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Contents

Malaysia in the Past Three Decades
Malaysia in the Coming Years

Chapter 1 Brief Outline of Malaysia -- 1- 1
1.1 Brief Outline -- 1- 1
1.2 International Agreements --- 1- 3

Chapter 2 Macro-economic Situation of Malaysia -------------------------------- 2- 1
2.1 Population --- 2- 1
2.2 Employment --- 2- 2
2.3 Gross Domestic Product -- 2- 3
2.4 External Trade --- 2- 4
2.5 Balance of Payments -- 2- 6
2.6 Saving and Investment -- 2- 9
2.7 Consumer Prices and Foreign Exchange Rates ----------------------------------- 2-10
2.8 Poverty -- 2-11
2.9 Public Finance --- 2-11
2.10 Stock Exchange and Interest Rates -- 2-12
2.11 Population Density by State --- 2-13

Chapter 3 Industrial Structure of Malaysia --- 3- 1
3.1 Transition of Industrial Structure --- 3- 1
3.2 Foreign Direct Investment --- 3- 5
3.3 Trend of Foreign Companies --- 3- 7
3.4 Small and Medium Enterprises as Supporting Industries ------------------------- 3-10
3.5 Business Environment --- 3-13
3.6 Trend of Manufacturing Sector -- 3-20
3.7 Trend of Service Sector --- 3-22
3.8 Industrial Linkages of Surrounding Countries and Areas ------------------------ 3-25

Chapter 4 Past and Current National Plans -- 4- 1
4.1 Main National Plans --- 4- 1
4.2 Malaysia Plans in Recent Years --- 4- 2
4.3 Industrial Master Plans -- 4-22
4.4 Regional Growth Corridors -- 4-29

Chapter 5 Economic Cooperation --- 5- 1

Chapter 6 Review of Major Socio-economic Policies ------------------------------ 6- 1
6.1 Public Sector Actors for Economic Development --------------------------------- 6- 1
6.2 Ethnic-based Socio-economic Policies -- 6- 8
6.3 Privatization Policy --- 6-16
6.4 Education Policy -- 6-19
6.5 Look East Policy -- 6-21
6.6 Science, Technology and Innovation Policy -- 6-21
6.7 Islamic Finance Policy -- 6-26
6.8 Halal Industry Policy -- 6-27

Chapter 7 Past Growth Factors -- 7- 1
7.1 Overview of Socio-economic Transition in the Past Three Decades ------------ 7- 1
7.2 Trend of Number of Employees and Labor Productivity by Sector ------------- 7- 2
7.3 Notable Factors --- 7- 5

Chapter 8 Future Growth Factors and Prospects ---------------------------------- 8- 1
8.1 Overview of Major Strategies and Recommendations ----------------------------- 8- 1
8.2 Notable Factors Determining the Future -- 8-12
8.3 Future Prospects -- 8-32

Chapter 9 Suggestions for Further Cooperation ------------------------------------ 9- 1
9.1 Trend of Cooperation with Malaysia --- 9- 1
9.2 Suggestions for Cooperation -- 9- 1
9.3 Candidates for Cooperation --- 9- 1

Annex 1 Participants in Advisory Committee Meetings --------------------------- A- 1

Annex 2 Interviews --- A- 2

Annex 3 References --- A- 4

Figures

Figure 1-1-1 Comparison of Area, Population Density and Population 1- 2
Figure 1-1-2 Comparison of Population, GDP per Capita and GDP 1- 2
Figure 2-1-1 Past Population Growth 2- 1
Figure 2-1-2 Trend of Population Shares 2- 2
Figure 2-2-1 Trend of Employment by Industrial Sectors 2- 2
Figure 2-3-1 Trend of GDP by Industrial Sector 2- 3
Figure 2-3-2 Trends of Employment and GDP per Employee by Industrial Sector 2- 4
Figure 2-4-1 Trend of Export Amount by Destination 2- 4
Figure 2-4-2 Trend of Shares of Destinations in Export Amount 2- 5
Figure 2-4-3 Trend of Import Amount by Origin 2- 5
Figure 2-4-4 Trend of Shares of Origins in Import Amount 2- 6
Figure 2-5-1 Trend of Balance of Payments 2- 7
Figure 2-5-2 Cumulative External Borrowing 2- 8
Figure 2-5-3 External Debt Service Ratio 2- 8
Figure 2-6-1 Trend of the Saving Investment Gap 2- 9
Figure 2-6-2 Trend of Foreign Investment 2- 9
Figure 2-7-1 Trends of the Consumer Price Index and Annual Increase Rate 2-10
Figure 2-7-2 Trend of the Foreign Exchange Rate 2-10
Figure 2-8-1 Trends in Poverty Ratios 2-11
Figure 2-9-1 Trend of Public Sector Account 2-12
Figure 2-10-1 Trends of Stock Trading at KLSE and Number of the Listed Companies 2-12
Figure 2-10-2 Trends of Interest Rates of Commercial Banks 2-13
Figure 2-11-1 Population Density by State 2-14
Figure 2-11-2 Locations of the States and Federal Territories 2-14
Figure 3-1-1 Transition of Composition of GDP by Sector 3- 2
Figure 3-2-1 Transition of Composition of FDI by Sector 3- 7
Figure 3-8-1 External Trade by Destination 3-28
Figure 3-8-2 FDI Inflows into ASEAN by Host Country 3-28
Figure 4-1-1 Main National Plans 4- 1
Figure 5-1-1 Net Official Development Assistance (ODA) Amount for Malaysia 5- 1
Figure 5-1-2 Japan’s ODA for Malaysia 5- 2
Figure 6-1-1 Relationship among Tenth Malaysia Plan, NEM and GTP 6- 2
Figure 6-2-1 Incidence of Poverty by Ethnic Group (1970-2009) 6- 9
Figure 6-2-2 Ownership of Share Capital by Ethnic Group (1970-2008) 6-11
Figure 6-2-3 Household Income by Ethnic Group (1970-2009) 6-14
Figure 6-8-1 Halal Value Chain in Malaysia 6-28
Figure 7-2-1 Transition of Employment and Labor productivity by Sector 7- 4
Figure 8-1-1 Major Current Strategies 8- 1
Figure 8-1-2 Overview of Tenth Malaysia Plan 8-11

Tables

Table 2-5-1 Trend of Patterns in the Balance of Payments 2- 7
Table 2-8-1 General Standards of Poverty in 2007 2-11
Table 3-1-1 Composition of GDP by Sector 3- 1
Table 3-1-2 Composition of Sales Value of Selected Manufacturing Industries 3- 3
Table 3-1-3 Labor Force and Share of Employment by Sector 3- 4
Table 3-1-4 Number of Establishments, Gross Output and Total Employment by Employment Size Group, 2005 3- 4
Table 3-1-5 Contribution to Total Employment by Group, 2005 and 2006 3- 5
Table 3-2-1 Projects Approved with Foreign Participation by Country 3- 6
Table 3-2-2 Composition of FDI by Sector, 2003-2007 3- 6
Table 3-3-1 Projects Approved with Foreign Participation in Manufacturing by Sub-sector 3- 8
Table 3-3-2 Number of Japanese Affiliated Companies in Malaysia, 2004 3- 9
Table 3-4-1 Definition of SMEs by Number of Full-time Employees or Annual Sales Turnover 3-10
Table 3-4-2 Number of Establishments by Major Sector, 2003 3-10
Table 3-4-3 Distribution of SMEs in Manufacturing by Sub-sector 3-11
Table 3-4-4 Distribution of SMEs in Services by Sub-sector 3-12
Table 3-5-1 Economy Rankings, 2010 3-15
Table 3-5-2 Number of Financial Institutions, 2008 3-17
Table 3-5-3 Change of Foreign Exchange Rates 3-18
Table 3-5-4 Average Basic Monthly Salary, 2005 3-19
Table 3-5-5 Comparison of Wage Levels in Major ASEAN Countries 3-20
Table 3-6-1 Summary of New Passenger and Commercial Vehicles Registered in Malaysia 3-22
Table 3-7-1 GDP by Industrial Origin and Composition 3-23
Table 3-7-2 Selected Performance Indicators, 2000 and 2005 3-24
Table 3-7-3 Tourist Arrivals and Receipts to Malaysia 3-24
Table 3-7-4 Tertiary Education Institutions, 2000 and 2005 3-25
Table 4-3-1 Growth of Manufacturing Sector during IMP 1 Period, 1986-1995 4-23
Table 4-3-2 Growth by Sector during IMP 2 Period, 1996-2005 4-25
Table 4-3-3 Contribution to GDP by Sector during IMP 3 Period 4-26
Table 4-3-4 Growth by Sector during IMP 3 Period 4-28
Table 4-3-5 Contribution to GDP by Sector during IMP 3 Period 4-28
Table 4-4-1 Overview of Regional Growth Corridors 4-29
Table 6-1-1 Developed Area by FELDA 6- 5
Table 6-1-2 Number of Settlers by State 6- 6
Table 6-1-3 Five Year Financial Highlights 6- 7
Table 6-2-1 Incidence of Hardcore Poverty and Overall Poverty, 1999 and 2004 6-10
Table 6-2-2 Incidence of Hardcore Poverty and Overall Poverty by Ethnic Group, 1999 and 2004 6-10

