁴ Budget officially allocated to poverty eradication also included expenditure on rural and agricultural development (Henderson et al. 2002).

⁵ This category encompasses the Malays and indigenous (i.e. aboriginal minorities) population.

multinational corporations helped transform the economy into a manufacturing exporter.

Considering poor development records of other ethnically diverse and natural resources dependent D8 economies (e.g. Nigeria), Malaysia's record on poverty reduction and human development appears impressive. The evidence reviewed earlier in this paper suggests that macroeconomic growth and heterodox social policies were key to this success. The NEP, whilst remains debated, played a critical role in defining the country's social floor and facilitating broad based human development. Under the NEP, the government assumed the role of a 'Development State'. Instead of expropriation of private assets and large-scale nationalisation of enterprises and land, it targeted public expenditure-led social development while retaining a macroeconomic growth-centric approach. Both required strong fiscal capacity. Therefore, the success of the NEP rested on bureaucratic competence to manage large pool of federal funds and direct them to the poor ethnic groups. Another deciding factor was the country's governance landscape -- the early formation of a multi-ethnic political coalition following the riot in 1969. This helped sustain macroeconomic growth and secure broad agreement on the early investment in human development.

Lastly, it is widely acknowledged in the development literature that high performing East Asian economies that invested heavily in health and education in their pre-reform period enjoyed a virtuous cycle of high human development and high economic growth (Ranis and Stewart 2012). Malaysia appears to have followed this Asiatic model of development. In the past two decades, the government further prioritized human capital development as a strategy for graduation to high income nation status. This included dual emphasis on a high-quality higher education sector and turning the country into a global hub for talents and skilled workers. We discuss this further in the next two sections.

4. Economic and social cooperation between Malaysia and other D-8 countries

Given the cultural proximity among member countries, a people-centric model of economic cooperation between Malaysia and D8 countries is of particular relevance. Turkey and Malaysia are major emerging markets with upper-middle income economies high growth prospects while

Nigeria and Bangladesh have lately enjoyed a booming economy. At the time D-8 was founded, trade between Muslim countries was less than 4 percent of their overall trade with the rest of the world⁶. While members of D-8 were undeniably part of the developing world, their commonality was more conspicuous in the religious front: With the exception of Nigeria and Malaysia (with Muslims accounting for over sixty percent of the population), D-8 country populations are primarily followed of the Islamic faith. This common cultural capital can serve as an additional pillar for a people-focused model of economic integration. This section therefore scrutinizes the existing economic linkages between Malaysia and other D-8 members to argue that the former can act as an engine for human development in the latter through talent development and talent recirculation.

Cultural proximity, proxied by common language, religion, or ethnicity, is well-acknowledged as important driver of bilateral trade volumes. This works either by lowering communication and transaction costs (and hence lowering the overall trade costs) or through preferences (common tastes for tradable goods). (Felbermayr and Toubal 2010). Even in the case of migration flows between developed countries, cultural barriers can be more important in explaining the migration pattern than traditional economic variables (e.g. income; unemployment differentials). The available evidence based on data on migration flows between 22 OECD countries confirms a significant and negative effect of cultural differences on international migration flows (Belot & Ederveen, 2012). Language, education and religion positively impact on exports of cultural goods such as US motion pictures to rest of the world (Marvasti and Canterbury 2005). Culture can also matter directly in trade in the form of production of exportable cultural goods such as visual arts and crafts, audiovisual and interactive media and books. The ratio of exports in cultural goods to imports is growing in many countries.

Below we discuss the current status and prospects of further bi-lateral trade, skilled migration and international student flows between Malaysia and D8 member states.

i. International trade: Among D-8 member states, Malaysia remained most open to foreign capital and labor as it went through structural

