

**Understanding the Malaysian Economic Environment –  
a characterization of Malaysia's economic role in the Pacific  
Asia region**

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# 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%.

The structure of economy in Malaysia has diversified from agricultural to industrialization country since its independence in 1957. During the 1970s, Malaysia government's development strategy was based on the New Economic Policy (NEP), which emphasized on the distribution of wealth between the indigenous and non-indigenous groups, alleviation of rural poverty and expansion of health and education to provide wider opportunities for the poor.

The National Development Policy (NDP) was then announced in 1991 and succeeded NEP. NDP had similar goals to NEP; it accelerated the process of eradication poverty and restructuring the society to correct social and economic imbalances in order to achieve more equitable distribution of wealth. NDP also formed the basis of Prime Minister, Dr. Mahathir's Vision 2020 to become a fully developed nation by that year.

After that, National Vision Policy (NVP) was introduced in 2001 to continue on the success of its predecessors. NVP's main objective is to build a resilient and competitive nation by promoting an equitable society to sustain the economic growth in the country. This goal has to be achieved in the next 10 years, with Vision 2020 only about 18 years away from now.

To achieve these goals, Malaysians need to continue to give its support to strengthen the united, progressive and prosperous nation.

## **2 Economic Roles**

Malaysia, being a developed country in Asia Pacific nevertheless does give impact on the region's economic growth. The next section describes on the characterization of Malaysia's economic roles, which helps in stimulating the economy of the region.

### **2.1 Political Stability**

Malaysia has good government lead by Prime Minister, Dato' Seri Dr Mahathir Mohammad and his team under Barisan National (BN) with the assistance of expert officials' help in sustaining the stable political condition in the country. The continued governance by the same coalition of political parties since independence has contributed to political stability and inter-racial harmony in the nation.

Malaysia as a democracy country has regular and fair elections to ensure legitimacy of the political system. The continuing political stability helps to facilitate the implementation of the pragmatic policies and enables development of the nation without much interruption. It also ensures stable and competitive environment for the corporate world and in attracting foreign investments from other countries.

However, the government has to be more competitive and has to revise on the policies which are use to allow the nation to cope with the effects of globalizations in the future.

### **2.2 Strong Economic Fundamentals**

Malaysia has strong economic fundamentals with low inflation rate over the past years, high savings rate and low unemployment rate unlike other ASEAN countries like Indonesia and Thailand. This has contributed in attracting more foreign investments to the country which helps to the economic growth in the region.

Before the Asian economic crisis in 1997, Malaysia had many favorable features. From 1991-1996, its real GDP growth averaged 8.7% per year, inflation was low around 3.8%, and the unemployment rate for 1996 was only 2.5%. Unlike some other East Asian economies with high external debt, Malaysia had a relatively lower external debt of USD\$45.2 billion or 42% of GDP as at June 1997. The banking sector was healthy, with non-performing loans (NPLs) at only 3.6% of total loans as at June 1997. The nation's saving rate was at 38.5% in 1996 which was one of the highest in the world .

### **2.3 Investments**

As economies liberalized and adopt international practices, competition for investments has become more intense. Investments in domestic market and foreign market are important in stimulating the economic growth in the country. The nature of investments has shifted towards higher value -added investments in both the manufacturing and services sectors, thus brings in new technology and other expertise that contribute towards the raising productivity in the nation.

Foreign Direct Investments (FDI) has helped in contributing to Malaysia's overall development in terms of growth, employment, foreign exchange earnings and transfer of technology. The government keeps on encouraging FDIs in all sectors of economy with attractive packages that are customized to the requirements of specific industries and investors.

### **2.4 Balance of Payment**

The global economic slowdown has affected the country's export performances, but imports of goods and services for export production has also declined. The current account remained in surplus, 8.9% of GNP and improved profile of external debts. The external debts has increased over the years, but the outstanding amount remained relatively low at about 55.4% of GNP according to the BNM's 2001 report.