Table 6-2-3 Ownership by Ethnic Group 1970-2006 6-11
Table 6-2-4 Ownership of Share Capital of Companies by Ethnic Group and Sector, 2004 6-11
Table 6-2-5 Ownership of Commercial Buildings and Premises by Ethnic Group, 2005 and 2007 6-12
Table 6-2-6 Registered Professionals by Ethnic Group, 2000, 2005 and 2007 6-12
Table 6-2-7 Employment by Occupation and Ethnic Group, 2000 and 2005 6-13
Table 6-2-8 Monthly Income by Ethnic Group in Sabah and Sarawak 6-14
Table 6-2-9 Gini Coefficient 6-15
Table 6-2-10 Development Budgets for Ethnic-based Policy Measures 6-16
Table 6-3-1 Chronologies of Privatization Policy 6-17
Table 6-4-1 GNP Ratio of Education Spending 6-19
Table 6-4-2 Shares of Expenses for Education in Ordinary and Development Budgets 6-19
Table 6-6-1 Development Expenditure and Allocation for Technology and Innovation 2001-2010 6-22
Table 6-6-2 Indicators of Multimedia Super Corridor 2001-2010 6-23
Table 6-6-3 Development Budget for ICT Programs 6-23
Table 6-6-4 Indicators of Bio Industry in Malaysia 2005-2020 6-25
Table 6-6-5 Development Budget for Biotechnology in 8MP and 9MP 6-25
Table 6-7-1 Chronologies of Islamic Finance Policy 6-26
Table 7-2-1 Transition of Employment, Gross Product and Labor Productivity by Sector 7- 3
Table 8-1-1 Trend of Poverty Ratio 8- 4
Table 8-1-2 Strategic Reform Initiatives 8- 9
Table 8-2-1 Gross National Income by Demand Category 2006-2015 8-12
Table 8-2-2 Examples of Public-Private Partnership Projects and GLC-led Projects 8-14
Table 8-2-3 Service Trade Performance in Recent Years 8-15
Table 8-2-4 Contribution of Factors of Production, 2006-2015 8-15
Table 8-2-5 Gross Domestic Product by Kind of Economic Activity (Sector), 2006-2015 8-17
Table 8-2-6 Mean and Median of Monthly Gross Household Income by Ethnic Group and Strata, 2004 and 2009 8-30

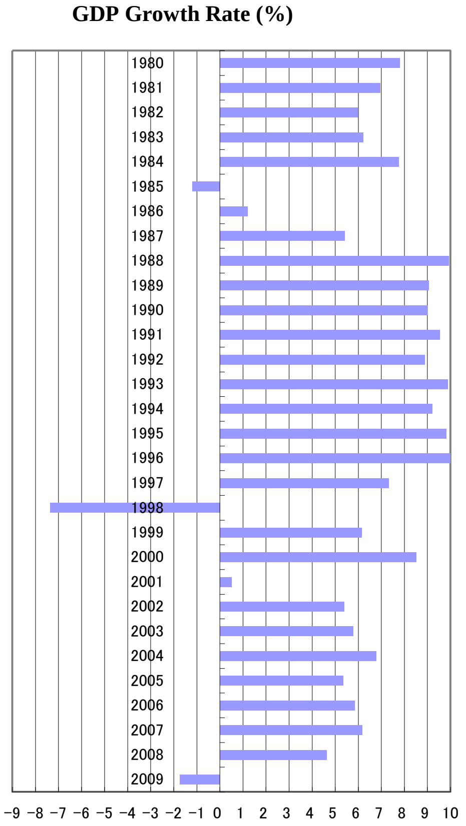
Abbreviations

ACIA	ASEAN Comprehensive Investment Agreement
ADB	Asian Development bank
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AOTS	Association for Overseas Technical Scholarship
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN, Japan China and Korea
BHN	Basic Human Needs
BiotechCorp	Malaysian Biotechnology Corporation
BOP	Base (Bottom) of Pyramid
CEPT	Common Effective Preferential Tariff
EPA	Economic Partnership Agreement
EPF	Employees Provident Fund
EPU	Economic Planning Unit Prime Minister's Department
EU	European Union
FDI	Foreign Direct Investment
FELDA	Federal Land Development Authority
FMM	Federation of Malaysian Manufacturers
FTA	Free Trade Agreement
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GLC	Government-linked Company
GNI	Gross National Income
GNP	Gross National Product
GTP	1Malaysia Government Transformation Programme
HDC	Halal Industry Development Corporation
HICOM	Heavy Industry Corporation of Malaysia
ICOR	Incremental Capital Output Ratio
ICT	Information and Communication Technology
IFC	International Finance Corporation
IMP	Industrial Master Plan
IT	Information Technology
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JODC	Japan Overseas Development Corporation
JSPS	Japan Society for the Promotion of Science
KL	Kuala Lumpur
KLIA	Kuala Lumpur International Airport
LNG	Liquefied Natural Gas

MAJAICO	Malaysia Japan Automotive Industries Cooperation
MATRADE	Malaysia External Trade Development Corporation
MDG	Millennium Development Goals
MIDA	Malaysian Industrial Development Authority
MIDF	Malaysian Industrial Development Finance Berhad
MIFC	Malaysia International Islamic Financial Centre
MITI	Ministry of International Trade and Industry
MKRA	Ministerial Key Result Area
MOSTI	Ministry of Science, Technology and Innovation
MP	Malaysia Plan
MPC	Malaysia Productivity Corporation
MSC	Multimedia Super Corridor
MTCP	Malaysian Technical Cooperation Programme
NAP	National Automotive Policy
NDP	National Development Policy
NEDO	New Energy and Industrial Technology Development Organization
NEM	New Economic Model for Malaysia
NEP	New Economic Policy
NFPE	Non-financial Public Enterprise
NGO	Nongovernmental Organization
NIES	Newly Industrialized Economies
NKEA	National Key Economic Area
NKRA	National Key Result Area
NPO	Nonprofit Organization
NVP	National Vision Policy
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of the Islamic Conference
OPP	Outline Perspective Plan
OPR	Overnight Policy Rate
PEMANDU	Performance Management and Delivery Unit
PEMUDAH	Special Task Force to Facilitate Business
PFI	Private Finance Initiative
PPP	Public-Private Partnership
R&D	Research and Development
RM	Malaysia Ringgit
SARS	Severe Acute Respiratory Syndrome
SME	Small and Medium Enterprise(s)
SME Corp	SME Corporation Malaysia
SMIDEC	Small and Medium Industries Development Corporation
SMIDP	Small and Medium Industries Development Plan
SMS	Short Message Service
SRI	Strategic Reform Initiative
UNDP	United Nations Development Programme
VDP	Vendor Development Programme
WTO	World Trade Organization

Malaysia in the Past Three Decades

(Source: Malaysian Economy in Figures 2009 JETRO, Malaysia Plans)



Current account	Poverty ratio	Remarks
−	29.2%	Establishment of HICOM
−	(Peninsular)	Worsening fiscal deficit
−		
−		
−		Manufacturing surpassed agriculture in GDP
−	20.7%	Fall of primary commodity prices & Plaza Accord
−		
+		
+		Rapid expansion of FDI
+		
−	17.1%	
−		Announcement of Vision 2020
−		
−		Expansion of short term capital inflow
−		
−	8.7%	
−		
−	6.1%	(Investment > Saving before Asian Financial Crisis)
+	8.5%	Asian Financial Crisis
+	7.5%	(Saving > Investment after Asian Financial Crisis)
+		
+		Colapse of internet bubbles & 9.11
+		
+		Liberalization of manufacturing to FDI
+	5.7%	
+		Import from China > Import from USA
+		
+	3.6%	Surplus in balance on service
+		Global Financial Crisis & Stimulus packages
+	3.8%	Export to China > Export to USA

Views on Current Situation of 1Malaysia Government Transformation Programme (GTP)

(1) Economic Development and Poverty Reduction

GNP per capita rose nearly five times from US$1,563 in 1980 to US$7,558 in 2010.
Poverty ratio dropped remarkably.

(2) Inequality between ethnic groups

Progress was made for participation in economic activities and distribution of wealth.
Bumiputera’s shares in stock ownership remain relatively low.
Some cases of discontent and brain drain are attributed to irrelevant affirmative actions.

Views on Current Situation of New Economic Model for Malaysia Part 1 (NEM)

Economic growth of Malaysia used to rely on subsidized resources and low cost workers rather than high productivity. The poverty incidence was reduced while the gap remains. The natural environment and resources were not adequately protected. Now Malaysia is caught in a middle income trap with a number of challenges.

