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Analysing the Economic Performance and Projecting for Future: The Case of Malaysia

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Abstract
After Independence, Malaysia had originally started with a focus on diversifying agricultural exports by growing and strengthening its export earnings and income. This approach was pursued as a reliable economic development strategy. However, with the resulting rapid development, the country transited from an agrarian economy to a manufacturing-centric economy.
Considering the diverse trends of Malaysia's economy due to the globalization and privatization, this study aims to analyze the past trends of the economy and mainly concentrate on the current and future scenario in this country. By following a historical research method and by considering the economic data sets for the period of 2005-2016, this paper finds that the impact of globalization, the impact of enterprise privatization on economic growth, job creation, and on FDI inflow, vary significantly over ten years under consideration.
Keywords: Malaysian Economy, Globalisation, Privatisation, Agricultural Economy, Industrial Economy.

Introduction

Malaysian economy grew rapidly, transforming from agrarian to manufacturing-centric economy within a span of a few decades. Because of the meticulous policies made by the government to develop the economy by substitution of import and export-oriented industrialization tactics, the adjustment of structures took place.

Hence, The GNP share of Malaysia's export and import of increased up to 75%, integrating the country's economy further, all through the expeditious globalization in the 1980s and the 1990s. At a later time, this resulted in a resilient growth of the Malaysian economy as it demonstrated growth of about 8% during the years 1987 to 1997, lead by manufacturer exports.

In the 1980s, the then PM of Malaysia Dato' Seri Dr. Mahathir bin Mohamad established the Malaysian Incorporated Policy, which revealed the government's intent towards privatization. The economic growth rate of Malaysia faced a massive rate drop from 6.3% in 1983 to - 1.1% in 1985 due to the outstandingly high expenses and debts created by the extension of the public sector, together with the world economic recession in the early 1980s (Taasim & Yusoff, 2014). This forced the Malaysian Government to pay attention to public expenditure and find new means to mitigate economic challenges. Eventually, over the years, privatization was also considered as one of the suitable solutions to deal with these problems.

The different methods utilized for the application of privatization in Malaysia have been described in the Privatization Masterplan (1991) created by the Economic Planning Unit(EPU). These are Sale of Equity, Lease of Assets, Management Contract, Build-Operate-Transfer (BOX), and Build-Operate (BO). Apart from the mentioned, several issues need to be addressed during the implementation stage. For example, Legal aspects, regulatory framework, policy decisions related to personnel, assets and equity valuation, matters associated with the capital market, the involvement of Bumiputras, foreign participation in privatization of particular public enterprises.

Outlook: Global Economy

It is expected that the global economy supposed to grow by 3.7% in 2018 and 2019, which is lower than the previous projection of 3.9% (IMF, 2018). Due to the mixed developments in advanced economies, global growth has become less synchronized with a projection for emerging economies. It is mostly in the case of developing Asian economies.

Outlook: Domestic Economy

The position of the economy of Malaysia continues to stay buoyant in the future, regardless of the significant external and domestic road bumps. It is predicted that in the year 2018 and 2019, the actual GDP will experience an increase of 4.8% and 4.9%, respectively, predominantly due to domestic demand. Amidst the unfavorable inflation, expenses in the private sector, especially household expenditure, will stay as the core power of growth followed by a constant increase in wage and employment. In the meantime, the fresh and existing projects in the manufacturing and services area will bolster private investments. On the other hand, public expenses are predicted to register an improvement and contraction in 2018 and 2019, respectively, following the low capital expenditures from large public enterprises.

The stronger industry sectors, such as agriculture and mining, are expected to bounce back in 2019 after recording a minor contraction in 2018. This was made possible by the increased production of crude palm oil (CPO) and liquefied natural gas (LNG).

Concurrently, the external position of Malaysia is anticipated to stay strong in line with existing international economic and trade performances.

Malaysia's Economy: Looking Backward

Although policy consistency has been a dominant theme in Malaysian economic development, there have been more or less distinct and recognizable episodes of growth and variations in policy emphasis.

In the development of the Malaysian economy, the constancy of policy has been a governing topic. There have been multiple distinctive and noticeable trends of development and variations in the emphasis of policies.

Over the past forty years, there have been at least five distinctive episodes.

The 1970s: This decade was a time of extraordinary development, powered by high prices of services and goods, paired with a resolute drive for positive action, with the introduction of the New Economic Policy (NEP). Later into the 70s, while entering the 1980s, there were also the beginnings of the controversial 'Look East' and heavy industry policies.

1980-85: Dropping prices of goods and services demanded a major macroeconomic modification, especially to gain control over a large number of financial debits. The scope for NEP-style redistribution programs was also reduced due to slower growth.

1986-96: During this period, the growth of the economy kick-started rapidly, along with the reintroduced highlight on the priorities of the 70s. Although accompanied by a superior private sector involvement, much of it politically connected through selective privatizations; the Malaysian economy faced a drop in unemployment and a sharp decline in labor, resulting in a massive inflow of migrant labor.

1997-99: Along with the four East Asian economies, a severe economic crisis was witnessed by Malaysia. Nonetheless, the crisis existed for a short period and was almost V-shaped. The recovery of the Malaysian government was accompanied by improved credentials for macroeconomic management.

