Analysing economic growth in malaysia

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Malaysia is a growing and relatively open economy. Three years ago, according to the World Bank (2007), the economy of Malaysia was the 29th largest economy in the world by purchasing power parity with gross domestic product estimated to be $357. 9 billion for the particular year.

By referring to the economy of the country, we can evoke that during the following long and severe period of recession, the Malaysian economy has started to grow through the interference of a relaxed monetary and fiscal policies and a high export demand in the electronics sector in particular. Despite the fact that the world economic slowdown was more accentuated than expected and the unprecedented events of September 11 in the US had affected all economies, Malaysia on the other hand was able to maneuver itself in a particular way from a major economic contraction and GDP growth for the year remained in positive territory.

Nonethless, Rani (2007) stated that Malaysia has a coherent economic growth record in GDP over the period 1970-2005. The author added that the economic growth record in GDP was in average 7 per cent at an annual rate. Such rate is characterized by the externalities which influence from time to time such as the oil crises of the 1970s, the downturn in the electronics industry in the mid 1980s, and definitely the Asian financial crisis of 1997.

In addition, though given the openness of its economy, Malaysia was not spared from the negative effects of the United States economic slowdown. These effects were in the form of declining manufacturing production and negative export growth. In order to remedy the situation, the Malaysian government's initiation of strong monetary and fiscal policies to stimulate economic growth through increasing activities related to domestic economy and decreasing the over-dependence on exports helped the nation to sustain a positive real GDP growth.

Despite this, the MMoF (Malaysian Ministry of Finance) (2006) revealed that the standards of living of the majority of the population were transformed over the 30-year period with the level of GDP per capita in 2000 being about four times that of 1970. In other words, it can be quoted from the ministry that the boom in the economy went uninterrupted for almost a decade (1988-1996 with respective growths of 7 and 10 percent per annum). The ministry added that the main source of growth was the manufacturing sector whose share of GDP increased to 31. 4 percent in 2005.

One emmerging point highlighted Barlow (2001) is that Foreign Direct Investment (FDI) has been a key driver underlying the strong growth performance experienced by the Malaysian economy.

Overview of the Malaysian Economic Growth and Developemnt

Malasyia four almost forty years and through the World Bank’s countryâ€ classification system was as a middleâ€ income country. From then, the country had carried oenjoying a relative prosperity translated initially as a commodity exporter of rubber, tin, then palm oil and petroleum which generated a total income of between 6 to 7 percent each year from 1970 until 2000.

Athukorala, (2001) portrayed that the number of poor persons known as those consuming less than the purchasing power parity US$1 per day metric has fallen to fewer than a million, or 3. 9 percent of the population of 26. 2 million people (compared to about half of the population in 1970).

Nonetheless, Yusof (1997) reviewed that Malaysia with a per capita of yearly income attaining US$5, 300 in 2007, the country has trancsended from low-income country to an upperâ€ middleâ€ income nation. Such transition pushed the country to go through several structural changes in regards to income comparators experience and stayed highly dependent on favorable external terms of trade to ameliorate the domestic economic growth.

Another emerging point highlighted by Yusof is that the share of agriculture droped from more than 30 percent of GDP to less than 10 percent, whereas the share of of industry (especially manufacturing) grew from 27 (previously 12) to about 50 (previously 31) percent. Thus, the starting growth reaction to the purposeful and high industrialization of the economy from the midâ€ 1970s was satisfactory, with decreased volatility and the overall rate of growth increased up to 10 percent per year in the late 1980s

In reference to history, since its independence, the population of Malaysia was only 7. 4 million and had rapidly grown to 26. 8 million people in 2005 and current estimates exepect the malaysian population to reach nearly 29 million by 2010. As such, Yusof (1997) revealed that the population shares reflect major changes over time largely for the Bumiputera due to their higher fertility levels.

Despite such natural increase, the malaysian population growth demonstrates a steady influx of immigrant workers to Malaysia from countries like Indonesia, the Philippines, Bangladesh, and Nepal.