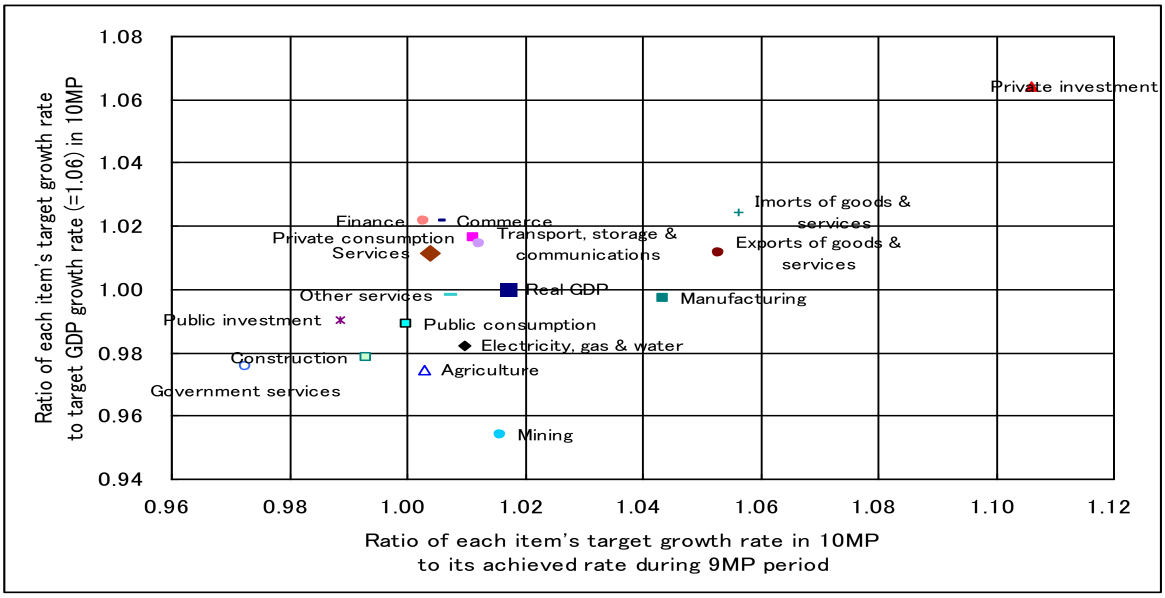
- Economic growth remains slow.
- Private investment is inactive with inadequate investment climate and crowing-out by GLCs.
- Value added of exports mainly of manufacturing is limited by large shares of imported inputs.
- Skilled labor is lacking and leaving, the economy relies on low cost unskilled foreign workers.
- Total factor productivity is low with limited R&D and innovation.
- The gap between the rich and the poor is widening.
- Ethnic-based policies worked but caused rent seeking, opaque measures and corruption.
- Market was distorted by controlled prices and subsidies mainly based on petroleum proceeds.
- Human resources of Malaysia are insufficient in quality and quantity in the global competition.

Malaysia in the Coming Years

Indices of Tenth Malaysia Plan (Source: Tenth Malaysia Plan)

Items with decelerating growth and increasing share in GDP: N.A.	Items with accelerating growth and increasing share in GDP: Private investment, Import, Export, Commerce, Finance, etc.
Items with decelerating growth and decreasing share in GDP: Government service, Construction, etc.	Items with accelerating growth and decreasing share in GDP: Mining, Manufacturing, Agriculture, etc.

Note: Commerce = wholesale & retail trade, accommodation and restaurants
Finance = finance, insurance, real estate and business services
Agriculture = agriculture, forestry, livestock and fishing



Overview of Tenth Malaysia Plan

(Source: "Malaysia Economic Development & Current Status" EPU)

- Channels for public-private communication are dialogue, workshops, PEMUDAH, emails, etc.
- Macroeconomic objectives are private-led 6% growth and reduction of government deficit.
- GDP growth is led by private investment.
- New measures for competitiveness & private investment with business environment by MPC.
- Strong relation with countries with cultural linkage like Indonesia, China, India & Mideast.
- Strong engagement with Malaysians abroad such as investors, professionals & students.
- National Key Economic Areas impact growth, namely Oil & gas, Palm oil & related products, Financial services, Wholesale & retail, Tourism, ICT, Education, Electrical & electronics, Business services, Private healthcare, Agriculture, and Greater Kuala Lumpur.
- Be top 10 in terms of global tourism receipts from 16th in 2008.
- Attract 150,000 international students from 97,000 in 2009.
- Increase business & professional services contribution to 3.3% of GDP from 2.9% in 2009.
- Productivity-led growth & innovation by skills, agglomeration & quality of investment.
- Innovation & entrepreneurship by cost reduction & venture funding for SMEs.
- Integrated human capital & talent development.
- Nurturing, attracting & retaining top talent by forming Talent Corporation.
- Mainstreaming technical education & vocational training for dual pathway to employment.
- Ensuring equality of opportunities & safeguarding the vulnerable.
- Concentrated growth & inclusive development for quality of life.
- New approach to vibrant & livable cities by featuring communities & public transport.
- Transformation of government as a facilitator by empowerment & fiscal improvement.
- Progress monitoring by delivery-focused units.

Chapter 1 Brief Outline of Malaysia

1.1 Brief Outline

The area of Malaysia is approximately 330 thousand km^2 and the population is approximately 28 million. As the GNP per capita is around US$7 thousand, Malaysia belongs to the upper middle income group according to the classification of the World Bank. Malaysia is a multi-ethnic country comprising Bumiputera (including Malays and other indigenous groups), Chinese, Indians and others. As of 2009, 1,421 Japanese companies are located and about 9,330 Japanese reside in the country. The cumulative total of Japan's Official Development Assistance (ODA) as of 2008 is Yen 969.3 billion of loans, Yen 13.8 billion of grants, and Yen 108.5 billion of technical cooperation. In recent years, Japan's ODA has been reduced due to Malaysia's economic growth.

Area	approx. 330 km^2 (approx. 90% of Japan's area)	GNP per capita	US$6,850 (2009)
Population	28,310 thousand (2009 data of Department of Statistics)	GDP growth rate	-1.7% (2009)
Capital City	Kuala Lumpur	Consumer price index rate	0.63% (2009)
Ethnic groups	Bumiputera (66%), Chinese (26%), Indian (8%)	Unemployment rate	3.6% (2009)
Languages	Malay (national language), Chinese, Tamil, English	External trade (2008) Export amount Import amount	 US$157.0 billion US$123.4 billion
Religions	Islam (religion of the federal government), Buddhism, Confucianism, Hinduism, Christianity, and indigenous religions	National currency	Malaysian Ringgit (RM)
		Exchange rates	US$1 = Approx. RM3.4 RM1 = Approx. Yen26 (December 1 2009)
Main industries	manufacturing (electrical and electronics), agriculture and forestry (rubber, palm oil, timber), mining (oil, liquid natural gas (LNG))	Japan's ODA (Cumulative total as of 2008)	
		1) Loans (based on the exchange of notes)	Yen969.3 billion
GDP	US$147.4 billion (2009)		
		2) Grants (based on the exchange of notes)	Yen13.8 billion
		3) Technical cooperation (JICA)	Yen108.5 billion

Source: Japan's Ministry of Foreign Affairs

One of the characteristics of Malaysia is its smaller population compared with some ASEAN countries such as Thailand, the Philippines, and Indonesia. For example, Malaysia's area is about 1.1 times the Philippines', but the population of Malaysia is about 30% of the Philippines'.

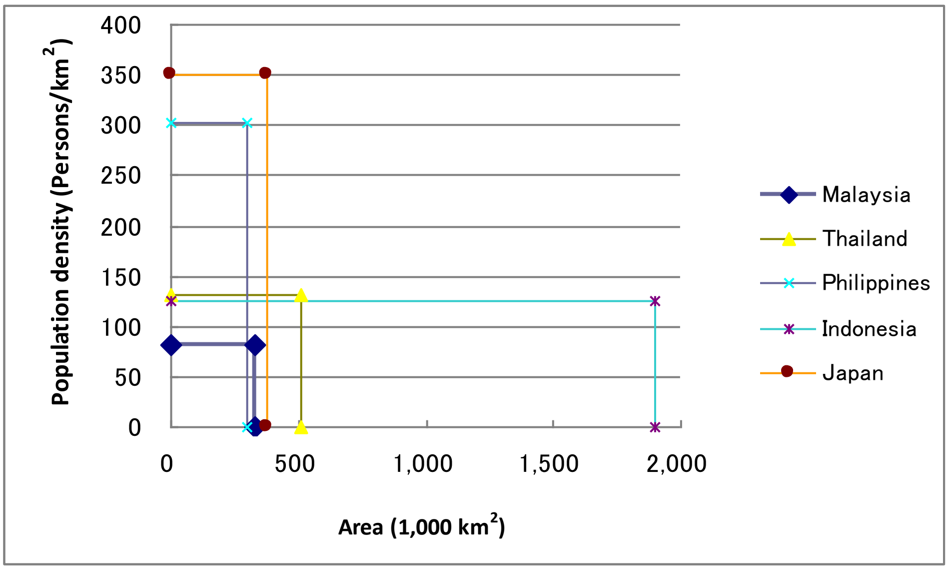


Figure 1-1-1 Comparison of Area, Population Density and Population
Source: Malaysian Economy in Figures 2009 JETRO

On the other hand, Malaysia's income level is the highest next to Singapore and Brunei in ASEAN countries.