⁶ <https://dergipark.org.tr/en/download/article-file/19455>

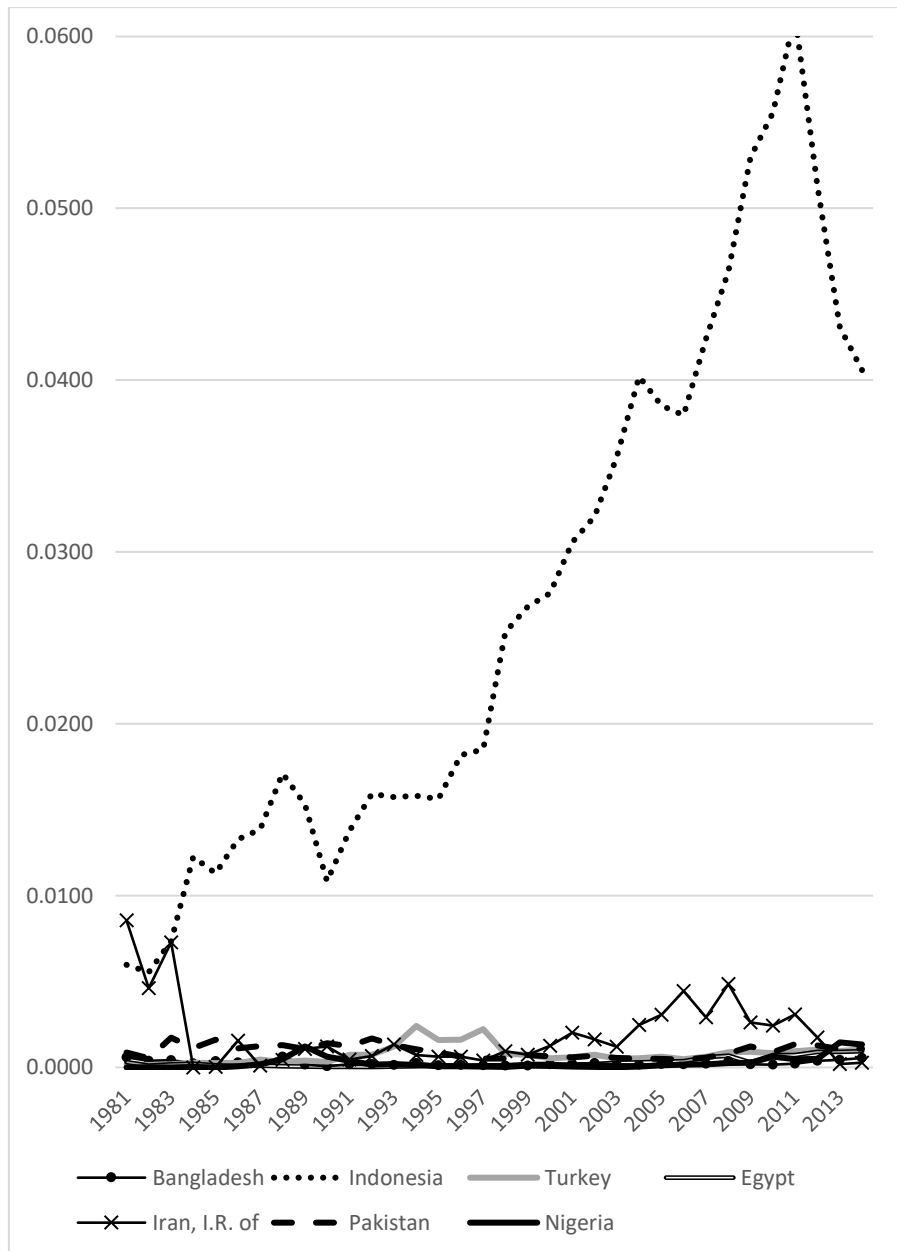
transformation of its economy since 1970s. However, D-8 member countries contributed little to this transformation process. Bilateral trade shares remain very low (see Figures 1 and 2). In 1997, D-8 members had a share of 54 percent of the total exports and 55 percent of the total imports realised by OIC countries; the combined GDP of the 8 member states comprised nearly 60 percent of the total GDP of the OIC countries. In the past two decades, trade volume and composition both have experienced considerable change. According to data from UNESCO (2018), Turkey and Malaysia have emerged as leading exporters of cultural goods. Malaysia's export of cultural goods has tripled between 2004 and 2013, increasing from USD 992.37 million to USD 2,624.43 million. With rising per capita income, demand for cultural goods is likely to grow further, including that of cultural services (i.e. musicians performing abroad). Malaysia's geography renders it an advantage as a regional communication hub. This combined with the country's cultural capital (diverse population with a Muslim majority) has turned it among the most visited D8 country in Asia⁷. In 2018, Malaysia welcomed a total of 25.8 million international tourist.⁸ Of this, two D8 member countries Indonesia and Bangladesh accounted for about 12% (3.3 million)⁹. Tourism and trade in cultural services has potential for further expansion.

⁷ <https://www.thestar.com.my/news/nation/2018/10/14/malaysia-among-asias-most-visited-countries-says-report>

