

# Economic system in malaysia essay

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### Identification of Malaysia's Economic System

The economic systems of the vast majority of the developed countries in Asia, Africa and Latin America are supposed to be mixed. In spite of the fact that there was the backward, predominantly, pre-capitalist, economic structure characterized by the use of primitive equipment and technology, it did not prevent from being the leader in the economic sector against the background of the particular economic sector.

Surely, in comparison with the developed industrialized countries their level of productivity in the industry in 5-7 times, and in agriculture 20-25 times lower. However, this aspect does not bring to stop Malaysia - the country of South-East Asia - that aims for constant improvement of production through the new technology involvement and producing competitive goods, thus theoretically it can price out the industrialized capitalist countries. Therefore, this mixed economy seems to be a very flexible approach that Malaysia was lucky to implicate betimes.

The mixed economy comprises the principles of the Free Market, Planned and Traditional economies. According to M. P. H. Publications (1966), the main particularity of this type is that the private hands can concentrate the significant part of the productive forces, but it seems to limit the government

by no means, because the major privileges are the important part having a monopoly on socially important economic resources, utilities and natural resources. The level of government intervention may differ from 50% to 20%.

Thus, the mixed economy includes the features of the mentioned ones (“Types of Economic Systems”, 2008). In comparison with Free Market and Planned economies, this type more effectively accepts the challenges of the market - unemployment, dumping, and the dominance of foreign capital. The “soft” limits aim to protect domestic markets.

#### Evaluations of Malaysia’s Economic System

Regarding the mixed economic system in Malaysia, it is obvious that the general stability of the economy depends directly on the proper management of the finances in both public and private sectors. According to Keat (2010), Malaysia turns out the significant proof; since the Asian crisis the ratio of corporate debt to equity ratio decreased by two thirds. The financial leverage and dependence on foreign financing was decreased as well. The next point of the right management relates to the notion of main indicators of external vulnerability because this index was decreased by a third.

During the past decade, the trade among Asian countries has tripled and the same situation has happened to the Asian emerging markets. The key of Asian trade is that any trade currents form the major one. There is the typical chain forming China as the final departure for different goods from a plenty of countries. China collects all staff and produces the final products for export. According to Garnaut (1980), this intermediate product is more

than 70 percent of Asian export. Malaysia cannot help standing aside and exports the valuable electronic products for assembly.

The government of Malaysia sets the course for the transition into the category of high-income countries (“ Malaysia's economy”,). This may happen only on the assumption of a strong middle class and the necessary level of the domestic consumption. Following this purpose, the government promotes the further regional integration, thus it is possible to open new areas for mutually beneficial cooperation.

Through this aspect, the main advantage of the mixed economy becomes apparent. The government conducts the social policies and sets tax policy following the completion of the budget and the provisions. In some cases, it aims to redistribute the income, thus the life quality of different segments of the population is equalized.

The mixed economy in Malaysia is considered the most appropriate form of management because of the combination of the economic efficiency and needs of the population. The decision on what to produce and for whom is made considering not only the interests of the state and producers, but also consumers. Thus, it is possible to decrease the social discontent and tension in the economic type country. These conditions help to save the balance when it prevents from the monopoly and deficit, thus the position of the state is stable.

The next vital step relates to the strong interest of the government in trans boundary portfolio investments. Thus, Malaysia became the largest direct investor in Vietnam, Cambodia, Indonesia and Thailand (“ Malaysia's economy”, 2007) Malaysia aims to strengthen the regional financial

integration because in a result the country may obtain the plenty of benefits. Increasing the domestic demand, the government helps to provide the credit for the small businesses. Due to this case, the economy becomes secure and it prevents from the instability and adverse changes. Therefore, the major plus is that poor people have the access to the financial services and by-turn it helps to reduce the inequalities.

The next advantage is the new technology involvement. The part of the public sector is 60-85%. These numbers are the proof that the government of Malaysia not only controls the state of play, but also develops it purposefully on the assumption of the of the national interest importance.

These interests are favored industrialization that means enhancing the role of industry in the national economy, the modernization of existing and creation of new industrial enterprises and the transfer of many other sectors of the modern technical base. Malaysia involves new technology, produces competitive goods, in result, it was lucky to put out the industrialized capitalist countries.