However, before its independence, Malaysia was known as a lowâ€ income agrarian economy with a high monopoly in rubber and tin production and other entrepôt trades centered on both locations (Penang and Malacca). At first business enterprises all around the country were smallâ€ scale, largely localized, and predominantly familyâ€ based. However, over time, the Malaysian economy has diversified beyond agricultural businesses and primary commodities, such that manufactured goods now account for a larger share of GDP and total exports. Thus, in 2005, according to Yusof, (1989) the urbanization inside Malaysia has been rapid with effectively 63 percent of its population living in urban areas, compared with just about a quarter in 1957. However, since the 1970s, Malaysia has condensed its economic development strategy on three long-term policies namely the New Economic Policy (NEP), 1970-90, the National Development Policy (NDP), 1990-2000, and the National Vision Policy (NVP), 2001â€2010 (Yusof, 1989).

For instance, the growth and distribution issues are within the scope of center stage during the leadership of Dr. Mahathir, with shifts in understanding over the years. As this said, the history of the economic growth of Malaysian for the past 35 years can be translated through a constant tussle between concerns with distribution which are ethnic dimensions, and concerns with the growth of the economy.

For this reason, it would be necessary to recall that Mahathir’s interventions in the Malaysian economic growth were neither uniformly impressive nor simply whimsical. In other words, this leader left behind him a checkered record of bold experiments, false starts, partial successes, and narrow escapes. Moreover, it would be gleaned from his analysis of economic management to subdivide over three different phases (1981-85, 1986-97, and 1998-2003). As a result, each phase can be viewed as to involve in policy responses to a preceding crisis, but also as to envision a new stage and type of development.

Under the leadership of Dr. Mahathir, Malaysia’s strong economic recovery did not quite go forward the banking crisis building up from the 1980s’ recession, commodity price fall down, and the desintegration of property and stock market effervesce. With specific figures, in 1987-88, almost 30 percent of commercial bank loans were “ non-performing.” This is due to the fact that the government was compelled to oversee and regulate more strictly the financial system, through the adoption of the Banking and Financial

Institutions Act 1989 and other regulations. Furtheremore, more prudent and very strict banking supervisions have limited the Malaysian exposure to (private) foreign borrowing.

Nevertheless, the economic recovery was not only centered to the banking system, rather it was followed by financial liberalization to be emphasized in stock market development. Despite the banking failures and stock market decline of the late 1980s, Mahathir and other economists like Daim did not want let go the stock market promotion even though it is constrained with serious banking regulations. However, when the problems from the 1980s banking crisis were intentionally assumed forgotten, most of the commercial banks still lent generously and induced property and stock market bubbles. This can be explained by the fact that many Malaysian corporations were very highly leveraged. Therefore, the consequences of these economic and financial developments were mixed and, as it turned out in 1997, disastrous.

Although the elaboration in these long-term development policies has always been on economic growth, Malaysian development is determined to assist all groups or communities within the society in an equitable manner. Beginning in the late 1960s, specifically following racial riots across the country, distribution issues became more important and moved to the forefront. The overriding objective of the NEP, maintained in the NDP and the NVP, was to preserve national unity by eradicating poverty irrespective of race, and by restructuring Malaysian society to reduce the identification of race with economic function and geographical location. Direct policies to assist the Bumiputera obtain equivalence with the non-Bumiputera in income and wealth lay at the heart of the distributive strategy. Growth with equity continues to be the guiding development strategy 2010 (Yusof, 1989).

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In addition to the focus on the industries, it is useful to illustrate two other contexts in which economic policy making and leadership played out during Malaysia's economic development.

The first is the early clinch (1983) of a " privatization" policy in Malaysia. This policy initiative

Curcial concerns were about the rapid growth of Malaysia's public sector during the early stages of the NEP, and its relatively weak industrial performance. In addition, Malaysia's privatization initiative was also based on the " Japan Inc." model that viewed the country as a single corporation, with the government providing and helping maintain an enabling environment for business and the private sector operating as the engine of growth. This anticipated, by several years, the formalization of such an approach by the broader development community (Yusof, 1989).

A second set of strategies is equally important, because it illustrates the policy makers' return to some of the calculated risk-taking behaviors which were prior to the 1970s industrialization promotion. However, these strategies were the first concerted attempt at the national policy level to initiate a transition from development based on resources and traditional technology toward a knowledge-based economy, and thereby ride the wave of industrial change and globalization that was sweeping the world. The launch of the Multimedia Super Corridor (MSC) in 1996, although affected strongly by fallout from the Asian financial crisis of 1996-98, is intended to build on Malaysia’s current strengths in electronics, skilled labor, and high-quality infrastructure to become a more visible regional and global player in the development and application of information and communications technology (ICT) (Ariff, & Goh Chen, 1998).

