

# A pestel analysis of malaysia economics essay



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## **Introduction**

During the late 18th and 19th centuries, Great Britain established colonies and protectorates in the area of current Malaysia; these were occupied by Japan from 1942 to 1945. In 1948, the British-ruled territories on the Malay Peninsula formed the Federation of Malaya, which became independent in 1957. Malaysia was formed in 1963 when the former British colonies of Singapore and the East Malaysian states of Sabah and Sarawak on the northern coast of Borneo joined the Federation. The first several years of the country's history were marred by a Communist insurgency, Indonesian confrontation with Malaysia, Philippine claims to Sabah, and Singapore's secession from the Federation in 1965. During the 22-year term of Prime Minister MAHATHIR bin Mohamad (1981-2003), Malaysia was successful in diversifying its economy from dependence on exports of raw materials to expansion in manufacturing, services, and tourism.

## **Economy – overview:**

Malaysia, a middle-income country, has transformed itself since the 1970s from a producer of raw materials into an emerging multi-sector economy. Under current Prime Minister NAJIB, Malaysia is attempting to achieve high-income status by 2020 and to move farther up the value-added production chain by attracting investments in Islamic finance, high technology industries, medical technology, and pharmaceuticals. The NAJIB administration also is continuing efforts to boost domestic demand and to wean the economy off of its dependence on exports. Nevertheless, exports – particularly of electronics – remain a significant driver of the economy.

As an oil and gas exporter, Malaysia has profited from higher world energy prices, although the rising cost of domestic gasoline and diesel fuel, combined with strained government finances, has forced Kuala Lumpur to reduce government subsidies. The government is also trying to lessen its dependence on state oil producer Petronas, which supplies at least 40% of government revenue. The central bank maintains healthy foreign exchange reserves and its well-developed regulatory regime has limited Malaysia's exposure to riskier financial instruments and the global financial crisis. Nevertheless, decreasing worldwide demand for consumer goods hurt Malaysia's exports and economic growth in 2009, although both showed signs of recovery in 2010. In order to attract increased investment, NAJIB has also sought to revise the special economic and social preferences accorded to ethnic Malays under the New Economic Policy of 1970, but he has encountered significant opposition, especially from Malay nationalists.

## **Statistics**

GDP \$381. 1 billion (2009 est.)Rank: 30

GDP growth – 2. 2% (2009 est.)

GDP per capita \$14, 800 (2009 est.)

GDP by sector agriculture: 10. 1% industry: 42. 3% services: 47. 6%

Inflation (CPI) 0. 4% (2009 est.)

Population below poverty line 3. 5% (2007 est.)

Labour force by occupation agriculture: (13%), industry: (36%), services: (51%)

Unemployment 5% (2009 est.)

Main industries Peninsular Malaysia – rubber and palm oil processing and manufacturing, light manufacturing industry, electronics, tin mining and smelting, logging and processing timber, tourism, petroleum production and refining, logging

## **Economic Policies**

The Malaysian New Economic Policy was created in 1971 with the aim of bringing Malays a 30% share of the economy of Malaysia and eradicating poverty amongst Malays, primarily through encouraging enterprise ownership by Bumiputeras. After 30 years of the program, the NEP had somewhat met some of its goals. Bumiputera ownership increased to 18. 9% in 2004 against 2. 4% in 1970 and poverty decreased to 8. 3% in 2004 against 64. 8% in the 1970s.

The NEP is accused of creating an oligarchy, and creating a ‘ subsidy mentality’. Political parties such as Parti Keadilan Rakyat and Democratic Action Party have proposed a new policy which will be equal for every Malaysian, regardless of race. When the Democratic Action Party was elected in the state of Penang in 2008, it announced that it will do away with the NEP, claiming that it “... breeds nepotism, corruption and systemic inefficiency”.

