

The economic success story of malaysia



**ASSIGN
BUSTER**

Malaysia is widely considered a developing country that's on the brink of becoming a fully developed country. Malaysia is largely considered a success story when it comes to economic growth over the last century. In the late nineteenth century it had been a major supplier of primary products to the industrialized countries, Malaysia's main export items were rubber, contributing almost 60 percent to the total export value, and tin, contributing about 12 percent. However, Malaysia has long reduced its dependence on agricultural exports and have turned their attentions to foreign earnings. Manufacturing products have overtaken agricultural products as the main foreign exchange earner. This is exemplified by the fact that Malaysia is now one of the biggest producers of semi-conductors in the world. Foreign direct investment (FDI) has been an important source of economic growth for a developing country like ours, bringing with it much needed capital investment, technology and management knowledge for economic growth. FDI has been seen as a factor underlying the strong growth performance experienced by the Malaysian economy. Policy reforms, such as the introduction of the Investment Incentives Act 1968, the establishment of free trade zones in the early 1970s, and the provision of export, led to a big inflow of FDI in the late 1980s. Foreign direct investment, of FDI involves a foreign country pumping money into another country with the purpose of acquiring or building tangible assets in that country. Tangible assets include land, factories, machines, buildings and enterprises. FDI in Malaysia is set up following the acquisition of at least 10% of the total equity in a local company by a foreign investor.

According to the Unctad World Investment Report 2010 released in late July, FDI fell 81% to US\$1.4bil from US\$7.3bil in 2008. In light of these figures, it is essential that Malaysia takes steps to attract new investors into the country. The most suitable foreign investors Malaysia should be looking at are emerging economies like China, India, and the Middle East.

Importance of FDI

FDI is an extremely important aspect for economic growth in developing countries such as Malaysia. FDI brings with it several benefits which cannot be overlooked. Countries that are developing are starting to see the importance of FDI and are beginning to ease up their policies on FDI to attract more investment. The factors that make FDI such an integral part of economic growth in developing countries is the fact that it brings with it technological growth and knowledge transfer, increased employment and development in human capital, development in infrastructure, and increase in amount of domestic capital.

Technology and information transfer

This is regarded as arguably the most important benefit that host countries reap from foreign direct investments. MNE's spend a lot of time and money on research and development, and more often than not have a level of technology that is superior to the developing host nation, which means there is great potential for a technological and information spillover from the developed nation into the developing nation. It should be noted though that the extent of this spillover varies depending on contexts.

Human capital enhancement

One more factor which makes FDI very important for the economic growth of a developing country is the enhancement of the host country's workforce.

This works in two ways, directly and indirectly. Foreign direct investment creates some sort of cycle that results in human capital enhancement.

Firstly, the Multi National Enterprise's that come into Malaysia will of course provide intensive training to the workforce of the host country that they employ. This is the direct effect that FDI has on human capital enhancement.

At the same time, Malaysia's government will set up various training programmes and human resource development centres to enhance the skills of the local workforce which in turn will entice MNE's to invest in Malaysia.

Strengths

Malaysia has shaped their infrastructure in line with the needs of the business community. There are five international airports, digital and fibre optic technology are deployed by telecommunication networks, the government is constantly making efforts to build highways and railway tracks connecting the more rural areas to the city. Malaysia also has seven international seaports that make it an ideal place for foreign investors.

Another strength Malaysia has is a young, industrious, educated, and productive workforce, arguably one of the best in the region. As mentioned earlier, the government takes massive efforts in ensuring that the Malaysian workforce is well trained and educated to meet the needs of the foreign investors who seek to employ them. The government has set out various programmes workshops to transform the already effective Malaysian

workforce into a world standard workforce ready to take on anything. Moreover, the relatively affordable cost of living in Malaysia make labour costs very competitive in Malaysia in relation to an educated skilled workforce. While India China and the Middle East do have an abundance of labour at their disposal at very low costs, skilled and educated labour would cost considerably more there than it would in Malaysia. The Malaysian government places a lot of importance on education. Moreover the Human Resource Development Fund (HRDF) was launched by the government to encourage training, retraining and skills upgrading in the private sector. Also, as Malaysian employment laws safeguard the rights and interests of its employees, and very descriptively set out the relationships between employers and employees, there are very minimal trade disputes and strikes.

Economic strength is another huge selling point for Malaysia as a target for investment by investors from China India and the Middle East. We earlier saw the history of Malaysia's economic growth. The impressive thing about Malaysia is that it has seen continuous economic growth over the years. In 2008 the world's economy took a hit as a result of USA's subprime mortgage crisis. The American economy faced a dramatic slowdown and this had an adverse spill over effect on the rest of the world, with Asia and Europe in particular being affected badly. Malaysia however, weathered the economic storm and recorded a gross domestic product (GDP) growth rate of 4.6 per cent for that year. This was mainly due to strong domestic demand and a continued growth in private and public consumption.

Another strength Malaysia possesses is supporting government policies. A major draw for India, China and the Middle East to invest in Malaysia is the fact that it has a business environment that is conducive for expansion and profits that has been cultivated by the Malaysian government.

Challenges

Rising Costs Of Living

As attractive as Malaysia is for foreign investors, there are several challenges facing Malaysia which may deter foreign investors. One of the challenges faced by the nation is raising labour costs. I mentioned earlier that one of Malaysia's strengths in attracting foreign investment is our highly skilled and educated workforce. That can also somewhat have an adverse effect as it means people are expecting bigger paychecks as well as becoming more selective about jobs. This is hardly a surprise as the cost of living in Malaysia is on the rise and it wouldn't make much sense if a highly educated and skilled individual is barely earning enough money to live comfortably. Furthermore, more and more developing countries around us are becoming attractive targets for foreign investors as they are beginning to provide skilled workforces for relatively lower costs. Indonesia, Thailand, Vietnam, Cambodia, Laos and Myanmar are examples of countries who offer cheap labour, and above of that an abundance of land and huge domestic markets.

Lack of Drive

Another challenge facing Malaysia is one that it has brought upon itself. It is no exaggeration to say that Malaysia's economic growth has been fantastic, however this has been followed by us getting a little too comfortable and content with our success. We are nowhere near as hungry or driven as we used to be in the 70's and 80's. Also our economy has been hit by the recession twice in the last fifteen years, once in 98 and once in 2008. One may argue that a lot of nations were hit during these two periods, but it did nevertheless expose the frailties of our economic system such as the lack of regulatory measures.

Infrastructure

While Malaysia has good infrastructure, it cannot be denied that our public transport system and amenities pale in comparison to our neighbours Singapore. Foreign investors from China, India and the Middle East may elect to pay higher costs and invest in Singapore instead.

Recommendations

With reference to the first challenge Malaysia faces in attracting FDI, the government should take steps to increase wages so more skilled workers are willing to work locally instead of looking for greener pastures overseas.

Improved working environments and culture will also help as people will be less selective about the job they take.

Malaysia should also take steps to put into place better regulatory systems to avoid experiencing another economic downturn as bad as we did in 1998 and again in 2008.

On top of that, Malaysia should invest money into improving our infrastructure. Our public transport system and amenities are in need of a revamping and this is as good a time as any to do it.

Conclusion

In conclusion, it is without doubt that Malaysia with our impressive workforce and strong economy is already an attractive destination for investors from China India and the Middle East, but we still do have shortcomings that may put them off. It is in my opinion that the Malaysian government with some effort can rectify this shortcoming and make Malaysia an undisputed target for foreign investors.