Factors behind malysias economic boom

Malaysia is a country endowed with rich resources, possesses well-developed infrastructure and is socio-politically stable. Malaysia has achieved fairly impressive economic success since 1970. Before 1969, Malaysia underwent poverty, unemployment and inter-ethnic economic imbalances caused by colonialism and then by the laissez-faire policies after Independence (Gomez & Jomo 1999). From a poverty-stricken country that relies on agriculture and raw materials(rubber and tin exports) as nation’s economic source, Malaysia has now advance to an export-oriented industrialisation stimulated by technology intensive, knowledge based and capital intensive industries. Malaysia a multicultural country comprised of the 3 dominant ethnic group, Malay(50. 4%), Chinese (23. 7%) and Indian(7. 1%) with an approximate population of 28 million, she is able to maintain economic advance within social unity (CIA World Factbook, 2010). Hence, in appreciative of Malaysia’s economic success in a sustained multicultural unison, this essay will provide an overview on the government efforts in moving Malaysia’s dependence on low-income agricultural sector to export-oriented industrialisation (EOI) as well as attracting lucrative foreign direct investments (FDI). To address these, this essay will be divided into four sections. The first section will present a short account of indicators on Malaysia’s real GDP and poverty incidence. The second section, divided into subsections, will illustrates the major factors behind Malaysia’s economic boom in industrialisation and FDI since 1970, primarily through government intervention. The third section will attempt to evaluate Malaysia’s future economic challenges of how distributive policies may have hindered Malaysia’s future economic growth. The last section of the essay suggests recommendations on Malaysia’s approach in sustaining and improving economic growth.

MALAYSIA’S REAL GDP AND POVERTY INCIDENCE

Graph 1 shows the real GDP growth and inflation in percentage of Malaysia’s economy. Based on the graph, the real growth rate averaged 7. 8 per cent per annum during the 1970s but slowed to 6. 9% during 1980 fell negative 1 percent in 1985, with better macroeconomic policies and market-based reforms, the Malaysian economy resumed rapid growth in 1987. Over the nine years to 1997, the average growth of GDP accelerates to over 8 per cent. Overall, Malaysia’s averaged 6. 5 per cent of real GDP from 1971 to 2009 is a considerably impressive figure by developing country standards. The inflation rate although highest in 1974 at 17. 4 per cent, the inflation has been kept relatively low after the first oil shock, averaging below 4 per cent from 1975 to 2009. Although unemployment rate was relatively higher for the first 2 decade during the implementation of NEP, it averages below 4 percent during the implementation of New Development Policy (NDP) and National Vision Policy (NVP).

Graph 2 illustrates the incidence of poverty in Malaysia from 1970 to 1999. The total poverty of incidence shows a declining pattern up to 1997 but the rate moved up slightly in response to the Asian Financial Crisis. 85, 900 households poverty in urban areas was reduced to 57, 100 in 1993 whereas rural poverty reduced from 791, 800 households to 268, 200 in 1993. The large decrease in poverty incidence was a result from the growth in the economy, which created job opportunities in the non-traditional sectors (Zin).

FACTORS BEHIND MALAYSIA’S ECONOMIC GROWTH

Implementation of NEP (1971-1990)

One of the major factors that boost Malaysia’s economic growth was the implementation of the New Economic Policy (NEP) from 1971-1990. According to Athukurola, at independence, native Malays accounted for 52% of the population and dominated politics but were relatively poor as involved mostly in low-productive agricultural activities(Barlow, 2001). However, the ethnic Chinese comprising 37% of the population enjoyed greater economic strength and dominated the most modern sector activities(Barlow, 2001). Of the 49 per cent of household in peninsular that received an income below the poverty line, 88 percent were found in the rural areas. Farmers made up 48 per cent and 30 per cent were farm or estate labourers. (Cho, 1990 p. 68) Hence, the NEP prime objectives were to attain national harmony and inter-racial economic parity by eradicating poverty irrespective of race and to eliminate the association of race with economic role by reforming the society (Gomez & Jomo, 1999, p. 24).

For the former, the overall development plan was reformulated with emphasis on EOI, and development program on rural and urban areas (Menon 2008). The latter’s objective called for greater government intervention mainly on ethnic affirmative action, which includes accelerating expansion of the Malay middle class, accumulating Malay ownership of share capital in limited companies and producing Malay entrepreneurs (Gomez). In conjunction with the NEP, the main aim of the First Malaysia Plan (1996-70) was to promote agricultural and industrial activities so as to diversify the economy and create employment. Accordingly, the focus was on labour-intensive import and export substitution(). Hence, to achieve these goals, part of the NEP aimed at changing the employment patterns in the urban areas to reflect the racial composition of the country, and increasing Bumiputera equity in corporate ownerships from 2% in 1970 to 30% by 1990 (Menon). In order to achieve the restructuring objective, the government established a large number of public enterprises such as Petronas(National Oil Corporation), Malaysian Airline System (MAS), and the Heavy Industries Corporation of Malaysia(HICOM) as well as trust agencies such as National Equity Corporation(PNB) and Amanah Saham Nasional (ASN) (Toh, 1989).