On April 21, 2009, the prime minister Najib Tun Razak has announced liberalisation of 27 services sub-sector by abolishing the 30% bumiputera requirement. The move is seen as the government efforts to increase investment the service sector of the economy. According to the premier, many more sectors of the economy will be liberalized. On June 30, 2009, the premier announces further liberation moves including the dismantling of the Bumiputera equity quotas and repealing the guidelines of the Foreign Investment Committee, which was responsible to monitor foreign shareholding in Malaysian companies. However, any Malaysian companies that wish to list in Malaysia would still need to offer 50 percent of public shareholding spread to Bumiputera investors.

## **Politics of Malaysia**

The politics of Malaysia takes place in the framework of a federal constitutional monarchy, in which the Yang di-Pertuan Agong is head of state and the Prime Minister of Malaysia is the head of government. Executive power is exercised by the federal government and the 13 state governments. Federal legislative power is vested in the federal parliament and the 13 state assemblies. The judiciary is independent of the executive and the legislature, though the executive maintains a certain level of influence in the appointment of judges to the courts.

The Constitution of Malaysia is codified and the system of government is based on the Westminster system.

Malaysia has a multi-party system since the first direct election of the Federal Legislative Council of Malaya in 1955 on a first-past-the-post basis.

The ruling party since then has always been the Alliance Party (Malay: Parti Perikatan) coalition and subsequently from 1973 onwards, its successor the Barisan Nasional (National Front) coalition. The Barisan Nasional coalition currently consists of the United Malays National Organisation (UMNO), Malaysian Chinese Association (MCA), Malaysian Indian Congress (MIC) and 11 other political parties.

Although Malaysian politics has been relatively stable, critics allege that “the government, ruling party, and administration...are intertwined with few countervailing forces.” However, since 8 March 2008 General Election, media’s coverage on country’s politics has been noticeably increased, making the politics more transparent to the citizens.

The current Prime Minister is Dato’ Seri Mohd. Najib bin Tun Haji Abdul Razak. He took office following the retirement of Dato’ Seri Abdullah Ahmad Badawi (colloquially known as “Pak Lah”) on April, 2009.

The national media are largely controlled by the government and by political parties in the Barisan Nasional/National Front ruling coalition and the opposition has little access to the media. The print media are controlled by the Government through the requirement of obtaining annual publication licences under the Printing and Presses Act. In 2007, a government agency – the Malaysian Communications and Multimedia Commission – issued a directive to all private television and radio stations to refrain from broadcasting speeches made by opposition leaders. The official state ideology is the Rukunegara, which has been described as encouraging “respect for a pluralistic, multireligious and multicultural society”. However,

political scientists have argued that the slogan of Bangsa, Agama, Negara (race, religion, nation) used by UMNO constitutes an unofficial ideology as well. Both ideologies have “generally been used to reinforce a conservative political ideology, one that is Malay-centred”

Executive power is vested in the cabinet led by the prime minister; the Malaysian constitution stipulates that the prime minister must be a member of the lower house of parliament who, in the opinion of the Yang di-Pertuan Agong, commands a majority in parliament. The cabinet is chosen from among members of both houses of Parliament and is responsible to that body.

In recent years the opposition have been campaigning for free and fairer elections within Malaysia. On 10 November 2007, a mass rally, called the 2007 Bersih Rally, took place in the Dataran Merdeka Kuala Lumpur at 3pm to demand for clean and fair elections. The gathering was organised by BERSIH, a coalition comprising political parties and civil society groups(NGOs), and drew supporters from all over the country.

Malaysia's government has intensified efforts on March 6, 2008 to portray opposition figure Anwar Ibrahim as a political turncoat, days ahead of Malaysian general election, 2008 on March 8, 2008 that will determine whether he poses a legitimate threat to the ruling coalition. Campaigning wrapped up March 7, 2008 for general elections that could see gains for Malaysia's opposition amid anger over race and religion among minority Chinese and Indians. Malaysians voted March 8, 2008 in parliamentary elections. Election results showed that the ruling government suffered a

setback when it failed to obtain two-thirds majority in parliament, and five out of 12 state legislatures were won by the opposition parties. Reasons for the setback of the ruling party, which has retained power since the nation declared independence in 1957, are the rising inflation, crime and ethnic tensions.

