

**The Strategic issues that the Malaysian government are pursuing to  
further their economic dynamism**

## **1 Introduction**

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%.

In relation to that, strategies imposed will be very important to sustain the economic growth in the country. In the next section we will look into the strategies which the government is pursuing to further strengthen their position in the region.

## **2 Strategies**

The government takes planning for national development very seriously, thus plans are important to set out the course for the nation to take in its development. The section below discusses the strategic issues that the Malaysian government is pursuing to further the country's economic dynamism.

### **2.1 Monetary Policy**

In 2001, the government has introduced the monetary measures to stimulate domestic demand to mitigate the effects of the global economic slowdown. The monetary condition in the country has remained conducive to support domestic economic activities amidst low inflation. The low interest rate environment, ample liquidity conditions and strengthens banking system have contributed to higher financing expansion in monetary aggregates. The stability provided by the pegged exchange regime has continued to benefit the economy as well.

#### **2.1.1 Low Interest Rate**

The low interest rate has led to strong growth in financing activities. For e.g.: the interest rate for purchasing a Proton Iswara car has now dropped to 4.1% instead of 4.5% a few months back, thus has helped to increase car sales which helps in the economic

dynamism. The low BLR has encouraged growth in credit consumption and property sector. The reduction in lending rates has contributed to providing a positive environment for the private sector as well. It has given advantages to many firms to float bonds and to pay back some of their loans.

### ***2.1.2 Exchange Rate***

The government's action in imposing the exchange rate to remain pegged to the US dollar at the rate of US\$1=RM3.80 has helped the economic growth in the nation. The Ringgit peg has continued to provide stability to the domestic foreign exchange market in an environment of volatile international and regional foreign exchange market. This stability accorded has reduced the element of uncertainty in the decision making process of domestic manufacturers and service providers.

## **2.2 Fiscal Policy**

Fiscal measures are aimed at enhancing disposable income to boost consumption and implementing projects with high spillover efforts, low import content and short gestation period. In respect of fiscal policy, the Government has reduced its expenditure and deferred implementation of selected infrastructure projects. It has reduced imports as well as address the issue of excessive credit growth and the high leverage of some corporations. The Government, however, ensured that budget allocations related to the quality of life, particularly with respect to health, education and the provision of other basic amenities, were maintained.

The government has adopted 2 pronged approach in Budget 2001 to strengthen Malaysia's productivity over long term which are:

1. To stimulate domestic growth through allocation for projects which had strong domestic linkages and low import content.

Government is focused on projects that could be implemented quickly for maximum impact on domestic demand. Some projects identified by the government were small development projects in rural and selected urban areas, upgrading government buildings and facilities, training of retrenched workers and unemployed graduates and

tourism promotion. For e.g. : Promoting training of IT skills courses to the retrenched workers and providing incentives for them to attend the training will help to train up more skilled labor in the country and thus in future will help the country's economic growth. The government promotion on "Cuti-cuti Malaysia" in the country has also contributed to the tourism sector.

2. To stimulate domestic demand through raising disposable income.

This was done through tax and non-tax measures including higher individual tax rebates and higher allowances for civil servants in the country. The government has given RM350 individual tax rebates for earnings below RM25,000 for last year's income tax. This has given more purchasing power to the middle group citizens.

The salary adjustments for civil servants, improving consumer confidence and major festival celebration have helped to make a difference in consumption. The private consumption and public expenditure have been on the rise as evidenced in the increased of car and property sales.

### **2.3 Foreign Direct Investment (FDI)**

The government is continuing to promote FDI which plays important role in terms of capital and technology to help to boost up the productivity in the country. The government recognizes that FDI has brought benefits in terms of transfer of technology and management expertise, employment creation, new product development, trade generation and access to new markets, besides being an important source of capital. It is also acknowledged that part of the benefits are offset by taxes foregone through the provision of fiscal incentives, and outflows in the form of higher imports, freight and insurance payments, and technical and royalty payments.

The government has continued to provide a liberal and competitive environment for FDI by ensuring the presence of suitable supporting infrastructure, availability of a well-trained manpower, consistency of policy, unhindered repatriation of profits, expeditious approvals for investments and the provision of an attractive incentive package. While providing an appropriate environment for investment, Malaysia makes sure that FDI flows are mutually beneficial as well as consistent with the development objectives of the country.

Besides FDI from public sector, the government is also encouraging the private investment abroad. The outflow and inflow of money can help in boosting the economic level in the nation.

#### **2.4 Low inflation Rate**

The government has maintained a low inflation rate in the country. Inflation, as measured by the Consumer Price Index (CPI) has increased moderately by 1.4% for year 2001. The moderate inflation was due mainly to the prevalence of excess capacity in several sectors of the economy, the moderate appreciate of Ringgit versus the non US currencies as well as lower imported inflation.

In year 1998 which was during the economic crisis, Malaysia still managed to have a relatively low inflation rate as compared to the neighboring country such as Indonesia and Philippines. Malaysia was then at 5.3% of inflation rate, while Indonesia was at 77.6% and Philippines was at 9.7% which were so much higher than Malaysia.

Therefore, Malaysia's government's strategy in lowering the inflation rate in the country had indeed managed to help the country to overcome the crisis sooner than the other neighboring countries.

#### **2.5 Role of Private Sector**

The government has encouraged private sector to be more proactive in helping to boost up the economic dynamism in the country. This includes a close alliance between the government and the private business sector and privatizing state enterprises.