The country's reserves have been building up again since June last year, thanks to improved exports and reduced outflow of portfolio capital. By end of year 2001, the international reserve of Bank Negara Malaysia was at RM117.2 billion or USD \$30.8 billion, a level considered satisfactory in the international standards. The reserves were free of any form of encumbrances and forward commitments. This healthy international reserve serves as one of the fundamental strengths in the country's economic position, thus giving a good example to other countries in the Asia Pacific region.

## **2.5 Sound Financial System**

As an important enabler of the economic transformation and growth process in Malaysia, the health of the financial system is important for the country. The health of the banking system in Malaysia has improved slightly in February 2002. The restructuring and reforms of the banking and corporate sectors had helped to improve the economic condition and knowledge-based activities.

The merged banking groups are more well-capitalized to meet future calls for capital expenditure as well as to undertake higher levels of risk arising from wider scope of business activities. The banking system is sound as Non-Performing Loans (NPLs) have tapered off and the loan growth has improved significantly this year. The recent conclusion of RHB-Bank Utama deal represents a step forwards the banking restructuring process.

## **2.6 Sosio-economic Development**

The government has managed to reduce the economic gap between the races in the country to sustain the economic growth and national progress. The distribution of economic opportunity and equity ownership among Bumiputeras and other races have improved. The average living standards in the nation have increased as well, especially those with lower incomes.

The low incidence of poverty and the increasing size of the middle class have contributed directly to the economic growth. This has enhanced their capacity to

spend as well as to invest. The increasing size of middle class also avails a large pool of professionals and skilled manpower to the nation.

## **2.7 Education System**

The education system in Malaysia has improved. The quality of the tertiary education has increased since many private colleges have twinning programmes with foreign universities which are internationally competitive.

With the introduction of lifelong learning system, it has provided more opportunities for working adults to pursue their education. Emerging of technology has introduced e-learning where students are able to study from any place at any time. Therefore, in near future, Malaysia will have more graduates which are well-trained in all sectors. This tallies with the nation's vision in becoming an industrialised nation where the main skills will be in science and technology development.

The improved education in Malaysia has attracted more foreign students to further their studies here, especially China students where the tuition fees and the cost of living in Malaysia is much lower as compared to countries like UK and US or even neighboring country like Singapore. The growing foreign students will add to the economic growth where they help in the foreign exchange market.

## **2.8 Good Infrastructure**

Malaysia has good infrastructure in the communication and transportation aspects. In telecommunications, the nation has good international and domestic telephone services. Malaysia in the 1980s and 1990s was a big privatization story which embracing infrastructure projects from roads and bridges to tollroads. Malaysia is one of the countries in Asia Pacific which has good road system. This is clearly shown with the development of the PLUS highway, the North-South Expressway, Kuala Lumpur-Karak Highway, Cheras-Kajang Highway and lately the Damansara-Puchong Highway.

The public transportation in the nation has improved with the development of a better rail system apart from the traditional road system, like commuters and Light Railway Transit (LRT) for travelling within Klang Valley. With the opening of KL Sentral recently as the state-of-the-art transportation hub, traveling within the city or inter-state has been made easier. The completion of the KL -KLIA Express Rail Link Project last April 2002 has contributed to economic growth in the country as traveling to or from the airport to the city center is quicker and cheaper.

Malaysia has a few highly infrastructure ports like are Port Klang, Penang Port and Port of Tanjung Pelepas (PTP). Port Klang and PTP have driven a dramatic increase in the transshipment traffic. PTP has attracted more foreign ships to harbor in the port rather than the neighboring country due to the lower costs. The significant growth trends are emerging in the national port system with the increasingly dependence on the ports for transshipment traffics.

Apart from that, Malaysia also has good technology infrastructure in R&D, networking and technology. The emerging of Multimedia Super Corridor (MSC) since 1998 has contributed to the economic growth in the country. MSC has attracted various foreign investors to invest in the country.

Malaysia indeed has a very strong infrastructure from transportation, communications and technology which has helped in stimulating the economic growth in the country as well as the region.

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