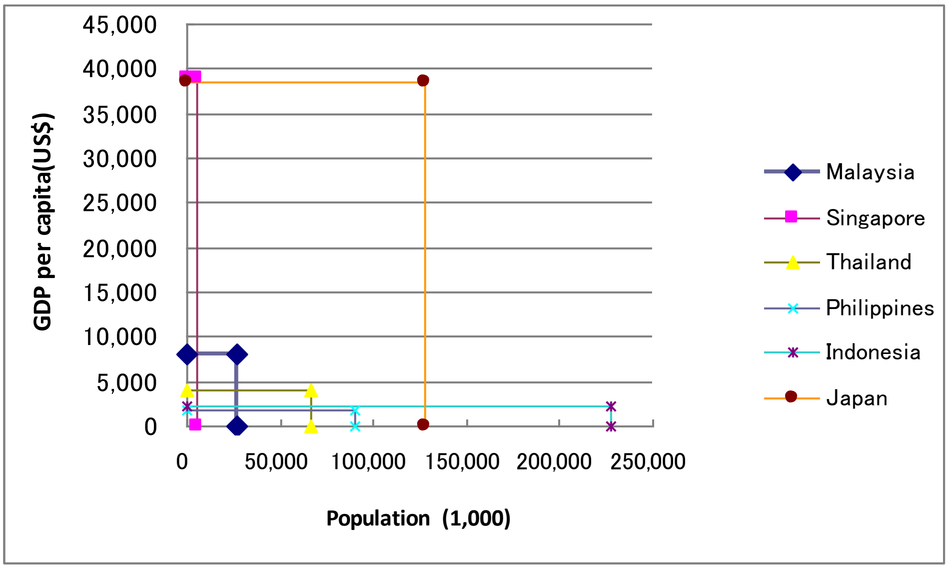


Figure 1-1-2 Comparison of Population, GDP per capita and GDP
Source: Malaysian Economy in Figures 2009 JETRO

1.2 International Agreements

Malaysia is a member of the following major groups.

- The Association of Southeast Asian Nations (ASEAN) (expected to become the ASEAN Community in 2015.) (joined in 1967)
- The Organisation of the Islamic Conference (OIC) (joined in1969)
- Asia-Pacific Economic Cooperation (APEC) (joined in 1989)
- World Trade Organization (WTO) (joined in 1995)

Malaysia's Economic Partnership Agreements (EPA) or Free Trade Agreements (FTA) are at the following stages.

(1) Bilateral EPA or FTA

Already concluded with Japan and Pakistan

Under negotiation with USA, Australia, New Zealand, Chili, India, and the Republic of Korea

(2) EPA or FTA of ASEAN

Already concluded with the member countries of ASEAN (ASEAN Free Trade Area (AFTA)), China, India, Japan, the Republic of Korea, and Australia-New Zealand

Under negotiation with EU

Chapter 2 Macro-economic Situation of Malaysia

2.1 Population

The presented data shows gaps between 1990 and 1991 and between 1999 and 2000. They seem to be caused by data of foreigners and technical problems.

The growth rate of Bumiputera is higher at 3.7%, while the rates are lower at 1.8% for both Chinese and Indians. It is noticed that population of non-Malaysians is increasing in recent years.

The total population in2009 is approximately 28 million and the total of Malaysians is approximately 25.4 million, of which Bumiputera accounts for 66.1%, Chinese for 25.2%, Indians for 7.5%, and others for 1.2%. There are about 25 million non-Malaysians accounting for 9% of the total and most of them are foreign workers.

In recent years, the population growth rate has been low at around 2%.

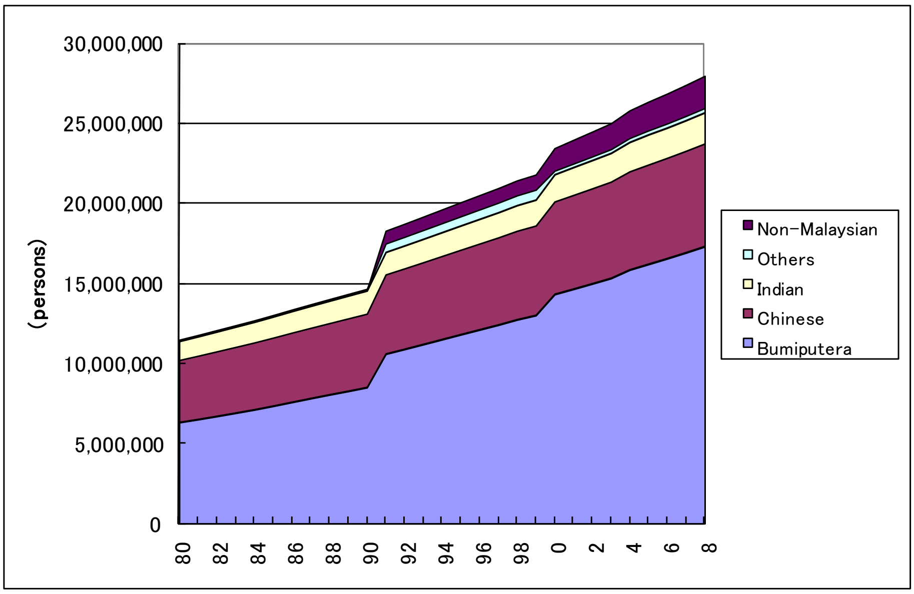


Figure 2-1-1 Past Population Growth
Source: Malaysian Economy in Figures 2009 JETRO

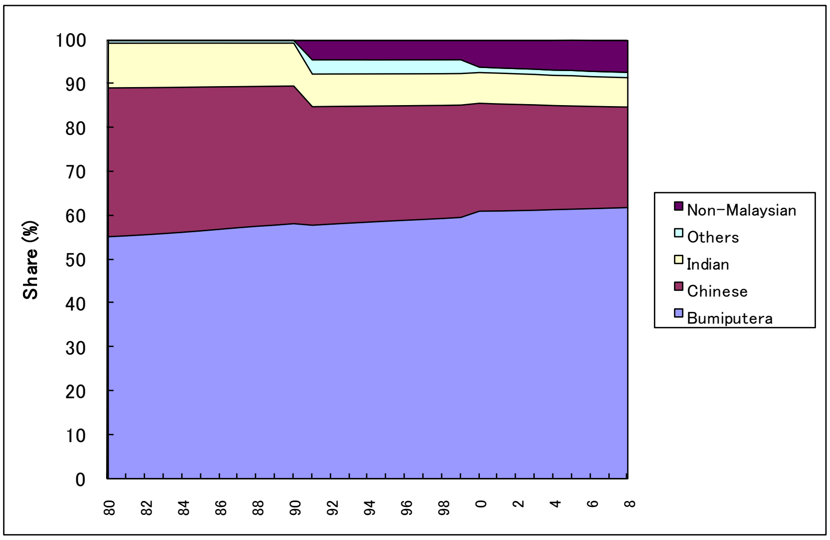


Figure 2-1-2 Trend of Population Shares
Source: Malaysian Economy in Figures 2009 JETRO

2.2 Employment

The number of employees has been increasing at an average annual rate of 3.1% since 1980. The manufacturing sector and the service sector, except the government services, that is the finance, insurance, business services and real estate sub-sector, the transport, storage and communication sub-sector, and the other services are growing more rapidly than others. Share of the manufacturing sector increased from 15.7% in 1980 to 28.4% (estimation) in 2009. The service sector, except the government services, also increased its share from 17.7% to 28.8% (estimation) during the same period. In recent years, however, the manufacturing sector has been slightly losing its share.

On the other hand, share of the agriculture, livestock, forestry and fishing sector decreased its share from 39.7% in 1980 to 12.0% (estimation) in 2009. The government services sub-sector also decreased its share from 13.7% to 11.0% (estimation) during the same period.

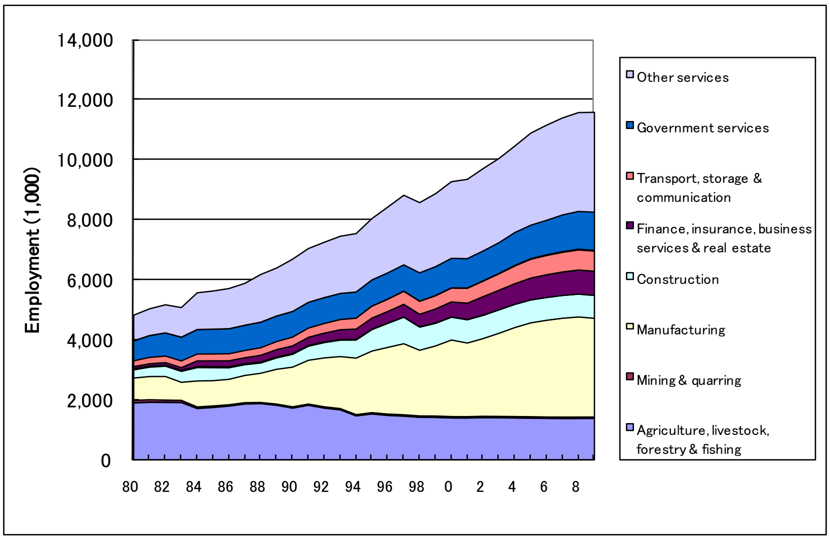


Figure 2-2-1 Trend of Employment by Industrial Sector
Source: Malaysian Economy in Figures 2009 JETRO

2.3 Gross Domestic Product

2.3.1 Outline

Gross Domestic Product (GDP) has been rapidly growing at an average annual rate of 5.7%. There were exceptionally four years when the growth rate was negative or nearly zero.