As for the next plus of the mixed economy, we cannot help drawing much attention to the developed national system of planning and control that turns out the key factor of the economy diversification. The government dignifies the five-year, ten-year and twenty-year perspective plans. In spite of the aspect that this plan is indicative, it aims to introduce the nature of public action, thus the government may follow the particular plan of the economic development. Therefore, it is possible to maximize the efficiency of the Malaysian government investment.

As it was mentioned above, the mixed economy turns out the combination of

the government's and public production. This cooperation against the economic background not always makes benefits for the customers. The issue is that non-governmental companies are mutually dependent on the view of the government. Thus, some spheres of the economy have chances to be developed that is the weak side of the economic situation in general. The next negative side of the mixed economy is the consequence of this action. The customers' needs are not met in some cases because the government shows the preferences for the particular companies while their activity turns out beneficial for the government's interest. Therefore, the government is trying to make the all conditions for the development of these business spheres – controlling the taxes and giving more opportunities. The next negative point is that private sector feels the serious difficulties to control own business, because the government monitors their earnings and complicates their work. For instance, in Malaysia there are the difficult processes of business running, including the bureaucracy and a lot of paperwork (Newth, n. d.).

#### Rationale of Malaysia's Economic System on Utility Maximization

The notion of the utility maximization is closely related to the customer's choice because definitely he dignifies the most appropriate variant that can provide with maximum utility (Aleskerov & Bouyssou, 2007). Surely, his income and budgetary possibilities are the relevant background for this choice. Here money turns out the important measure of the utility. The next significant point is the amount of services or products with given price are supposed to meet the clients' needs.

Figure 1. Consumer's equilibrium.

It is obvious that the utility is commensurable with the particular price. Thus, from the outset the customer will purchase the first product or unit with the highest level of satisfaction. Only after this, he seems to buy the other units. If the total volume of the utility is increased, the customer probably will continue to buy. This is worth regarding the question whether he will do it indefinitely.

First of all the customer aims for the utility maximization spending the budget gingerly. On the assumption of the fixed current prices and constant or stable budget, the buyer wants to maximize the usefulness of the goods while there is the diminishing marginal utility.

The consumer demand turns out the achievement of equilibrium at the maximizing utility. The variation of the demand may be caused by the price of the particular goods or by the change of the budget. Such increase price may become the ground for the decrease in total utility regarding not only the one purchase, but also the general structure of purchases. This aspect reduces the consumer's welfare and therefore the demand have been reduced.

The decrease of the demand became the cause of the depression of the purchase amount the price of which is increased. Thus, the customer has to find a new balance in the utility maximization. In addition, the quantity of purchased good is increased on the assumption of the price depression.

The ordinal method bases on the consumer behavior that includes the analysis the utility measurement done by the customer. It is considered that the clients individually quantify and differentiate the utility of the units as the consumer behavior includes the individual assessments of subjective utility.

To find the particular patterns of behavior the fans of ordinal approach focus on axioms. According to the ordinal theory, the customer aims to maximize the usefulness of the purchased units by the consumer choice when he chooses the most preferred set of benefits. In this way, the concept of utility of the goods corresponds to the ordinal preference benefits.

In this way, the privilege of customer decision - it is an absolute individual right to evaluate the estimation of products (set of merchandise) as per the properties of their ordinal quantifiability. The right decision for this situation - is a subjective right to allot a request of inclination and rank them inside of the accessible choices. Picking a decent arrangement of accessible choices, the client doles out, for instance, the first set with a higher rank for himself valuable; second grade - an arrangement of lower utility; Third Grade - set with even less utility, and so forth. At the point when different mixes of sets of products have the rank regarding the objective purchaser identical, the same ordinal quantifiability (utility), the client does not give a second thought what set of choices accessible to pick when selecting. Contingent upon customer inclinations consolidated arrangement of advantages may be distinctive, however, as far as utilities, and along these lines, they are incorporated in one gathering of the rank.

### Price Mechanism

Figure 2. Representation of both the law of demand and the law of supply. Speaking about the price mechanism without much intervention, it functions according to the laws of demand and supply. When a price for a good or service goes up, the quantity demand decreases and on the contrary. Considering the law of supply, it is obvious, that a price increases and the



quantity demanded increases as well. These models are helpful in defining what to produce and how much of it. However, very often, the authorities intervene and convert people into their production.