The private sector has to invest in new technology, training and human resource development to help the economic growth. It has to set on conducting research and development to find improved and more efficient production methods, new markets, new products and new application for existing products. It also has to seek and tap investment opportunities abroad so as to remain profitable even when the domestic production becomes non-favorable. Private sector can help to develop strong degree of confidence to

take challenges ahead which will contribute to stimulate the economic growth in the country.

## **2.6 Improving Services Sector**

In view of the strategic importance to support the structural transformation of Malaysia to the New Economy, the government has pushed to accelerate the development of the services sector. Government is undertaking an in-depth studies on maximizing the potential of health, education and tourism sub sectors as sources to help the economic growth in the nation.

The government is now concentrating on boosting the health-tourism in the country, as health is now getting more important in the eyes of the people. Apart from that, the government is further developing the education industry to establish Malaysia as the regional education hub of excellence as well as to promote Malaysia as a destination to potential tourists from a wider range of new markets.

The strong expansion in transportation and communication has also helped in the country's economic dynamism due to the rapid growth in the mobile phone and Internet services segment of the telecommunication industry and increase in local transshipment activities.

Besides that, the government has also enhanced and expanded the domestic shipping and ports services. For e.g.: strong performance of the Port of Tanjung Pelepas (PTP) and Port Klang was the result of the government plan in promoting the port as the regional trade and shipping hub. In 2001, PTP has managed a throughput of 2.04 million TEUs (20 ft equivalent units) with a total of 2,283 container vessels.

## **2.7 National Vision Policy (NVP)**

The government has introduced the National Vision Policy (NVP) in 2001, where its main objective is to build a resilient and competitive nation by promoting an equitable society to sustain the economic growth in the country. The successful implementation of the National Development Policy (NDP) during the 1990s has enabled the country to achieve rapid growth with wide-ranging transformation of its economic, social, physical and institutional landscape.

NVP is aimed to establish a progressive and prosperous Bangsa Malaysia that lives in harmony and engages in full and fair partnership. Economic growth will be promoted alongside efforts aimed at poverty eradication and restructuring of society, as well as reducing social, economic, and regional imbalances. NVP will help to strengthen the country's competitiveness and resilience, as well as to build an equitable society to ensure the country's stability and unity. One of NVP's key thrusts is to sustain the economic growth by identifying and strengthening the sources of growth, the financial and corporate institutions as well as macroeconomic management.

The policy has helped in providing certainty to the public and private sectors in giving confidence for them to commit to long-term investments in the country.

## **2.8 MSC, Cyberjaya and Putrajaya**

The government has created the Multimedia Super Corridor - a world-first, world-class act - to help companies to test the limits of technology and prepare them for the future. MSC will help to accelerate Malaysia's entry into the Information Age, and through it, will help to actualize Vision 2020.

MSC have an integrated environment with all the unique elements and attributes necessary for creating the perfect global multimedia climate. The development of Putrajaya and Cyberjaya has attracted various foreign companies to invest in the environment to improve the nation's economic dynamism.

Putrajaya houses the new seat of government and administrative capital of Malaysia where the concept of electronic government is introduced, like GOE and E-Procurement. Cyberjaya is an intelligent city with multimedia industries, R&D centres, a Multimedia University and operational headquarters for multinationals to direct their worldwide manufacturing and trading activities using multimedia technology.

To date, there are about 663 companies with MSC status, and out of this about 208 companies are foreign owned. MSC has indeed brought the world's attention to the country. It has helped in giving confidence to both domestic and foreign investors to commit to long-term investments in the country.



## **2.9 AFTA and WTO**

The ASEAN Free Trade Area (AFTA) will be fully implemented by 2003. The government is encouraging Malaysians to cope with the competition within the ASEAN countries, even before the start of AFTA. Malaysia will feel the real impact of regional competition and whether the businesses can actually compete with other AFTA members when the AFTA is fully implemented.

With the emergence of the AFTA and the World Trade Organization (WTO), more corporations in Malaysia will need to re-evaluate themselves whether they are world-class players and begin to strive for excellence in products, systems and people. This will provide much opportunity for labor markets to be more competitive and contribute to the economic growth in the nation.

### **3 Conclusion**

Malaysia has one of the fastest growing economies in the world. The national vision to make Malaysia a fully developed nation by year 2020 will see a profound shift towards industrialization, leading to the creation of an affluent society. Malaysia has influenced the Asia Pacific economic activities in the region by having a stable political environment, strong economic fundamentals, good Balance of Payment, good financial system, low unemployment rate, good education system and good infrastructure.

The government's strategy in developing the nation's economy has been successful in improving the country's productivity level. The strong economic fundamentals and pragmatic measures taken by the government has lessened the impact of the economic slowdown and averted its extreme effects such as massive unemployment, starvation, collapse of the corporate sector and civil unrest.

Malaysia has embarked on an ambitious plan to leapfrog into the Information Age by providing intellectual and strategic leadership. This means investing in an environment that encourages innovation, helping companies, both Malaysian and international companies, to reach new technology frontiers, partnering global IT players and providing the opportunities for mutual enrichment and success.

However, Malaysian must be prepared for a serious global economic downturn and thus apply greater efforts to liberalize and restructure the economy to increase productivity. This will make Malaysia more competitive and resilient against growing external and internal threats and challenges. Given the resolute leadership and strong public support, Malaysia shall overcome these tribulations and advance forward.

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