## **Law of Malaysia**

The law of Malaysia is mainly based on the common law legal system. This was a direct result of the colonisation of Malaya, Sarawak, and North Borneo by Britain from the early 19th century to 1960s. The supreme law of the land-the Constitution of Malaysia-sets out the legal framework and rights of Malaysian citizens. Federal laws enacted by the Parliament of Malaysia applies throughout the country. There are also state laws enacted by the State Legislative Assemblies which applies in the particular state. The constitution of Malaysia also provides for a unique dual justice system-the secular laws (criminal and civil) and sharia laws.

## **Dual justice system**

The dual system of law is provided in Article 121(1A) of the Constitution of Malaysia. Article 3 also provides that Islamic law is a state law matter with the exception for the Federal Territories of Malaysia.[1] Islamic law refers to the sharia law, and in Malaysia it is known and spelled as syariah. The court is known as the Syariah Court. Looking at the Malaysian legal system as a whole, sharia law plays a relatively small role in defining the laws on the country. It only applies to Muslims. With regards to civil law, the Syariah courts has jurisdiction in personal law matters, for example marriage, inheritance, and apostasy. In some states there are sharia criminal laws, for



example there is the Kelantan Syariah Criminal Code Enactment 1993. Their jurisdiction is however limited to imposing fines for an amount not more than RM 3000, and imprisonment to not more than 6 months.[2] In August 2007, the then Chief Justice of Malaysia proposed to replace the current common law application in Malaysia with sharia law.[3]

As an example of the dual system, sometimes a nightclub is raided, and Muslim patrons drinking alcohol are prosecuted in Shariah courts, while the others are allowed to drink. Also the nightclub operator is not charged with any offense, because he is not legally required to check if customers are Muslim before serving them.

## **Complications**

Complications have arisen with regard to the dual justice system, for example with regard to freedom of religion. Article 11 of the Constitution provides that “ Every person has the right to profess and practice his religion”. However in the case of Lina Joy-a Malay who converted to Christianity-the Federal Court of Malaysia refused to allow her to change her religion indicated in her identity card (MyKad). The judges held that they had no jurisdiction on the matter-that it was a matter of the Syariah Court, as indicated in Article 121(1A) of the Constitution.

## **Technology in Malaysia**

Science Policy in Malaysia is regulated by the Ministry of Science, Technology, and Innovation. Other ministries, such as the Ministry of Agriculture and the Ministry of Health also have science departments. Training in scientific areas was promoted during the 1970s and 1980s. From

1987-1997 research and development used 0.24% of GNP, and in 1998 high-tech exports made up 54% of Malaysia's manufactured exports.

In 2002 the Malaysian National Space Agency (Angkasa) was formed to deal with all of Malaysia's activities in space, and to promote space education and space experiments. It is focused on developing the "RazakSAT" satellite, which is a remote sensing satellite with CCD cameras. In early 2006, Sheikh Muszaphar Shukor and three other finalists were selected for the Angkasawan spaceflight programme. This programme came about when Russia agreed to transport one Malaysian to the International Space Station as part of a multi-billion dollar purchase of 18 Russian Sukhoi Su-30MKM fighter jets by the Royal Malaysian Air Force.

In an effort to create a self-reliant defensive ability and support national development Malaysia privatized some of its military facilities in the 1970s. This has created a defence industry, which in 1999 was brought under the Malaysia Defence Industry Council. The government continues to try and promote this sector and its competitiveness, actively marketing the defence industry. One way it does this is through the Langkawi International Maritime and Aerospace Exhibition, one of the largest defence and civil showcases in the Asia Pacific, regularly attended by over 500 companies. The Malaysian Armed Forces relies heavily on local military technology and high-tech weapons systems designed and manufactured by foreign countries.

## **Environment of Malaysia**

The environment of Malaysia refers to the biotas and geologies that constitute the natural environment of this Southeast Asian nation.