Regarding the price mechanism, we cannot help paying much attention to the policy of the government. The most of monopolies turn out the natural ones, thus they require the public regulation. The natural monopolies deal with the spheres of water, gas, electricity. The particular products or agriculture cultivation, for instance the oil palm in Malaysia, relate to the natural monopolies as well because they are grown upon the territory of the country. The same situation deals with the French champagne, Czech beer, etc. There is the negative side from the point of natural monopolies. The reason is that the natural monopolies may excessive use of their policy or course (“ The Malaysian government”, n. d.). This aspect is able to affect the standard of living. First of all it is worth saying about the raising tariffs and prices of enterprises-monopolists. Therefore, the production of different goods is considered to require more money and became costly. There are not doubts that the price of products is increasing. The government draws much attention to these major monopolies activity controlling the prices. Thus, this point causes the regulation of the state. Two approaches may prevent from the price instability. The first decision foresees the establishment of state ownership, the government controls the enterprises profoundly, but the main key is that the government monitors the prices of the particular products. The second approach is widely used and these actions are considered as typical ones, especially in the developed countries. In this case state regulates prices through the establishing the maximum

level of profitability or the limitation of the prices.

According to Navaratnam (2003), Due to the use of taxing and subsidizing, the government aims to control the prices in the Malaysia case. Even these actions may be applied directly in the market. The state positions itself completely gingerly as the income from taxes is a relevant decision for welfare payments; moreover, many social services are provided thanks to this policy. The mentioned taxes are the indirect ones and they are usually applied for the petrol, alcohol and cigarettes. There are the expenses on goods production that feel the dependence on government's management. The state of Malaysia partly controls the banking system as well, in particular the loan interest rate. Bank Negara is the major one that is responsible for these duties. In addition, the foreign exchange rate is this so-called dependence.

The main task of the government is to choose the right price mechanism that dignifies the fluctuation of the price below or above the equilibrium price to avoid such notions as surplus or shortage. Surplus is the result of minimum price setting when it is above the equilibrium. Thus, the government has to control the price to avoid the surplus. However, from the other point if the price will be below the equilibrium, the economy may face the shortage. The particular actions are intended to save the income of the producers. The level of price plays the vital role not only for the producers, but for the customers as well.

Thus, the subsidizing and taxing are the main tools of control. The government in Malaysia takes care of the poor class of people by the subsidizing of particular goods that turn out available for rich people. Petrol,

sugar and gas are regarded in the first place. The significant example of this rationale is the hospitality institution that set lower prices for the clients. The reason is that these companies are not in a beneficial situation, but they are supported by the income from taxes.

According to the economic definition, pricing mechanism is an integral component of the buyers and sellers interaction. The price turns out the tool of communication between buyer and seller. In a result, this final price has to be approved by the both sides. Price plays the role of so-called control of the surplus and shortage. Market equilibrium is the notion related to the equality and the intersection of the demand and supply. The phenomenon when quantity demanded and quantity supplied turn out equal is named the equilibrium price. This price exists on the assumption of surplus and shortage absence. If the supplied quantity is higher than the quantity demanded, we should speak about the surplus because in this case the price will be above the equilibrium. In the case of the latter, there is the notion of shortage when price is below the equilibrium. The equilibrium price foresees neither shortage nor surplus. Regarding the importance of the equilibrium price the government used to set both above and below the price. Thus, the government intervention is considered as the strong influence with positive or negative sides. In Malaysia case, the intervention is not strong because we deal with a mixed economy. This influence may be conducted partly.

### Conclusions

Malaysia positions itself as the economic miracle of South-East Asia. It is incredible to realize that this country has turned into an industrial-agrarian of the agro-industrial in just 15 years. It holds the 19th place in the world

economic development.

These indexes are not accidental. Drawing the conclusion, this country follows the mixed economic type that has strong advantages; the most of them are stability and the ability to overcome monopolies and the deficit.

Besides the government aims for the trade and financial intervention.

Malaysia is a significant example of professional interaction of the government and public sector and results in the price control. The state provides the internal businesses with a plenty of opportunities for fast development. Surely, there are some minuses in this policy, such as the cooperation with only government-oriented enterprises. It is clear that this approach is a right one both for the Asian cooperation and for the world developed countries as well. Because we are witnesses of the fast Malaysia growing against the background of world economy.

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