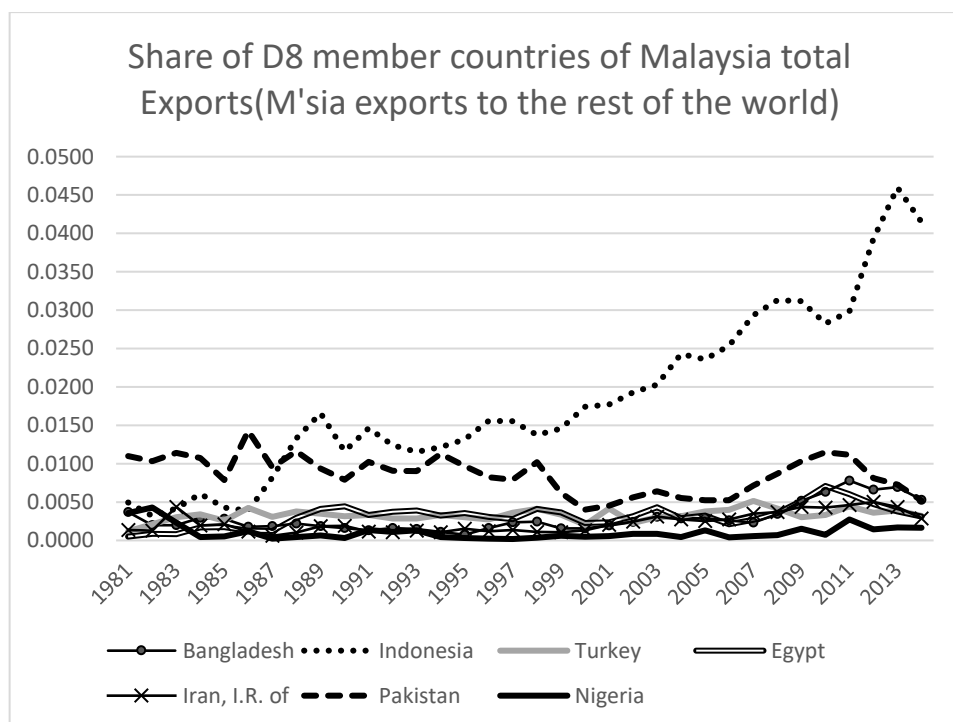
⁸ <https://www.thestar.com.my/news/nation/2019/07/22/dr-m-unveils-vm-2020-logs-sets-30-million-tourist-arrivals-target#vAzEfsOPqIJzjPmH.99>

⁹ https://en.wikipedia.org/wiki/Tourism_in_Malaysia

Figure 1: Malaysia's imports from D8 countries, 1981 – 2013



Source: Authors.

Figure 2: Malaysia's exports to D8 countries, 1981 – 2013

Source: Authors.

Malaysia has already succeeded in developing an economy based on cultural capital. Today, it leads in the world's halal industry with an estimated global market value of USD2.30 trillion¹⁰. The first halal standards released in 2000, only three years after D-8 was formed. The government set up a specialized office -- the Department of Islamic Development Malaysia (JAKIM) - the world's first halal certification monitoring and regulatory body. Another key state agency is the Halal Industry Development Corporation (HDC), formed under the Ministry of International Trade and Industry (MITI) in 2008. The agency facilitates the inflow of foreign direct investment (FDI) into the halal sector. The government also organizes prestigious annual events such as the Malaysia International Halal Showcase (MIHAS) and the World Halal Forum (WHF). The halal sector has now expanded into finance, tourism, services and consumer goods. Malaysia enjoys an RM35.4 billion from annual

¹⁰<https://itc.gov.my/tourists/discover-the-muslim-friendly-malaysia/malaysia-the-worlds-leading-halal-hub/>

export of halal products which accounts for approximately 5.1% of the country's total exports.

ii. International student flows: The number of internationally mobile students worldwide has grown rapidly - during 2005-2013, the number increased by 1.3 million (UNESCO 2018). There are 4.1 million foreign students studying worldwide from different countries in 2013. The growth in cross-border movement of international students has coincided with the increasing internationalisation of the education sector worldwide (UNESCO 2018). Today, millions of students are internationally mobile - they physically cross an international border between two countries to participate in educational activities in a destination country. This has been also viewed by some as “educational tourism” (Matahir & Tang, 2018).