Ecologically, Malaysia is a megadiverse nation with a biodiverse range of flora and fauna found in various ecoregions throughout the country. Tropical rainforests encompass from 59% to 70% of Malaysia's total land area, of which 11. 6% is pristine. Malaysia has the world's fifth largest mangrove area, which totals over a half a million hectares (over 1. 2 million acres).

Human intervention poses a significant threat to the natural environment of this country. Agriculture, forestry and urbanisation contribute to the destruction of forests, mangroves and other thriving ecosystems in the country. Ecosystems and landscapes are dramatically altered by human development, including but not limited to the construction of roads and damming of rivers. Geographical phenomena, such as landslides and flooding in the Klang Valley, along with haze, stem from widespread deforestation. Subtle climate change occurs as a direct result of air pollution and the greenhouse effect, which in turn is caused by the emission of greenhouse gases. Low-lying areas near the coastline of Sabah and Sarawak are under threat from current sea level rise.

The environment is the subject of the Ministry of Natural Resources and Environment at the federal level. The Department of Wildlife and National Parks is responsible for the preservation of flora and fauna in Malaysia. Several environmental organisations have been established to raise awareness regarding the environmental issues in Malaysia.

## **Environmental issues**

There are a number of environmental issues faced by Malaysia, such as deforestation and pollution. According to a study by Centre for Marine and

Coastal Studies in 2008, about 30% of Malaysian coastline is subject to varying degrees of erosion. According to the United Nations, Malaysia's deforestation rate is the highest among tropical nations. The country's annual deforestation rate increased 86% between 1999-2000 and 2000-2005. Malaysia lost an average of 140, 200 hectares of its forests or 0. 65% of its total forest area every year since 2000, whereas in the 1990s, the country lost an average of 78, 500 hectares or 0. 35 percent of its forests annually.

Widespread urbanisation, agricultural fires and forest conversion for oil palm plantations and other forms of agriculture are the main causes of Malaysia's high deforestation rate. Logging is responsible for forest degradation in the country, and local timber companies have been accused by environmental organisations of failing to practice sustainable forest management.

Mining in peninsular Malaysia has left a mark on the environment.

Deforestation, pollution of rivers, and siltation have resulted in losses of agriculture, and road projects have opened new areas to colonisation.

Air pollution from industrial and vehicular emissions is a major issue in the urban areas of Malaysia. Malaysia is ranked 42nd in the world in terms of vehicle ownership per capita, with 273 Malaysians having vehicles out of every 1000. Public transportation has been introduced in the form of bus networks and railway systems as mitigation, but utilisation rates are low.

Water pollution occurs due to the discharge of untreated sewage; the west coast of the Peninsular Malaysia is the most heavily populated area. 40% of the rivers in Malaysia are heavily polluted. The country has 580 cubic km of

water, of which 76% is used for farming and 13% is used for industrial activity. Cities in Malaysia produce an average of 1.5 million tons of solid waste per year.

In 2000, Malaysia was ranked fourth in the world in terms of per capita greenhouse gas emissions after taking into account land use change with 37.2 tonnes of carbon dioxide equivalent per capita.

Periodic fires, which usually coincide with the events of el Niño, burn thousands of hectares of forests across Malaysia, especially in Malaysian Borneo. The haze originating from these fires and the fires in Kalimantan, Indonesia typically have adverse health effects on the populace, besides causing air pollution. In particular, the 1997 Southeast Asian haze, the 2005 Malaysian haze and the 2006 Southeast Asian haze were caused by slash and burn activities in neighbouring Indonesia.

## **Society of Malaysia**

Malaysia is a multi-cultural society. The main ethnic groups are the native Malays as well as large populations of Chinese, and Indians. When visiting the country it is clear that the ethnicities retain their religions, customs and way of life. The most important festivals of each group are public holidays.

Although growing up, children are educated in the same schools and will eventually work in the same offices, few marry outside their own ethnicity. Families tend to socialise within their own ethnic group – all part of retaining their individual traditions and lifestyles.