The 2000s: A medium strength growth continued during this period accompanied by two setbacks, one in the first part of the decade and another one near the end. These jolts were mostly related to upgrading policies, receding rates of investment, and a degree of rattled political environment.

During the early 2000s, Mahadevan (2007, p. 39) concluded that 'the Malaysian economy is very much input-driven and capital input, in particular, is the driving force of output growth.[1]

Table 1: Sectorwise Economic Growth in Malaysia, 1970-2007 (%)

	Value added			Labour productivity		
Years	Agriculture	Industry	Services	Agriculture	Industry	Services
1971-1979	5.19	7.25	9.07	2.60	1.74	3.50
1980-1989	3.55	5.83	6.32	3.44	5.41	-0.15
1990-1999	0.15	7.43	8.16	1.07	4.08	3.53
2000-2007	2.96	5.20	5.15	4.75	4.81	2.78

Note: Calculations done at constant 2000 prices.

Malaysia's Economy: Looking Forward

The economy registered a commendable growth of 5.7% during the H1 of 2017, caused by a strong domestic demand and further strengthened by an improved showing of external sectors. The value-added services sector (Table2) further grew by 6.1% during the H1 of 2017 (January-June 2016: 5.4%), again highlighted by a rapidly growing domestic consumption. The intermediate services group was anticipated to grow by 6.4% (2016:5.5%), propped up by ICT and BFSI subsectors.

Table 2: GDP by Sector 2016-2018

	Share of GDP (%)	Change (%)		
	2017[1]	2016	2017[1]	2018[2]
Agriculture	8.1	-5.1	5.6	2.4
Mining	8.4	2.2	0.5	0.9
Manufacturing	23.0	4.4	5.5	5.3
Construction	4.6	7.4	7.6	7.5
Services	54.5	5.6	5.9	5.8
GDP	100.0	4.2	5.2 – 5.7	5.0 – 5.5

[1] Estimate.
[2] Forecast.
Note: Total may not add up due to rounding and exclusion of import duties component.
Source: Department of Statistics and Ministry of Finance, Malaysia.

The value-added manufacturing sector (Table3) also grew by 5.8% during the H1 of 2017 (January-June 2016: 4.4%), supported by a wide range of industrial outputs, both from export and domestic-oriented manufacturing industries.

1. More detailed sectoral work, such as that by Kim and Shafi'i (2009), shows considerable inter-industry variations in total factor productivity (TFP) growth. However, the short period of most of these studies cautions against drawing strong conclusions.

Table 3: Manufacturing Production Index

	Index		Change (%)		Share (%)	
	2016	2017	2016	2017	2016	2017
Export-oriented industries	129.9	138.3	4.3	6.5	73.8	73.9
Electrical and electronics products	148.9	162.8	6.8	9.3	27.3	28.1
Chemicals and chemical products	136.1	140.8	4.5	3.5	14.8	14.4
Refined petroleum products	113.1	116.7	3.0	3.2	18.1	17.5
Wood and wood products	120.2	129.0	7.8	7.3	3.7	3.7
Off-estate processing	93.1	105.5	-13.7	13.2	3.2	3.4
Rubber products	143.2	153.2	5.0	6.9	2.7	2.7
Paper products	120.8	127.8	5.4	5.8	2.7	2.7
Textiles, wearing apparel, leather products and footwear	134.5	144.4	7.5	7.4	1.3	1.4
Domestic-oriented industries	136.9	145.5	3.4	6.2	26.2	26.1
Non-metallic mineral and other related products	135.9	143.3	6.3	5.4	4.3	4.3
Fabricated metal products	175.5	183.5	5.6	4.6	4.2	4.1
Basic metals	106.9	111.3	1.9	4.2	3.3	3.2
Transport equipment	152.9	160.1	-3.1	4.7	6.4	6.3
Food products	126.9	141.1	6.3	11.2	5.6	5.9
Beverages	142.6	158.2	9.2	10.9	1.1	1.1
Tobacco products	120.0	122.2	4.9	1.8	0.5	0.5
Others	114.7	117.4	10.4	2.3	0.9	0.8
Total	131.6	140.1	4.0	6.4	100.0	100.0

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

Privatization in Malaysia and Impact in the Economy

According to Jomo and Syn (2005), creating the conditions for national unity by reducing poverty and achieving inter-ethnic economic parity is the main objective of privatization in Malaysia, which is termed as 'restructuring society' in the Malaysian discourse.

There are prospects in Malaysia to consider privatization as various macroeconomic outcomes such as GDP growth, job creation, and foreign direct investment (FDI) inflows into the country (see Figure 1).

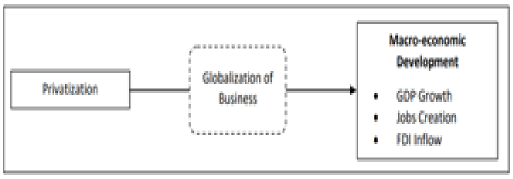

Figure 1: Outcomes of Privatisation

According to Mehmood and Faridi (2013), private sector participation is very crucial in achieving economic growth in the future, along with growing the industrial sector of a country. Masruri (1996) has mentioned that "privatization policy in Malaysia had been successful in achieving the New Economy Policy (NEP) target in which Bumiputera was greatly involved in businesses, and more job opportunities were provided to them." Referring to Hunya (2000), globalization of the businesses worldwide are the drivers and are the motivation of FDI inflow into any country.