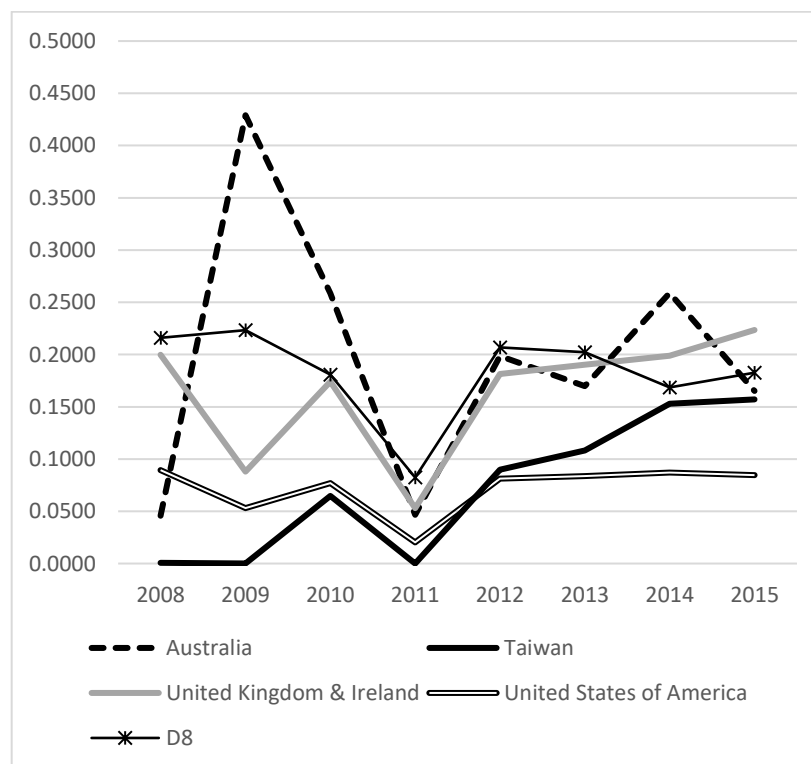
For the host country (e.g. Malaysia), international student migration provides a number of benefits. Foreign students are an important source of income for local universities as international students are charged higher fees compared to domestic students. The UK Higher Education contributed £7.9 billion to the country's export industry in 2009 (Wilson 2012)¹¹ Almost £4.5 billion per annum came from tuition fee income from international students, while another £10 billion was gained annually through students' consumption spending. Higher education is a profitable export for leading high income nations such as the United States (US), the UK, and Australia (Altbach et al. 2009). This also helps maintain their economy's competitiveness in the world market by ensuring global talent supply. Other economic benefits include more job opportunities for the locals as the sector in the higher education sector.

Investment in human capital has been key to ensuring social cohesion and sustaining economic growth. The government has produced an Education Blueprint charting out a detailed roadmap for how further expansion of the education sector can future-proof the Malaysian economy against changes in technology and jobs. Internationalization of the education sector is also an important component of the reform strategy. The key institutional development facilitating educational tourism is the emergence of “education hubs” - a national plan and priority to serve as a

¹¹ Wilson, T. (2012). *A Review of Business-University Collaboration*. Retrieved September 4, 2018, from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32383/12-610-wilson-review-business-university-collaboration.pdf

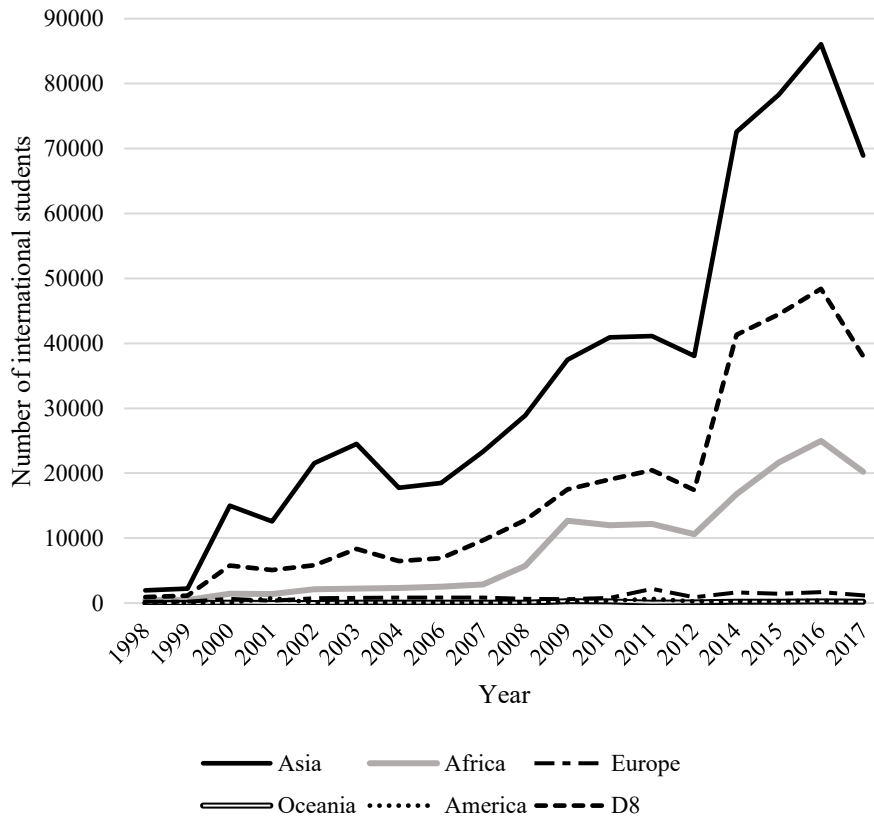
centre of education expertise, excellence, and economy which can involve all types of education. A number of other Muslim countries have successfully set up education hubs. Examples include Qatar, Bahrain and the United Arab Emirates. However, as Singapore, China and Hong Kong intensify their efforts in attracting students from all over the world as one of their key development strategies, D-8 countries face stiff competition. In this context, Malaysia can serve as the leader and its education hub can be leveraged to train and development youths from D-8 countries. With a large number of reputed secondary and post-secondary international centres for higher education and research and simultaneous emphasis on talents, Malaysia already enjoys an advantage within the D-8 block in terms of international student migration.