It is necessary to note that even at the beginning, when the NEP was launched in 1971, the perceived tradeoff between both growth and distribution in Malaysia filled the minds of the policy makers. Therefore, the Malaysian growth of public corporations and other institutions register under the government generated the other distributional approaches. Hence, two broad approaches were adopted whereby the First, emphasizes that public enterprises expanded in new growth areas, especially through the Urban Development Authority and the State Economic Development Corporations (SEDCs). These new growth areas provided opportunities for Bumiputera businesses and entrepreneurs. The second broad approach states that institutional investors such as PNB provided the channel for individual Bumiputera to invest in unit trusts. These initiatives according to Yusof, (1989) generated mixed results but, overall, they were disappointing.

To add, the public investment in specific-renewed urban areas and in new areas owned by the state government to provide growth opportunities in commerce and industry were analyzed on the conceptualization that it would be complex and disruptive to restructure those urban assets owned by non-Bumiputera. Not only such concern but the takeovers of British-owned mining and plantation companies in the 1970s and 1980s also exemplified the efforts in reducing all types of encroachments on the existing wealth of the Chinese. On this prospect, Rasiah (1992) argued that though the Malaysian economy grew at 7 percent per year over the 1971-85 period, there was a slowdown in the 1981-85 period. This is due to the fact that Mahathir utilized greater state intervention to promote heavy industrialization and domestic imitations of foreing prouction and also imposed an “ austerity drive” that reduced government spending and placed state-owned enterprises under closer scrutiny.

Issues related to Economic Growth in Malaysia

Policy Design and Implementation Issues

The Malaysian growth concept compared to any other developing country can be divided into two transformational stages. The first is a structural transformation of a predominant agricultural economy to a more industrialized economy, whereas the second from a more industrialized economy towards a knowledge-based economy in the late 1990s (Yusof, 1989).

At the initial start up, the Malaysian economy was dominated by primary commodities like rubber, tin and, later, and palm oil. Consequently, the exportâ€ led growth of labor-intensive manufactured products has made it possible for the economic growth to be sustained. However, with a high competition in the market economy with China, the prospects for longâ€ term growth of the Malaysain economy seemed very depressing , and the pressures for further structural transformation have gone high. Another pattern to be considered in regards to the economic development policies in Malaysia would be the causal apprehension within the economic diversification, with the out going tides and run of official interest in the phase of the business cycle promoted through strong diversification. Moreover, hold ups and recessions have provided influential momentum to official policies for economic growth through diversification. Yusof (2005) evoked that at the current stage of Malaysian growth and particularly the post-Asian crisis slowdown that has largely persevered, a renewed search for structural transformation to reach a higher, sustainable growth plane is needed.

Nevertheless, to identify the sources of policies and changes to those policies, it is indispensable to project a look at the institutional machinery. Initially, it is helpful to make a distinction between the federal government, state government, the nonfinancial public enterprises, the governmentâ€ linked companies (GLCs), and the private sector because they are the main sources of policy instigation. In short, the federal government has the authority and is, therefore, the source of macroeconomic policies. The three centers for macroeconomic policy initiatives are the EPU in the Prime Minister’s Department, the Ministry of Finance (MOF) or the Treasury, and Bank Negara Malaysia or central bank.

Concretely, EPU is in charge of the formulation of the fiveâ€ year development plans and the midâ€ term reviews of the fiveâ€ year plans. EPU is also concerned with the preparation of the longâ€ term development plans known as the outline perspective plans that cover a time-frame of 15 or 20 years. EPU also initiates specific studies or master plans such as the Privatization Master Plan (EPU, 1991a).

On the other hand, international agencies were also qualified as the source of significant policy ideas. This includes agencies like the World Bank, International Monetary Fund (IMF), and the Asian Development Bank (ADB) which have been the three leading ones engaged on government on policy matters. World Bank, IMF, and ADB have for missions to Malaysia as the review of policies and for the deliberation of new policies. The World Bank's work on poverty in Malaysia, for example, has been an important source of policy ideas on poverty alleviation.