1985: Growth rate = - 1.2% mainly due to drastic fall of prices of primary products
1998: Growth rate = - 7.4% The Asian Financial Crisis
2001: Growth rate = +0.5% due to collapse of the internet bubbles
and the September 11 Attacks
2009: Growth rate = - 1.7% The Global Financial Crisis

Share of the manufacturing sector in the total GDP increased from 19.6% in 1980 to 26.4% (estimation) in 2009, contributing a lot to the national economy. On the other hand, the agriculture, livestock, forestry and fishing sector decreased its share from 22.9% to 7.8% (estimation) during the same period.

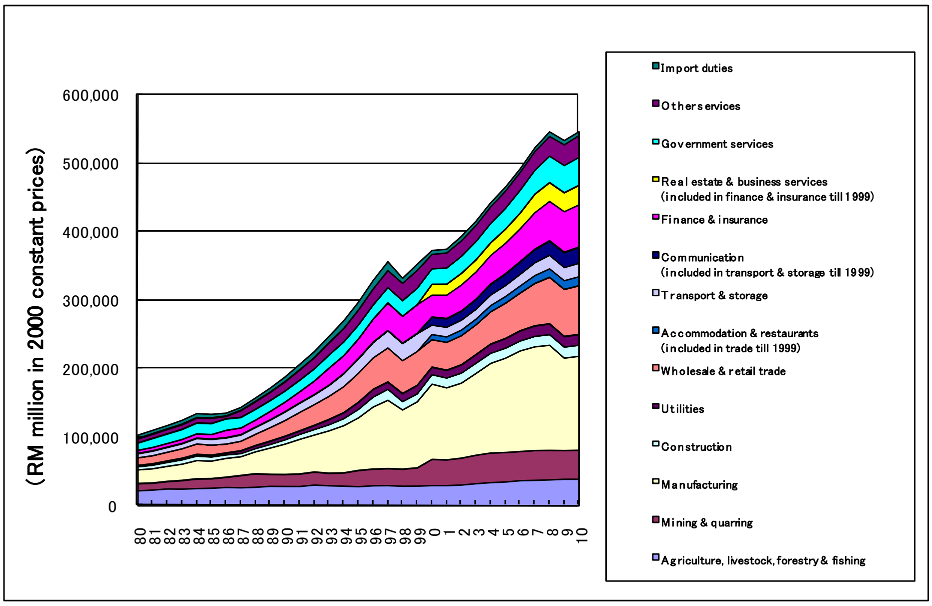


Figure 2-3-1 Trend of GDP by Industrial Sector
Source: Malaysian Economy in Figures 2009 JETRO

2.3.2 Trends of Employment and GDP per Employee by Industrial Sector

By setting the number of employees and the GDP per employee of each sector in 1980 as 100, the changes towards 2009 are shown below.

The finance, insurance, real estate, and business services sector increased its employment to over 10 times the 1980 level, while the mining sector decreased its employment but increased the GDP per employee to around 8 times the 1980 level. The manufacturing sector, the other services sector (including public services, commerce, accommodation and restaurants), and the transport, storage and communication sector largely increased both the employment and the GDP per employee. The agriculture, forestry, livestock and fishing sector increased the GDP per employee but decreased its employees.

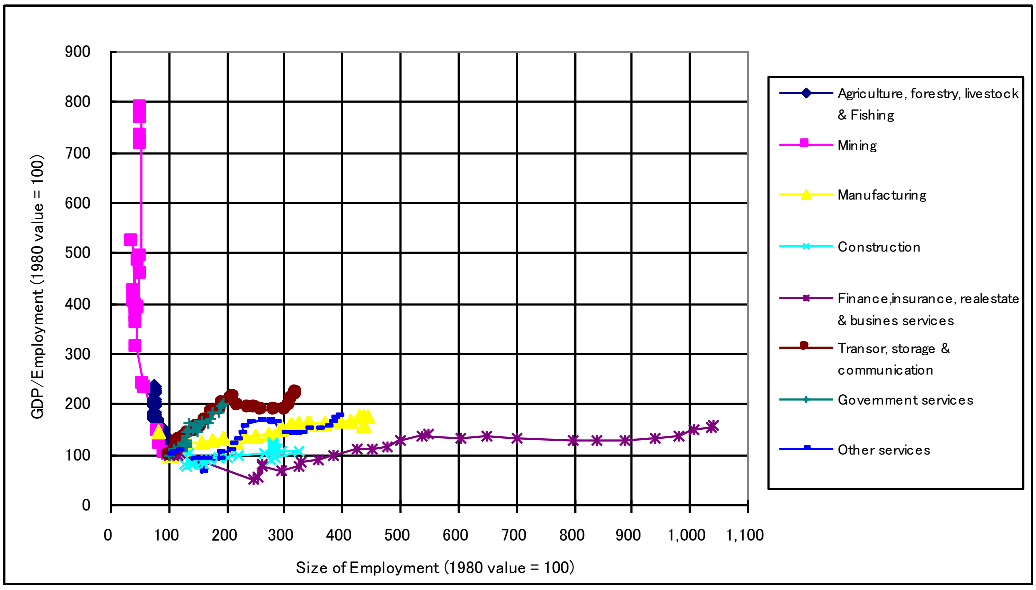


Figure 2-3-2 Trends of Employment and GDP per Employee by Industrial Sector
Source: Malaysian Economy in Figures 2009 JETRO

2.4 External Trade

2.4.1 Exports

Since 1980, the export amount in current prices kept growing except in 1981, 1985, 1986 and 2001. In 1980, major destinations were ASEAN (22.4%, including Singapore's share of 19.1%), Japan (22.8%), EU (16.8%) and USA (16.4%), totaling 78.3%. In 2008, they remained to be the top four as ASEAN (25.8%, including Singapore's 14.7%), USA (12.5%), EU (11.3%), and Japan (10.8%). However, their total share decreased to 60.4% as other destinations' share increased. Among them, China's share drastically increased from 1.7% to 9.5% in the period. In 2009, china became the second largest export destination next to Singapore.

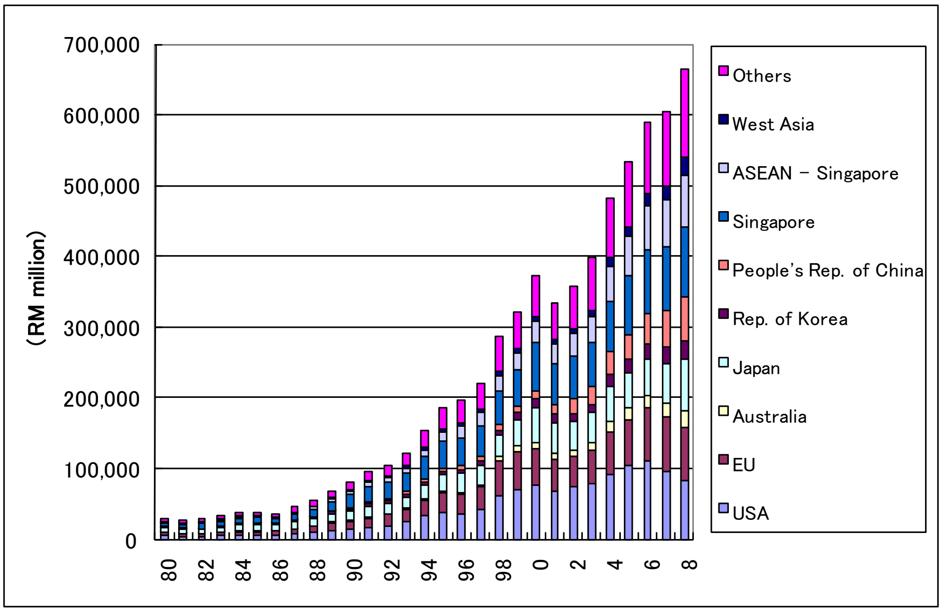


Figure 2-4-1 Trend of Export Amount by Destination
Source: Malaysian Economy in Figures 2009 JETRO

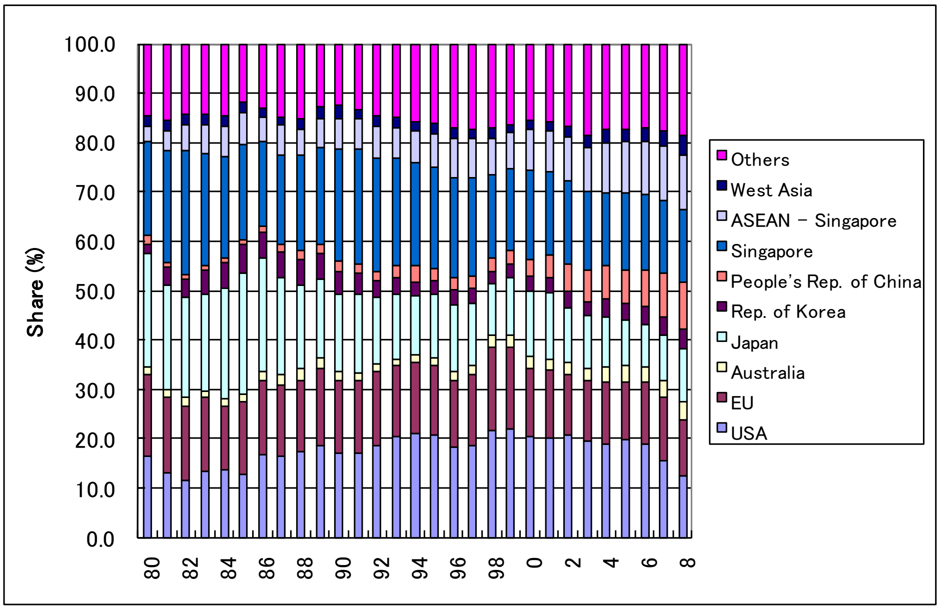


Figure 2-4-2 Trend of Shares of Destinations in Export Amount
Source: Malaysian Economy in Figures 2009 JETRO