Figure 3: Malaysian student migration to the D-8 and selected major destination countries, 2008 - 2014



Source: Authors. Notes: All figures refer to proportions.

Figure 4: International student migration from D-8 countries and other regions to Malaysia, 1998 - 2017



Source: Authors. Values for 2005 and 2013 are missing.

While student outflow from Malaysia to D-8 member countries is very small (Figure 3), Malaysia has already become an established education hub for D-8 country students (see Figure 4). According to Ministry of Higher Education (MOHE)¹², Malaysia has attracted a total of 170 068 international students from over 150 nations in 2017. On top of that, the country aims to attract 250 000 international students by 2025 as stated

¹² Ministry of Higher Education (MOHE), Malaysia. (2018). *KPT Report Card: Malaysia as international education hub*. Retrieved September 5, 2018, from <http://news.moe.gov.my/2018/04/25/kpt-report-card-malaysia-as-international-education-hub/>

under the Malaysia Education Blueprint 2015-2025. The number of international students in Malaysia is dominated by students from Asia (i.e., Southeast, Middle East countries and Middle Asia) and Africa with a small number of students originated from Europe.

The inflow of foreign students to Malaysia contributes to RM7.5 billion savings in foreign currency exchange and generates the country's income of approximately RM 30 000 per student (PEMANDU, 2010). However, there is scope for further growth. According to UNESCO data, the top 10 destinations of international students in 2013 did not include Malaysia¹³. Apart from being an education hub, there is an opportunity for Malaysia to economically benefit from the tremendous growth of the inflow of international students to the country over the past decade. Malaysia's orientation as a trade dependent economy offers an additional advantage -- , this is the chance to diversify its source of economy and reduce its over-reliance on only a few exports and imports with trading partners.

Further internationalisation of Malaysia's higher education sector hinges on leveraging cultural, religious and economic linkages with other countries. Culture and religion are among the key factors attracting international students to Malaysia (The Star 2014)¹⁴. Therefore, attracting more students from D-8 countries can help. There is strong political support further internationalization (The New Straits Times 2016)¹⁵. The country's high English literacy, Islamic culture and low cost of living being the added attractions, particularly for students from the Middle East. For the same reasons, though, Malaysia also has a comparative advantage in trading with D-8 countries. Trade and migration are both substitutes and complements. However, recent research on advanced European economies shows a significant and positive relationship between exports and migrations from the South to the North (Campaniello; 2014).

¹³ These countries are the US, the UK, Australia, France, Germany, Russia, Japan, Canada, China and Italy

¹⁴ The Star (2018). *Malaysia as education hub looks positive*. Retrieved September 5, 2018, from <https://www.thestar.com.my/news/nation/2014/06/21/msia-as-education-hub-looks-positive/>

¹⁵ New Straits Times. (2016). International student enrolment up by 12 percent last year: Higher Education Ministry. <https://www.nst.com.my/news/2016/03/136247/international-student-enrolment-12-percent-last-year-higher-education-ministry>

Growing bilateral trade relations is therefore another means for internationalization of the education sector and attracting skilled workers.

iii. Skilled labor migration and mobility: While the trend of students' overseas migration may be temporary, it can also serve as a form of highly skilled labour migration and facilitate further skilled migrations (Castles and Miller, 1998). The economic significance of such migration has grown in recent years. The structure of the world economy has changed radically in the last two decades, since D-8 was established. The fourth industrial revolution and rapid technological advancement present member countries with a new challenge: how to reap the demographic dividend and harness young workforce for sustainable development while also making them resilient to technological unemployment? A model of growth that puts human development at the center stage is necessary for the D-8 block to deal with these emerging 21st century challenges. Harnessing talents and ensuring their international mobility should be a priority. Member countries together possess a large pool of human resources which can be tapped for mutual gains. D-8 block has a global pool of overseas 'talent' migrants. For students from other D-8 countries, studying in Malaysia could be a stepping stone to permanent labour migration to Malaysia or to other D8 member countries. Circulation of youths among member countries offer scope for brain gain through overseas higher education and skills developments. This can be also an effective way to deal with "talent drain" out of the D8 block. D8 diaspora working abroad can be also exploited to create cross-national links and build global networks. Talent mobility encourages brain circulation and will foster knowledge and skills transfer.