Despite the ethnic differences there are commonalities culturally speaking.

## **Social Stratification**

Classes and Castes- Class position in Malaysia depends on a combination of political connections, specialized skills, ability in English, and family money. The Malaysian elite, trained in overseas universities, is highly cosmopolitan and continues to grow in dominance as Malaysia's middle class expands. Even with the substantial stratification of society by ethnicity, similar class experiences in business and lifestyle are bridging old barriers.

Symbols of Social Stratification- In Malaysia's market economy, consumption provides the primary symbols of stratification. Newly wealthy Malaysians learn how to consume by following the lead of the Malay royalty and the prosperous business families of Chinese descent. A mobile phone, gold jewelry, and fashionable clothing all indicate one's high rank in the Malaysian social order. Given the striking mobility of Malaysian society, one's vehicle marks class position even more than home ownership. Most Malaysians can distinguish the difference between makes of cars, and access to at least a motor scooter is a requirement for participation in contemporary Malaysian social life. Kuala Lumpur has more motor vehicles than people. Skin color, often indicative of less or more time working in the hot tropical sun, further marks class position. Distinct class differences also appear in speech. Knowledge of English is vital to elevated class status, and a person's fluency in that language indexes their social background.

## **Social Welfare and Change Programs**

The Malaysian government has promoted rapid social change to integrate a national society from its ethnic divisions. Its grandest program was originally called the New Economic Policy (NEP), implemented between 1971 and 1990

and continued in modified form as the National Development Policy (NDP). Since poverty eradication was an aim of the NEP a considerable amount of energy has gone to social welfare efforts. The consequences of these programs disseminate across the social landscape: home mortgages feature two rates, a lower one for Malays and a higher one for others; university admissions promote Malay enrolment; mundane government functions such as allocating hawker licenses have an ethnic component. But the government has also tried to ethnically integrate Malaysia's wealthy class; therefore many NEP-inspired ethnic preferences have allowed prosperous Malays to accrue even greater wealth. The dream of creating an affluent Malaysia continues in the government's 1991 plan of Vision 2020, which projects that the country will be "fully developed" by the year 2020. This new vision places faith in high technology, including the creation of a "Multi-Media Super Corridor" outside of Kuala Lumpur, as the means for Malaysia to join the ranks of wealthy industrialized countries, and to develop a more unified society.

## **Porter's Diamond of Competitiveness**

Factor conditions: These are the economists' traditional factors of production: land, labor, capital, and infrastructure.

Demand conditions: The characteristics of the domestic market, including the size, demand, value, and sophistication.

Related supporting industries: The presence of suppliers and supporting industries that are equally competitive and of high quality.

Firm strategy, structure, and rivalry: The regulatory and other governmental environment in which companies are created, organized, and managed, including the nature of the domestic competition.

## **Stages in Economic Development**

The relative importance of the four factors depends on the stage of economic development of the industry or country. National economies, like industries, go through stages in their development. The first stage is “ factor-driven,” with the economy based essentially on the traditional factors of production: natural resources, commodities, and availability of cheap power and labor. This was Malaysia of the 1960s and 70s, its primary competitive advantage being its cheap resources (rubber and tin), land and labor, and favorable tax treatment. These advantages were not only limiting but also transient. When commodity prices dropped, Malaysia lost its competitive advantage. When China entered the game with her endless supply of even cheaper labor and land, Malaysia could hardly compete. During this phase, the basic source of competitive advantage is obviously the “ factor conditions” of the diamond.

The next stage is investment driven where the competitive advantage is governed by the willingness of firms and nations to invest in modern factories, upgrade the skills of their workers, and adopt efficient technology. Factor conditions are still important, but in addition, the fourth-firms’ strategy, structure and rivalry-becomes the major determinant. This is where Malaysia is currently.



The third stage is innovation driven where all four points of the diamond are in full play. This is where Malaysia aspires to be. With all four points in equal play, the relative role of factor-driven variables like cheap labor and commodities becomes relatively less important.