

# Analysis of malaysia's economy



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Malaysia is well endowed with natural resources such as tin, mine, rubber natural gas and so forth. Earlier on the World War 2, Malaysia used to be the leading exporter of raw materials and importer of manufacturers. But during the Japanese Occupation, the export of primary product was being limited. Such situation led to large areas of rubber plantation was abandoned, closure of mines area. The latter automatically affected the shortage of spare parts for machinery. Malaysia's economic has collapsed.

After 1945, British colonial rulers returned. They rebuild export and import economy, start over rubber plantation, mining industry and other industries which has been shut down through the Japan Occupation. Within 1948-1960, the British has been driven out. Malayan federation gained independence and Malayan People's Republic was set up. It was 1957.

Since Malaysia independence in 1957, the economy grew at a rate of generally 7% per annum, a relatively esteem growth rate compared to other country. Meanwhile, the economy has evolved from an agricultural-based to a manufacturing-based in the early stage of independence (1970-1980), again to a service-based at the later period (1990). Ultimately, at the eve of the new millennium, enter to the knowledge-based economy.

Within the last three decades, agricultural remained a primary sector in the economy, yet the manufacturing sector has appeared to be the most weighty to Malaysia since the implementation of the Pioneer Industries Ordinance in 1958. Malaysian government has opened the economy to inter-country trade, invites foreign investors, offer cost reductions and other

commercial benefits to boost the economic growth. Certainly, the economics of Malaysia is expected to be more flourishing from now on. (Abdulai n. d.)

## **Important**

Foreign Direct Investment (FDI) plays an important role in the development of Malaysia economic today. Attracting FDI has become an integral part of the economic development strategies for Malaysia as it helps maximizing commercial benefits and minimizing costs. By receiving training on the operation of certain business, FDI helps developing human capital resources. Besides, the rates of interest will be maintained at a lower level therefore it's easier for business to borrow finance. In addition to FDI, Malaysia is also able to create new jobs in particular country, bring in advance technology and skill, and provide opportunity to Malaysia to explore new markets thereby generate more income and profit. (Economy Watch n. d.)

## **Strengths**

### **Economic**

#### Currency

The monetary unit for Malaysia is called Ringgit Malaysia (RM). Recently, RM is getting stronger and is likely to remain firm against US dollar. The local unit was quoted at 3. 0913 per dollar which is the strongest level since the financial crisis in 1997. The exchange rate now is 1 US Dollar against 3. 1270 Ringgit Malaysia up to date. (Bank 2010) A stronger RM helps to lower production costs and also bring about advantages on economic growth. (Damodaran 2010)

#### GDP Rate

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From 2000 – 2010, Malaysia average Gross Domestic Product (GDP) growth was 1.18 percent, which reach an historical high of 5.70% in September 2009 and a record low of -7.80% in March 2009. Chart below shows Malaysia GDP growth rate from Jan 2006 to Jan 2010. (Trading Economics n. d.)

It is strongly believed that Malaysian economy will achieve better than 6% GDP growth for 2010. (Yap 2010)

### Iskandar Malaysia (IM)

Iskandar Malaysia is the main southern development corridor in Johor, Malaysia. This development includes entertainment, environment and business coverage. There are several huge project under IM such as Legoland. This project will be an outstanding landmark for Johor, and it expected to attract one million visitors annually. (Theme park to be completed in 2010 2010) Other than this, IM has attracted numerous of Singapore investors. From 2006 to May 2010, there were 217 projects from Singapore amounting to RM3.17bil. (Musa 2010) Both of the development will push forward the economic growth. Foreign investors can look forward to this development as this is one of the most potential development in Malaysia.

Due to an economic review, the flow of direct investment has fell from RM24.1bil in 2008 to RM5.7bil in 2009. It has declined 76.5%. And for the domestic-owned investment has descended to RM10.5bil or 37.1% from 2008. Likewise, the total manufacturing capital investment has also fell 48%, which is RM 32.6bil. The total amount of foreign investors listed for 68% or RM22.1bil, a 52% drop from 2009. Overall, Malaysia economic is still

considered optimistic compared to other country in 2010 as what is mentioned above, that Malaysia currency is getting stronger. It is good news for potential foreign investors.

## **Political**

Malaysia is formed by three major races, Malays, Chinese and Indians. After the incident that happened in May 1969, the races have learned to live under a peaceful and harmony society to avoid such races conflict happened again. Nowadays in Malaysia, we can see that various races working together in the same building, helping each other or even celebrate festivals although they don't own a same culture, region and live in the same area. The Malaysia government known as the Barisan Nasional, United Malays National Organisation (UMNO), Malaysian Chinese Association (MCA), and Malaysian Indian Congress (MIC). (123 Independenc Day n. d.)

Malaysia receives a score of +0.13 for the factor "Political Stability" in the World Bank's Governance Indicators 1996-2008, which means Malaysia politic is 'relatively stable' compared to the other country.