Malaysia's shift to a knowledge economy based on high productivity and skills has resulted in manpower shortage in the labor market (World Bank 2019). The country's small working-age population contrasts with labor surplus compared D-8 states such as Indonesia, Bangladesh, Nigeria and Pakistan. Steady economic growth in the past decades have kept unemployment rate low. Skilled migrants from D-8 countries can fill the vacancies in NKEAs. The government has set up the Talent Corp to attract and retain foreign talent for long-term employment in Malaysia. Its primary role is to fill the critical skills gap and complement the Malaysian talent pool by enhancing "expatriate facilitation through policies and top-

notch services to top foreign talent” Talent Corp (2017)¹⁶. Some of these notable policies include (a) Residence Pass-Talent (RP-T), (b) Returning Expert Programme (REP); (c) Knowledge Malaysia Diaspora (KNOWMADS) and (d) MYXpats Centre. These initiatives collectively can serve as a template for other member states to develop a comprehensive framework for labor mobility for all citizens. We present one such framework in the next section.

5. A New conceptual framework: the three-pillar model

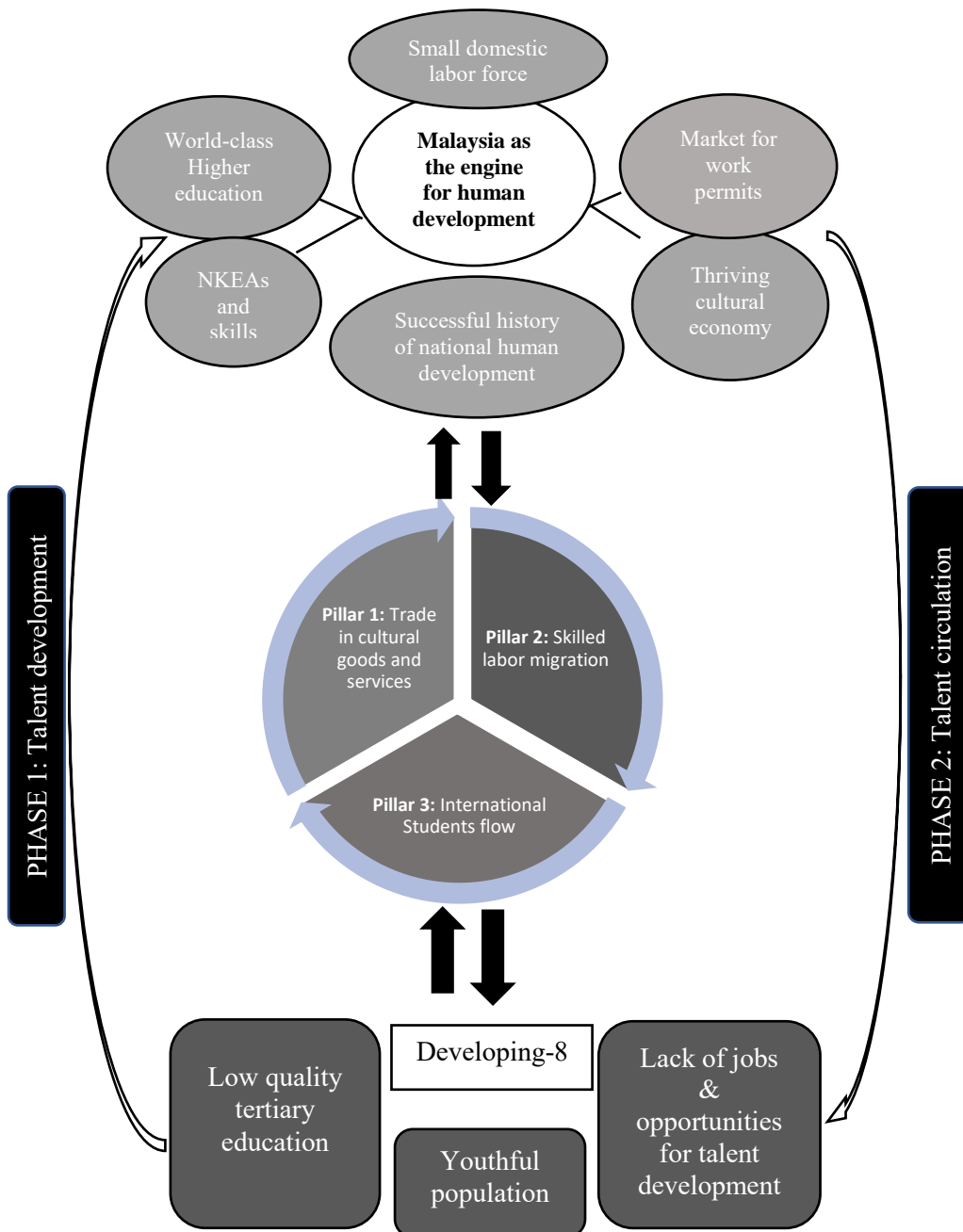
All D-8 countries have now achieved at least lower middle-income nation status. Given the youthful population, the demand for higher education has grown in all member states following decades of macroeconomic growth. However, the respective domestic labor markets have not developed to respond to the demographic change. In Turkey¹⁷, for instance, the labour force participation rate is only 56.1% and there is a shortage of skilled jobs. In contrast, Malaysia has a higher labor force participation rate and is on course to graduate to a high-income nation status.