Management of Growth and Distribution Issues

Distribution also known as equity was a major concern of the postâ€1969 period, and the effects of the racial insurrections of that year were decisive for the development strategy and policy making. Besides, the NEP launched after these insurrections was a complex socio-economic policy. One point of the policy emphasized eradicating poverty irrespective of race. The other focused on affirmative action for employment and assetâ€creation programs for the streamlining of society to correct the recognition of race with economic function. There has been a lot of progress in reducing poverty, but income inequity remains extensive.

Although it had other corollary, much attention and thought went into the effects a proactive distribution policy would have on economic growth. In other words, the stated strategic approach to attaining the goals/targets of the NEP was a distribution through growth (United National Development Program, 2005) even though the implementing of the approach was not too straightforward. However, the original version of the statement was tied closely to the second tine of the NEP on restructuring the society to correct the identification of race with economic function and paying more attention narrowly on the restructuring of the ownership of share capital. Thus, these two key implementation issues had to do with the perception of growth and whether the strategy was to be implemented only at the macro or at the micro level too.

Moreover, a constricted definition of growth would mean that the distribution/restructuring of share capital could only be put into practice when the share capital of a company had grown. In other terms, the corporation could grow through recourse to loan capital rather than share capital and that sales, exports, and employment could also be used as indicators of corporate growth. Therefore, the arguable implementation issue is that during the strategy, even large companies in the economy had to meet the terms with the condition that at least 30 percent of their share capital was allocated to Bumiputera.

To recapitulate, the implementation of the distributive strategy directed to the adoption of a variety of measures mainly quotas, occasionally covering up just the ownership of share capital and at other times more than share capital, at levels that were above the verge for companies that are under the Industrial Coordination Act (ACT).

However, companies having as a feature business usually had to have at least 30 percent of their share capital allocated to Bumiputera, which include those that were seeking public listing on the stock exchange. However, commercial transactions through mergers and acquisitions, when they fall under the Guidelines of the Foreign Investment Committee (FIC) on

Takeovers and Mergers, had to reorganize their ownership structure to comply with the NEP.

Furthremore, the The political and economic objectives of the NEP is to reduce poverty by increasing income levels for all Malaysians and to restructure the Malaysian society in order to erase all racial identification in economic terms. In other words, the NEP calls for a financial redistribution from the minority of wealthy non-Bumiputra (native Malaysians also known as “ Princes of the Soil”) racial groups to the Bumiputras (Goldsworthy 1991: 51). The goal is to achieve corporate equity of 30 percent Bumiputra, 30 percent foreign and 40 percent other-Malaysians (Onn 1988: 8). This goal can only be facilitated with an expanding economy, so that no racial group should suffer from economic or social deprivation. Other specific economic goals include; maintain high sustainable growth, low unemployment rates and ensure the stability of economic factors such as inflation.

As a summary, the growth of public listed companies and other governmental institutions incremented the other distributional approaches. Thus, two broad approaches were utilized:

First, public corporations expanded in new growth areas, especially through the Urban Development Authority and the State Economic Development Corporations (SEDCs). These new growth areas provided opportunities for Bumiputera businesses and entrepreneurs.

Second, institutional investors such as PNB provide the channel for individual Bumiputera to invest in unit trusts. These initiatives known as public investment in new regional growth centers produced mixed results but, overall, they were disappointing.

Conclusion

The Malaysian growth experience over more than 30 years provides a useful case study that touches on the key themes that are of interest to the Growth Commission.

The global environment is experiencing unprecedented events that had widespread implications to the world's economic situation. Despite this challenging environment, Malaysia has managed to avoid the major economic downturn. Bank Negara's report shows that growth rate for 2001 remained in positive at 0. 4%, unemployment rate was contained below 4% and inflation rate was low at 1. 4%. The structure of economy in Malaysia has diversified from agricultural to industrialization country since its independence in 1957.

Like other emerging economies, Malaysia faces a multitude of challenges in its efforts to achieve a progressive and dynamic financial system. Balancing between financial stability on one side and monetary and economic stability on the other will become more challenging, particularly as the domestic economy becomes more interconnected and integrated with other economies and financial systems. In this environment, the responsibility of maintaining financial stability will become a collective effort extending beyond the national boundary, and require greater collaboration among countries.

Therefore, the Malaysian experience is an example of how an economy relatively rich in natural resources can escape the soâ€ called “ resource curse” and transform itself into a more industrialized economy over a period of about 20 years. The process of structural transformation through diversification, with rising competition in the global export markets for manufactured products, needs to be continuous.