Emphasis on EOI

Industrialisation appears to be the key sector that led to economic growth in Malaysia.

The export coefficient (total merchandise exports as a percentage of GDP) of around 50% in 1965 1880 increased modestly during the 1970s slowed in the first half of the 1980s and rose sharply from about 1987(Athukurola). The ratio was 96% in the mid-1990s. Malaysia's export coefficient was the third largest in the developing world in the decade up to the late 1990s coming after the 170 percent of Singapore and 140 percent of Hong Kong. During the 1970s increasing commodities prices were a major determinant of high growth rates. (Africa). The fast-growing manufacturing industry became known as the engine of growth to the country (rasiah rajah). Based on table above, manufacturing sector contributed constant growth rates to the GDP throughout the years and during the NEP period, the percentage rose from a mere 13. 9 percent to a substantial share of 27 percent.

The Second Malaysia Plan (1971-75) paid much attention to EOI, in addition to increased direct government participation in commercial and industrial activities which signalled a drastic departure from the earlier practice. Structural changes in the Malaysian economy are also reflected in the changing pattern of sectoral employment, with the contribution of agriculture to employment declining from 53. 5 per cent in 1970 to 15. 2 per cent in 1997 and that of manufacturing rising from 8. 7 per cent to 27. 5 per cent over the same period (Table 2). Under the Third Malaysia Plan (1976-80), resource-based industries were given a boost, thanks primarily to the discovery of oil and gas. Education and training in the field of industrial engineering were given much emphasis, to relieve shortage of skilled manpower. Among some of the efforts that drove EOI was the opening of Free Trade Zones and licensed manufacturing warehouses in 1972(Jomo, p. 119)

The main task of the Fourth Malaysia Plan (1981-85) was to boost productivity, expand the industrial base and modernise the services sector. In addition, small-scale industries were promoted through the provision of training and financing facilities. The Malaysian government had a heavy hand in the launching of the ambitious heavy industrialisation programme in the early 1980s. The establishment of Heavy Industries Corporation of Malaysia (HICOM) was a strong manifestation of direct government involvement in the country’s industrial development. To both deepen the industrial structure and extend the into high value industries, formed HICOM, a series of heavy and chemical firms in sectors such as steel, cement, automobiles, chemicals, and paper and pulp(Ritchie p. 749) Apparently, the policy decision in favour of heavy industrialisation was inspired by the Korean model of industrial development based on the practice of picking winners. In fact, the First Industrial Master Plan (1985-95) had Korean fingerprints all over. The Malaysian heavy industries have been in trouble, saddled with high production costs, heavy debts, market glut and excess capacity. They are simply uncompetitive. They could not have survived, had it not been for state patronage and strong protection.

Contribution of FDI to Malaysia's Economy

Foreign direct investment(FDI) also contributed largely to Malaysia's economy. A large number of empirical studies on the role of FDI in host countries suggest that FDI is an important source of capital, complements domestic private investment, is usually associated with new job opportunities and enhancement of technology transfer, and boosts overall economic growth in host countries(Karimi & Yusop). To attract a larger inflow of FDI, the government introduced more liberal incentives including allowing a larger percentage of foreign equity ownership in enterprise under the Promotion of Investment Act (PIA), 1986. This effort resulted in a large inflow of FDI after 1987(the inflow of FDI grew at an annual average rate of 38. 7 percent between 1986 and 1996). The major areas of investment by foreign companies are in sectors such as electronics and electrical products, chemicals and chemical products, basic metal products, non-metallic mineral products, food manufacturing, plastic products, and scientific and measuring equipment.(Ministry of Finance, 2001).

Apart from these policy factors, it is generally believed that sound macroeconomic management, sustained economic growth, and the presence of a well functioning financial system have made Malaysia an attractive prospect for FDI. (Ministry of Finance, 2001). Foreign direct investment (FDI) has been seen as a key driver underlying the strong growth performance experienced by the Malaysian economy. Policy reforms, including the introduction of the Investment Incentives Act 1968, the establishment of FTZs in the early 1970s, and the provision of export incentives alongside the acceleration of open policy in the 1980s, led to a surge of FDI in the late 1980s.

WHERE FROM HERE?

In determining the future of Malaysia, the government has implemented the National Vision Policy (NVP)

First we need to be independent. Local market too protected by the government. Proton.

CamPro

CONCLUSION

To sum up, the economic growth was mainly a result of government outward-oriented policy stance government redistributive policies

The profile of the Malaysian economy has changed radically since 1970. It is no

longer dependent on a few primary commodities. Its production base has broadened, with manufacturing accounting for a growing share of national output

and employment. The Malaysian economy has become more open and outward looking

over the years.