Taking into account common cultural traditions and the prospect for gains from trade in cultural goods and exchange of labor and skills, Figure 5 presents a visual summary of the discussion in section 4 and formally introduces our three-pillar conceptual framework of people-centric economic cooperation in the Muslim world in the context of D-8 countries. The framework is organized in two phases. Phase 1 is about “talent development”. Here, students and skilled workers from the D-8 states temporarily move to a high human capital member state (e.g. Malaysia). This in turn facilitates trade creation in cultural goods and services sector. Everyone involved in related transactions experience “brain gain”. In the second phase, this process is reversed -- talents flow back from the high human capital member state (e.g. Malaysia) to source D-8 member countries. In other words, brain circulation occurs in Phase 2.

¹⁶ Talent Corp (2017) Visioning Malaysia’s Future Of Work: A Framework For Action https://www.talentcorp.com.my/clients/TalentCorp_2016_7A6571AE-D9D0-4175-B35D-99EC514F2D24/contentms/img/publication/TalentCorp_Visioning%20Malaysias%20Future%20of%20Work_2017.pdf

¹⁷ <https://data.oecd.org/emp/labour-force-participation-rate.htm>

Figure 5: The Three-pillar Framework for Economic Cooperation



Source: Authors

Our model emphasizes human development for at least two reasons. First, there is already significant loss of brain or talent from the D-8 as millions of citizens take up employment in non-member countries. A popular motivation is obtaining a tertiary education degree training, Malaysia being a popular destination within the D-8. A number of factors is responsible for educational migration to Malaysia: low tuition fees and cost of living, quality educational technologies, large presence of multinational companies, the ease of admission, perceived high quality of Malaysian universities and the ease of obtaining work permits for employment (Kazemi et al 2018)¹⁸.

Second, cultural factors also influence the flow of people and resources. Bilateral trade in cultural goods and services is likely to increase in the future. This offers scope for further trade creation. D-8 countries currently comprise approximately two-third of the total population in the Islamic world (Aral 2005) and also enjoy a youthful (i.e. under-40) population. Reaping this demographic dividend requires a skills and employment focused approach that complements the goal of strengthening trade linkages. A number of initiatives are in place to boost regional trade within the D-8 block¹⁹. In contrast, policy measures for collective human development and integration of the labor market in the D8 are lacking.

Such policy coordination is of mutual interest. For Malaysia, despite the optimism over graduation to a high-income nation status, there are concerns about the so called “middle income trap”. Overcoming this trap would require further investment into education and the knowledge economy²⁰. In this regard, collaboration with D-8 economies can help. As a matter of fact, Malaysia can play a leading role in Phase 1 of our proposed framework (see figure 5).

¹⁸ This is based on a sample of 250 Iranian post-graduate and undergraduate students in Malaysia

¹⁹ <https://www.yenisafak.com/en/world/d8-countries-to-use-single-payment-card-in-trade-3472505>

²⁰ This is already reflected in the government’s National Transformation Programme (NTP) which provided the strategy to guide the country’s transition to developed-nation status. This included targets such as creating 3.3 million new jobs and attracting over US\$440 billion in investments. Towards this end, the government identified key economic sectors, popularly known as “National Key Economic Areas” (NKEAs). These sectors received preferential Government funding and employment of top talents.

On the other hand, Malaysia already has a range of institutions and physical infrastructure to support aspiring students and skilled workers from D-8 countries. At the national level, the government has developed an institutional model for talent development which encourages expatriate Malaysians to return to their homeland for knowledge transfer and sharing purposes. Popularly, it is known as the TalentCorp that manages the Residence Pass Talent (RP-T) program. Under this scheme, a ten-year renewable pass is issued for highly qualified expatriates to allowing them to reside and work in the country. Programme beneficiaries enjoy flexibility over change in jobs (Del Carpio et al. 2015).²¹ RP-T has helped diversify Malaysia's talent pool by attracting foreign talents and bring back overseas Malaysians. In doing so, it allows citizens to contribute to national development while retaining their global links (Leipziger 2008). This therefore facilitates both "brain circulation" and "circular migration" (Zimmermann, 2014). This can be adapted to serve shared interests of D8 member countries and, for instance, increase the share of RP-T holders from D-member states in Phase 1 of our proposed 3-pillar model.