Analysing the total privatized projects from 2009 to 2015 showed an average growth rate of 7% (Table 4).

Table 4: Privatized Projects total number in Malaysia

Unit	Existing projects	New projects	Total projects privatized
1983-1990	-	-	36
2009	348	155	503
2010	348	165	513
2011	513	25	538
2012	538	54	592
2013	592	49	641
2014	641	57	698
2015	698	56	754

Source: Economic Planning Unit, 2016

The data set regarding FDI inflows(2009-2015) saw an upwards trend(Table5). The whole "seven-year period" managed to yield of total FDI inflows of USD83.1 billion. This can be equivalent to an annual average FDI inflow of USD11.9 billion. According the Malaysian Investment Development Authority (MIDA), "the biggest portion of the investment in this period came from the countries such as China, Singapore, Switzerland, Holland, and Germany."

Table 5: Macroeconomic Benefits of Privatization

Factors	1984-1990							2009-2015						
	1984	1985	1986	1987	1988	1989	1990	2009	2010	2011	2012	2013	2014	2015
GDP (US $) (Billion)	33.9	31.2	27.7	32.1	35.2	38.8	44.0	298	314	323	338	296	296	310
GDP Growth Rate (%)	-	-7.8	-11.2	15.9	9.7	10.2	13.4	-	5.4	2.9	4.6	-12.4	0	4.7
Unemployment Rate (%)	6.1	6.9	8.3	8.2	8.1	6.7	5.1	3.3	3.1	2.9	2.9	3.2	3.5	3.4
FDI Inflows (US $)(Billion)	1.26	7.9	6.9	4.2	7.1	6.68	6.3	15.1	9.1	11.3	10.6	9.9	13.1	14.0

Source: Adopted from the World Bank

The contribution of private investment for the development of the Malaysian economy is also clear in the following table (Table 6).

Table 6: Macroeconomic Impact of an Increase in the Rate of Return

	Percentage increase from the baseline (2017)
Real GDP	0.3%
Employment	0.4%
Wages	0.2%
Private investment	6.0%
Private consumption	0.4%

Similarly, the influence of private investment (See Figure2) behind the growth in Malaysia. The resumption of capital expenditure across all sectors resulted in a surge in private investment and was widely a consequence of the implementation of the Economic Transformation Programme (ETP) in 2010. This was evidenced through the higher share of private investment to GDP as well. It stood at 15.6% in the period between 2011 and 2016 (2005-2010: 12.1%). The average growth of private investment is 13% (see Figure3), which is RM 168.9 billion during the five years of 2011 - 2016 (2005-2010: 8.9%; RM 81.5 billion).

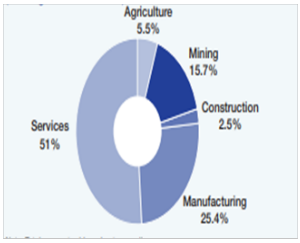

Figure 2: Composition of private investment by sector

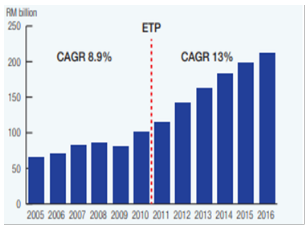

Figure 3: Private Investment Performance

Source: Department of Statistics Malaysia

Malaysia was a destination to a rather moderate net inflow, amounting to 22.9% of total private investment during the five years of 2011 and 2016 (2005-2010: 25.5%) in the case of FDI. This is primarily caused by the changing profile of the investments. Increasing investments have been routed to higher value-added manufacturing activity rather than on low labor-cost activities, a situation resulting from the implementation of ETP. Countries like Viet Nam and China have also contributed to the marginal net inflows. Japan (17.7%), Singapore (17.7%), the Netherlands (10.1%), Hong Kong (10.1%), and the USA (4.2%) are the other contributors to the major inflows.

Conclusion

A series of five-year development plans mainly to pave the way behind the post-independence social and economic development of Malaysia. All these plans were efficaciously implemented and transformed the economy from an agricultural-based to a modern technological manufacturing-based economy. Sustainable and equitable economic growth has always been highlighted in the development plans of Malaysia. This is to ensure an impartial distribution of national wealth in the economy. Privatization has eventually lessened the roles of the government in the economy. Moreover, through privatization and the private sector has to play a bigger role in generating economic activities through expanding private investment.

To ensure the forward economic development of the country since 1990, the impact of Malaysia's vision 2020 was imperious. Moreover, Malaysia needed to be changed into a form of dynamism and productivity to accomplish the aspiration of vision 2020. By looking at the economic data sets for the periods from 2005-2016, this paper found that the influence of globalization, privatization in Malaysia on economic growth, job creation and foreign direct investment inflow varies.

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