2.4.2 Imports

Since 1980, the import amount in current prices kept growing except in 1985, 1986 and 2001. In 1980, major import partners were Japan (22.9%), ASEAN (16.5%, including Singapore's share of 11.7%), EU (15.4%) and USA (15.0%), totaling 69.8%. In 1980, China's share was 2.3%, but in 2008, it became the largest import partner accounting for 12.8%. Other major partners remained unchanged such as ASEAN (25.3%, including Singapore's share of 11.0%), Japan (12.5%), EU (11.8%) and USA (10.8%). Similar to export, the share of the four regions decreased to 60.4% of the total import amount in 2008.

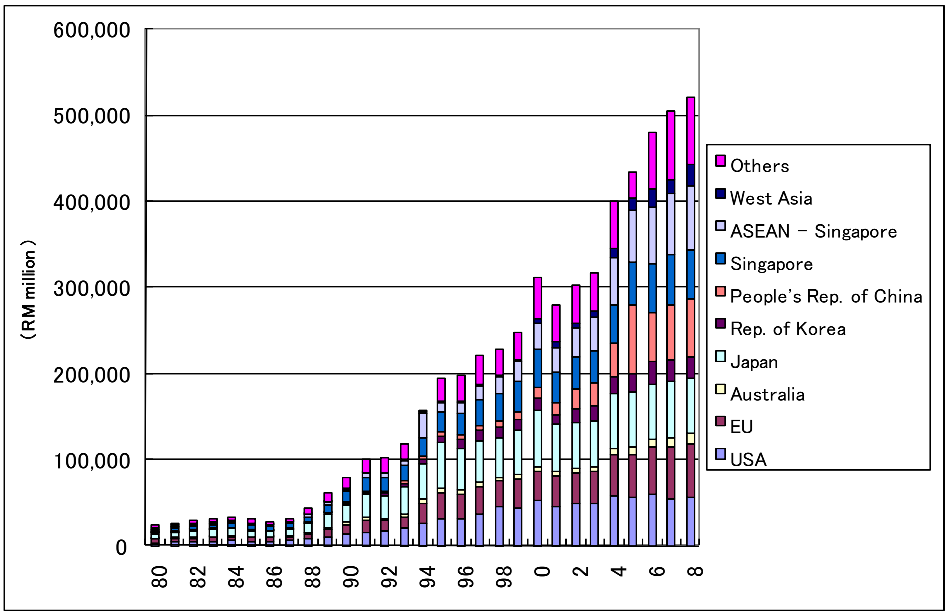


Figure 2-4-3 Trend of Import Amount by Partner
Source: Malaysian Economy in Figures 2009 JETRO

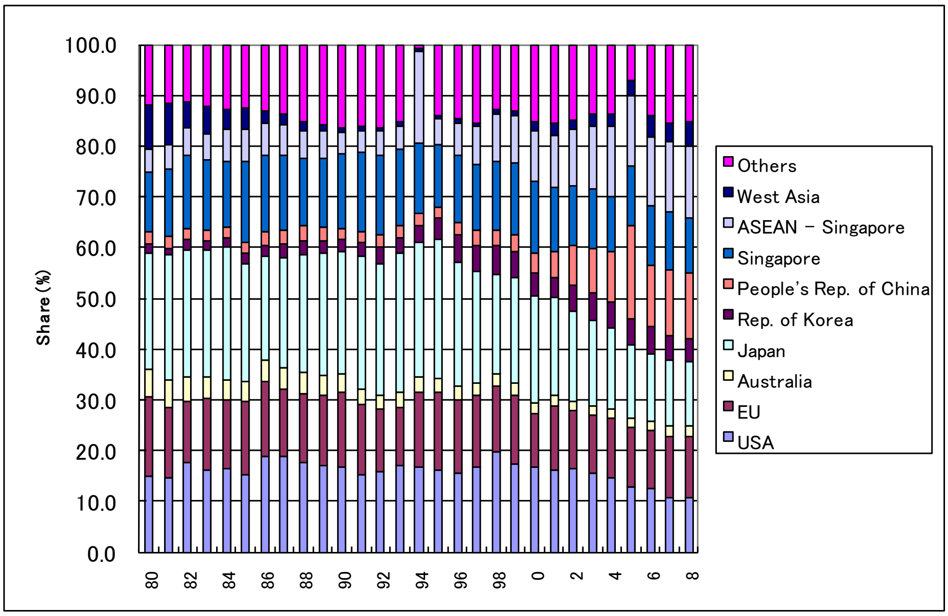


Figure 2-4-4 Trend of Shares of Partners in Import Amount
Source: Malaysian Economy in Figures 2009 JETRO

2.5 Balance of Payments

The trend of the balance of payments since 1983 can be classified into the following stages.

(i) 1983-1986
Balance on the current account was negative (deficit), as the merchandise trade surplus was less than the service deficit, that was mainly due to the outflow of the investment income.

(ii) 1987-1989
Balance on the current account was positive (surplus), as the merchandise trade surplus expanded due to the export growth and exceeded the service deficit, which was mainly due to the outflow of the investment income.

(iii) 1990-1997
Balance on the current account was negative (deficit), as the merchandise trade surplus reduced by the import increase fell below the service deficit expanded mainly by the outflow of the investment income.

(iv) 1998-2006
Balance on the current account was positive (surplus), as the merchandise trade surplus due to the export expansion exceeded the service deficit in a decreasing trend with the increasing travel income.

(v) 2007-2009
With the increasing travel income, the balance on services became positive (surplus) in 2007 and 2008. It is however expected to become negative (deficit) again in 2009. Balance on the current account was positive (surplus) since 2007.

The balance on long-term capital had been positive since 1989 but it has been negative since 1999 except in 2004. The deficit in recent years indicates increase of Malaysia's investment abroad, although it is not necessarily direct investment. The deficit also indicates withdrawal of foreign capital from Malaysia.

Table 2-5-1 Trend of Patterns in the Balance of Payments
Source: Malaysian Economy in Figures 2009 JETRO

	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6	7	8	9e	10f
a Merchandise account balance	−	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
b Balance on services	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	+	+	−	+
c Income																		−	−	−	−	−	−	−	−	−	−	−	−
d Transfers	−	−	−	−	+	+	+	+	+	+	+	+	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−	−
E Balance on current account (a+b+c+d)	−	−	−	−	−	+	+	+	−	−	−	−	−	−	−	−	+	+	+	+	+	+	+	+	+	+	+	+	+
F Balance on long-term capital	+	+	+	+	+	−	−	+	+	+	+	+	+	+	+	+	+	−	−	−	−	−	+	−	−	−	−		
G Private capital	+	−	−	+	−	−	−	+	+	+	+	+	−	+	+	−	−												
Overall balance (E+F+G)	−	−	+	+	+	+	−	+	+	+	+	+	−	−	+	−	+	+	−	+	+	+	+	+	+	+	−		

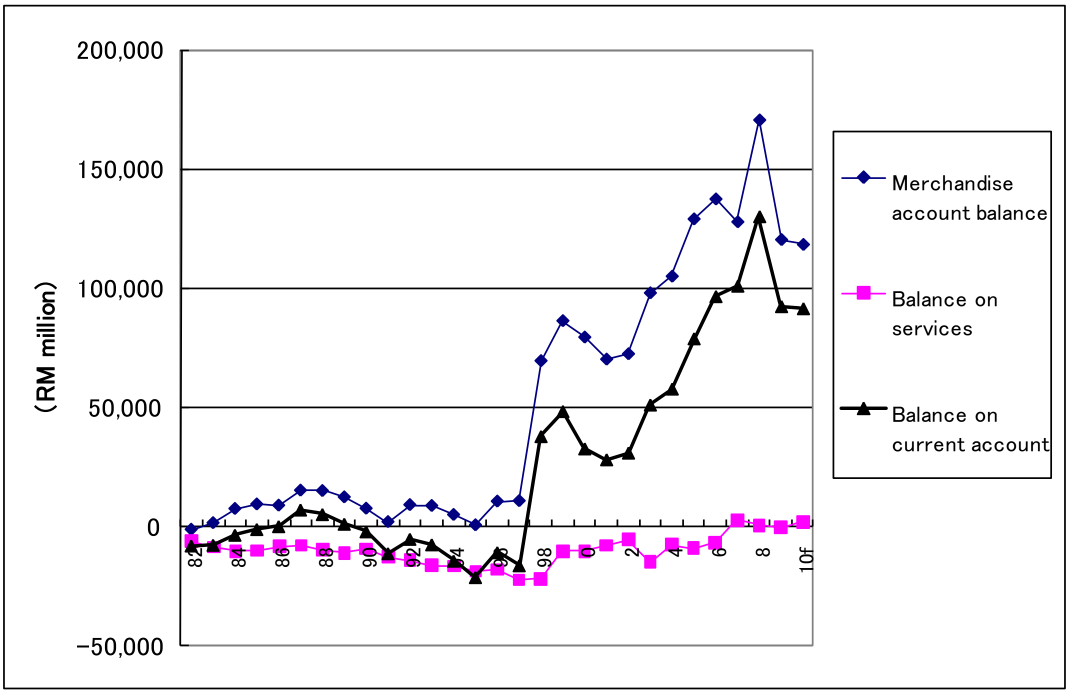


Figure 2-5-1 Trend of Balance of Payments
Source: Malaysian Economy in Figures 2009 JETRO

The cumulative external borrowing jumped by 71.7% in 1997. It tended to decrease since 2004, but again increased in 2008. However, as the external debt service ratio has been below 10% since 1989, the external borrowing is not regarded as an urgent problem.