Political stability leads to economic stability. It's a key attraction to foreign investors. Foreign investors will feel more reassurance to invest in Malaysia.

## **Technology**

Multimedia Super Corridor

The Multimedia Super Corridor (MSC Malaysia) is one of the most potential investments for information and communication technology (ICT) in Asia.

This development helps Malaysia to become a key player in the Information Age and thus to achieved Vision 2020.

### Multipurpose Card

The most common Multipurpose Card in Malaysia can be known as My Kad. This card is embedded with a 64K microprocessor chip that is multifunctional across varying systems. It applications included: National ID, ATM, Touch & GO, MPES Cash and so forth. These not only brings convenient to all people in Malaysia and also prove to the technology improvement in Malaysia.

### Infrastructure

Malaysia has well-developed air and sea connections among Asia countries. Internal travel in Malaysia is easy as the network of highways (North-South Highway) is well-structured and maintained. For air transportation, more than 25 major airlines service the international airport (KLIA and etc) throughout the nation. Following by sea lane, Malaysia owns seven international ports (Port Klang and etc) that provided with advance harbour installations. (Malaysia Industrial Development Authority n. d.)

What is mentioned above all is just tip o the iceberg of Malaysia technology development. There are still other initiative such as E-Government, E-Business, Tele-Health and more which form the strength of technology for Malaysia. (All Malaysia Info n. d.)

## **Social and Cultural**

Malaysia is a multicultural and multilingual society. There are three main races in this country, which is the Malays, who formed a large community

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and play a ruling role in political, the Chinese and the Indians. The different races have their very own traditions and customs that give Malaysia a colourful heritage. Furthermore, Islam is the official religion in Malaysia. Religious are freely practiced and so the language. The languages, which are commonly used to communicate, are Bahasa Malaysia, also considered as national language, English and Chinese. Important festivals of each race are being identified with a particular ethnic or religious group. They celebrate together, experienced cultural exchange regardless of background and beliefs. This makes Malaysia so different and special among the Asia countries. Lifestyle here is becoming more and more modern due to great exposure to the western culture. Above all makes investors from China, India and Middle-East countries more convenient to invest in Malaysia. (Kwint Essential n. d.)

## **Labour**

Malaysia provides diligent, educated and trainable labour force. Labours in Malaysia undergo at least 11 years of school education. Malaysia is a free competitive labour market where employers and employees enjoy a harmonious and hearty work environment. The labour cost is relatively low yet the productivity level considered high compared to other Asia countries. In addition, free uniforms, free transport, free medical treatment, insurance, annual bonus, retirement benefits and other supplementary benefits given to either local or foreign labours. Lastly, there are certain labour ordinances established by Malaysia government to protect labours, for instance Employment Act 1995, Employees' Social Security Act 1969, Occupational Safety and Health Act 1967 and so forth. The protective labour legislation in

Malaysia is more extensive than other Asia country. Table below shows the Principal Statistic of Labour Force, Malaysia, January 2009-July 2010.

Year Month Labour

(Principal Statistics of Labour Force, MALaysia July 2010 2010)

## **Challenges**

One of the challenges that Malaysia faces is the official religion, Islamic. That's a negative perception to foreign investors. One of the factors is the incident which happened at 11 Sep 2001 in USA. Due to the calamity, foreigners are holding extreme views to those Islamic countries. This cause the investors will think twice before enter the market in Malaysia. According to the 2010-2011 Global Competiveness Report, Malaysia was placed 26th among 139 economies, from 24th out of 133 countries in the previous report. Malaysia's position has dropped in the past three years since 21st position in 2008-2009. Furthermore, Malaysia New Economic Policy stated, 30% of the company shares must be given to bumiputra (the Malays). As a result, foreign companies do not have the same opportunities as some local companies to compete for contracts. In most cases, foreign companies are required to take on a local partner before their bids will be considered. Eventually, foreign investors are not allowed to channel out their money, this has stopped most of the foreign investors to invest in Malaysia.

## **Recommendations**

To solve the challenges, Malaysia can turn negative perception into positive by rebuilding the image of Malaysia through holding exhibition. For example, Shanghai Expo 2010. The exhibition has displayed the characteristic of a

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country that allow others to understand more of the country. This can change the view of Malaysia in foreign investor's mind, so that they feel more reassured to invest in Malaysia. Next, government maybe can allow foreign investors to bring out certain amount of money instead of totally prohibited them from channeling out the profit which they gained in an investment. Lastly, Malaysia New Economic Policy should reduce the share rate of bumiputra (the Malays) or completely abolish the law which is unfair to the investors to form a partnership.

## **Conclusion**

Above all, Malaysia is a potential investment market in Asia country. The political stability, optimistic economic growth, peaceful and harmony society, advanced technology and of course cheap but highly educated labour force are the strength of Malaysia to attract foreign investors from China, India and Middle-East. Also, by bringing in more foreign investors, it also helps the development of Malaysia and to achieve the Vision 2020.