Malaysia has a sizable diaspora – an estimated population of 1.5 million people (Hugo, 2011). However, none of the D-8 member countries hosts a sizable number of Malaysian immigrants. Introducing a preferential work permit scheme for D-8 member countries can attract some of these expatriate Malaysians to D-8 nations thereby increasing the within D-8 flow of talents and skills.

In sum, the current pattern of in and out-migration within the D-8 is biased towards Western nations. This is primarily driven by a high concentration of world class universities and high-tech firms in the West²². Innovation in labor migration policies is a necessary first step to better manage the flow of trade and skilled labor towards D-8 member countries. These measures can help create a common Islamic market intensive in skilled labor. However, in the long-run, coordinated investment in high quality education systems and R&D is also critical.

Lastly, while policy interventions can engineer a large-scale movement of people, it is not without risks. There is concern over a possible social

²¹https://www.talentcorp.com.my/clients/TalentCorp_2016_7A6571AE-D9D0-4175-B35D-99EC514F2D24/contentms/img/TalentCorp%20Annual%20Review%202018.pdf

²²<https://www.weforum.org/agenda/2016/10/this-is-where-skilled-workers-are-migrating-to>

backlash. Policy innovations aimed at enlarging the domestic labor market through participation of skilled foreign professionals require measures that make intra-group migration more acceptable. One such innovation involves issuing time-bound right-to-work permits. This is feasible in economically advanced countries with sectors that are not attractive to local workers. But these jobs could be attractive to workers from relatively poorer D-8 countries. Time-bound right-to-work permits can leverage this mismatch in demand and supply: Malaysian citizens can rent out their right-to-work to foreign professionals from other D-8 countries. Citizens from respective countries can auction off their permits which can be formalized through a web based platform managed by the host country (Lokshin and Ravallion 2019). Malaysia can act as the hub for such experimentation and innovations. If successful, the policy practices can be reciprocated by other member states on a multilateral basis. Once all member states have complementary institutional measures in place, that would facilitate transition to Phase 2 of our model i.e. D-8 wide “brain circulation”.

6. Conclusion

Many developing country governments look to the economic success of East Asia for policy lessons to sustain high macroeconomic growth with poverty reduction. Against this background, in this paper, we have scrutinized the development achievements of Malaysia, one of the eight prominent East Asian Tiger economies which is also considered by many as a model for growth with human development. In this paper, we first reviewed Malaysia’s economic progress in comparative perspectives and identified a number of stylized facts highlighting the developmental role of state. We explained how Malaysia’s progress in a number of human development indicators coincided with government interventions on education and health, as part of the NEP, confirming the developmental role of the state. Progress during the recent past also benefited from government programs under the New Economic Model and Economic Transformation Programme, both of which further emphasized human development and skills to facilitate graduation to a high-income nation. This shift in strategy ideally places Malaysia to guide the process of human development in D-8 countries. At the same time, we pointed out the lack of bi-lateral trade linkages among D-8 countries even though there are potentials for gainful economic exchanges given the shared Islamic culture. To this end, we have emphasized on human development

in the D-8 with a focus on increased flow of international students and skilled labor mobility.

To this end, we proposed and developed a three-pillar framework for people-centric economic integration in the D-8. We did so by describing Malaysia as an engine for talent development and talent recirculation in D-8 member states. The three pillars are: (a) trade in cultural goods and services, (b) international student flow and (c) skilled labor mobility.

The framework explains how Malaysia can offer a model for greater economic integration among the D-8. More specifically, we have advocated for freer international migration and discussed how in light of the Malaysian experience, an institutional model could be developed for the greater benefit of all D-8 member states. For low skill workers in the labor market, our recommendations include a D-8 wide market for work permits. This can help host member countries meet their labour force requirements while also facilitating emigration. For high skill workers, we have proposed a D-8 wide institutional model akin to Malaysia's Talent Corp. This has the potential facilitate talent mobility and work placement opportunities which together can create a network of D8 professionals. This segment of the region-wide workforce possess local knowledge and global experience of conducting business in D8 member states and can play a critical role for graduation out of the middle-income status.

At an initial stage, the proposed institutional innovations and reforms should be piloted in a country context. Our proposal is for Malaysia to show the way, providing preferential access to D-8 countries to Malaysian labor market and the education system for greater student mobility and brain circulation. If successful, this model can be replicated and reciprocated by other member states. Our three-pillar framework not only offers a blue print for how to leverage Malaysia's development model for human development within the D-8 block, it also provides a mechanism for Malaysia to benefiting further from the wider pool of talents within the Muslim world.

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