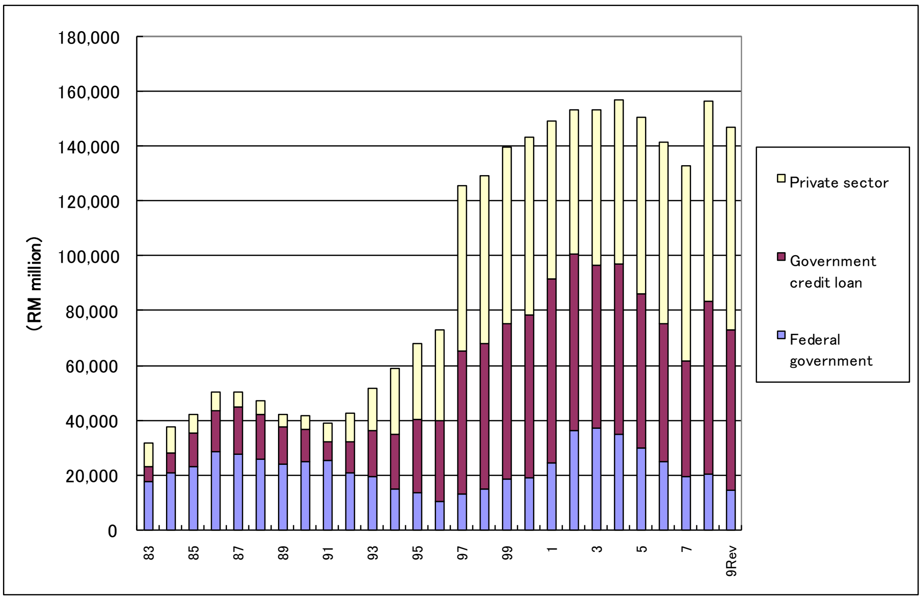


Figure 2-5-2 Cumulative External Borrowing
Source: Malaysian Economy in Figures 2009 JETRO

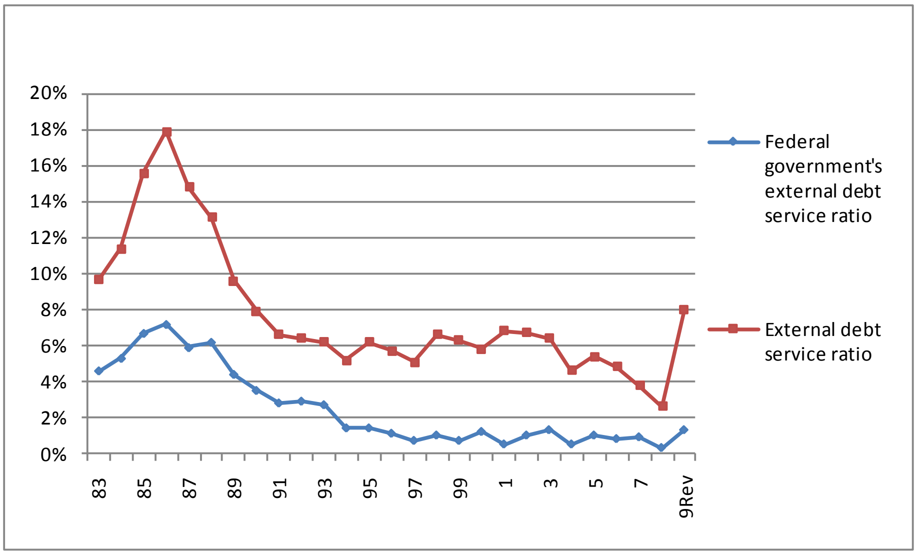


Figure 2-5-3 External Debt Service Ratio
Source: Malaysian Economy in Figures 2009 JETRO

2.6 Saving and Investment

The gap between savings and investment was negative in the early 1980s due to the public investment accounting for 17.3% of the GNP. In the late 1980s, the gap turned to be slightly positive due to the decrease of public investment to 11.1% and the increase of private savings. In the early 1990s, private investment increased to 26.0% of the GNP, turning the gap negative again. Since the late 1990s, the gap has been positive. In other words, since the Asian Financial Crisis, the investment potential based on the domestic saving may not have been fully mobilized.

According to the Mid-term Review of the Ninth Malaysia Plan, the Incremental Capital Output Ratio (ICOR) is calculated to be 3.7 for 2006 and 2007. Simple calculation based on the ICOR might suggest that an annual growth rate around 10% is realized if all the savings amounting to 38.4% of the GNP are converted to investment.

It is noted that the foreign investment, approximately equal to 5% of the GNI, was approved during the period from 1986 to 2005.

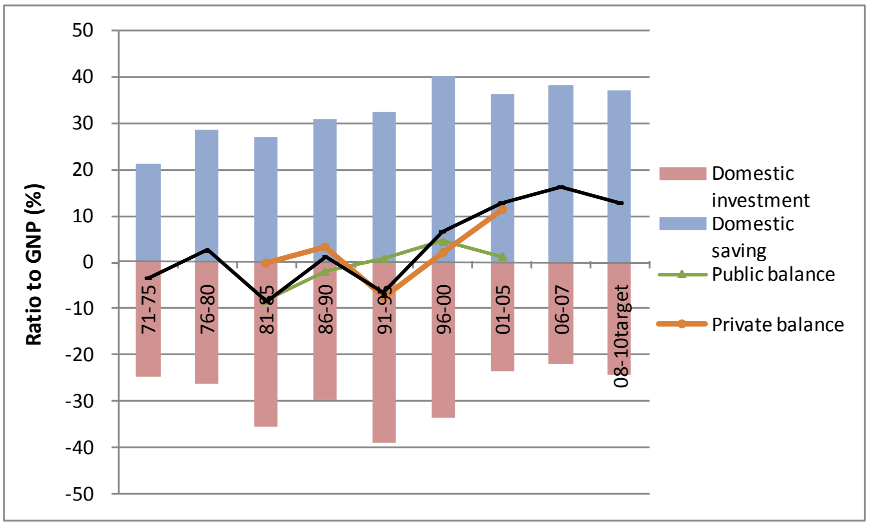


Figure 2-6-1 Trend of the Saving Investment Gap
Source: Malaysian Economy in Figures 2009 JETRO

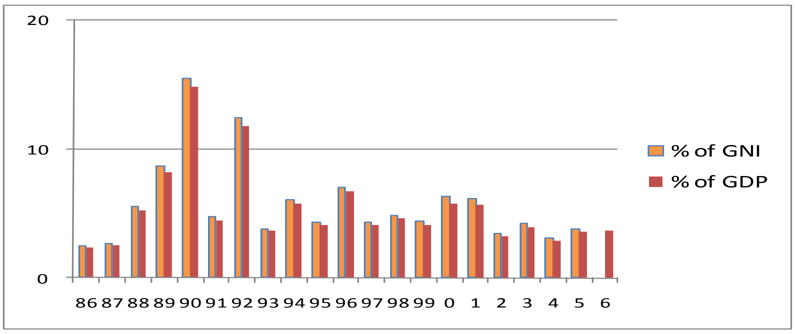


Figure 2-6-2 Trend of Foreign Investment
Source: Malaysian Economy in Figures 2009 JETRO

2.7 Consumer Prices and Foreign Exchange Rates

The average annual increase rate of the consumer price index was 3.1% during the 28 year period from 1980 to 2008. While the economy expanded very rapidly during this period, the consumer prices have been stable. The price stability has been partly supported by policy measures including subsidies to some commodities.

The exchange rate sharply fell in 1998 due to the Asian Financial Crisis. Since then, it has been stable as US$ 1 is equivalent to Malaysian Ringgit (RM) 3.2285 as of April 5, 2010.

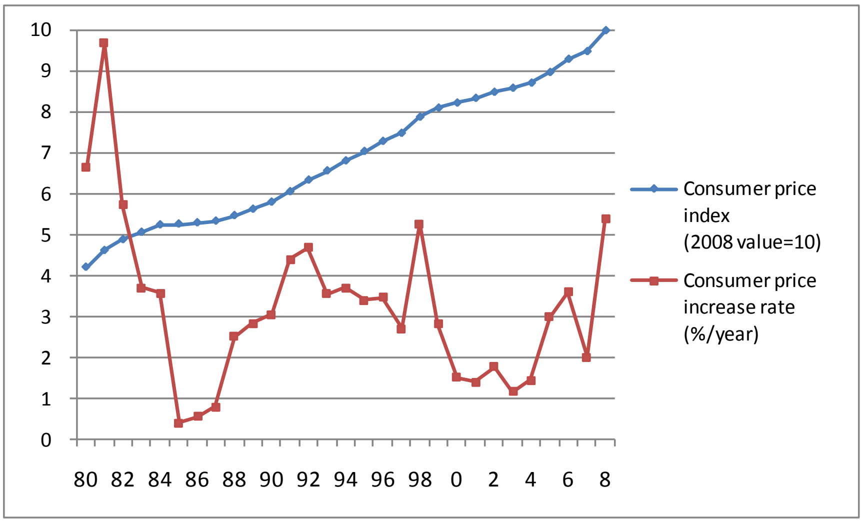


Figure 2-7-1 Trends of the Consumer Price Index and Annual Increase Rate
Source: Malaysian Economy in Figures 2009 JETRO

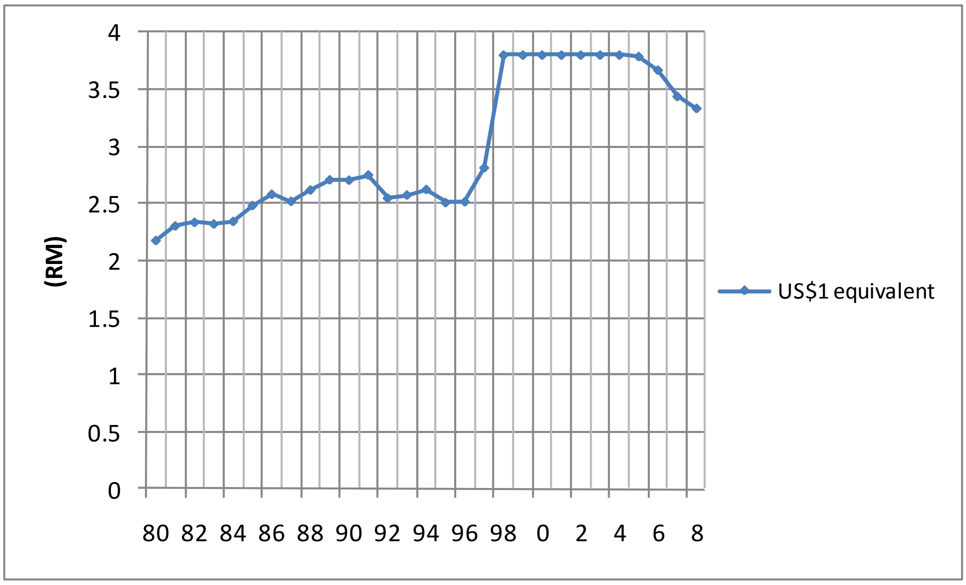


Figure 2-6-2 Trend of the Foreign Exchange Rate
Source: Malaysian Economy in Figures 2009 JETRO

2.8 Poverty

The incidence of the overall poverty has been steadily decreasing. As an exception, the poverty ratio slightly increased in Sabah State from 1985 to 1990. Although this increase was partly attributed to the inclusion of temporary migrants in the poor household category, the poverty ratio of the state is still high compared to others even in 2007. The government has been seeking to eradicate hardcore poverty and reduce the overall poverty ratio to 2.8% by 2010 through various measures such as the regional corridors, the Bumiputera Commercial and Industrial Community (BCIC), and micro credit schemes in order to reduce inequality between urban and rural areas as well as between different regions.

The following table shows average figures of the general standards of poverty. Detailed practical standards vary whether the area is rural or urban.

Table 2-8-1 General Standards of Poverty in 2007

	Monthly Household Income		
	Peninsular Malaysia	Sabah State	Sarawak State
Overall Poverty	RM 720	RM 960	RM 830
Hardcore Poverty	RM 430	RM 540	RM 520

Source: Mid-term Review of the Ninth Malaysian Plan

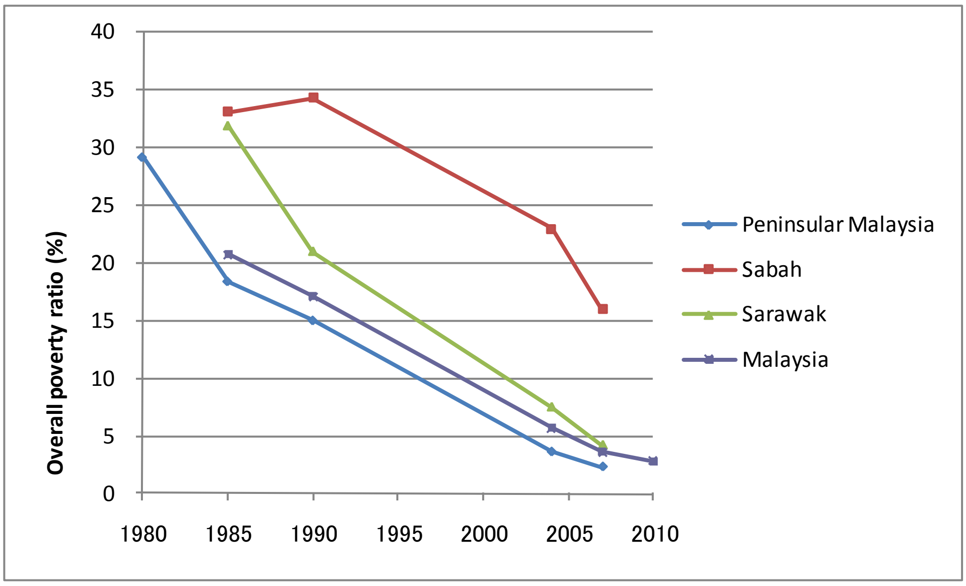


Figure 2-8-1 Trends in Poverty Ratios (The 2010 figure is a target.)
Source: Malaysian Economy in Figures 2009 JETRO

2.9 Public Finance

The current account of the government sector has been in deficit since 2004 and the deficit has been increasing due to expanding expenses. While the current account surplus of the non-financial public enterprises exceeds the deficit, the total public sector current surplus has increased to be RM 82.7 billion in 2008.

In the early 1980s, the overall public account, including development expenditure of both the government and the non-financial public enterprises, was in deficit, more specifically double-digit deficit as a ratio to GNP. Since the 1990s, the overall public account had been improving. In 2008 and 2009, however, it deteriorated to be deficits again.

The fiscal deficit of the federal government had been also improving, but the fiscal measures to cope with the Global Financial Crisis from 2008 worsened the balance. Currently reduction of the deficit is an urgent issue.

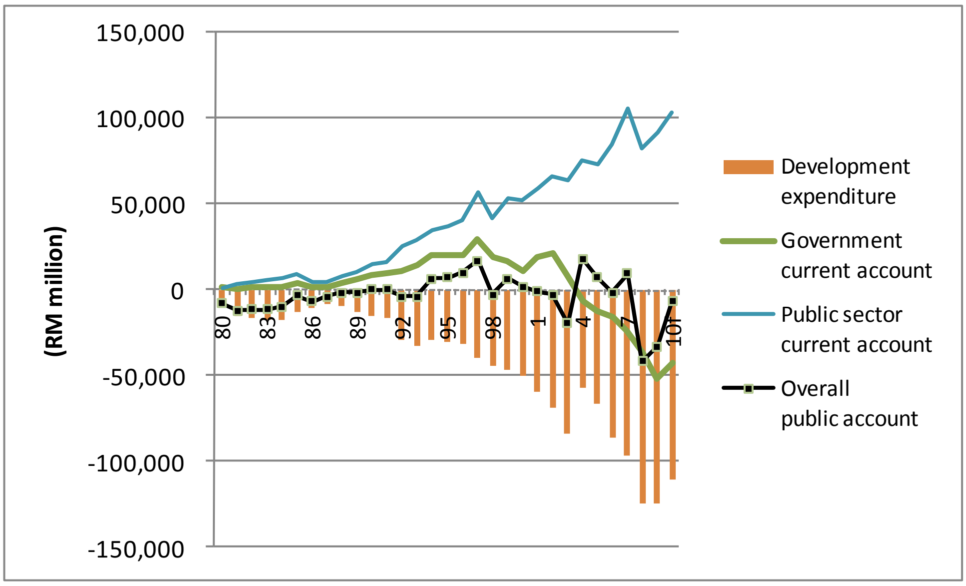


Figure 2-9-1 Trend of Public Sector Account
Source: Malaysian Economy in Figures 2009 JETRO

2.10 Stock Exchange and Interest Rates

The total amount of stock trading at the Malaysia Kuala Lumpur Stock Exchange (KLSE) exceeded RM 1 billion per day in 1993, 1994, 1996 and 1997. After the Asian Financial Crisis, the trading amount sharply fell, but it suddenly hit a record of RM 2.3 billion in 2007.

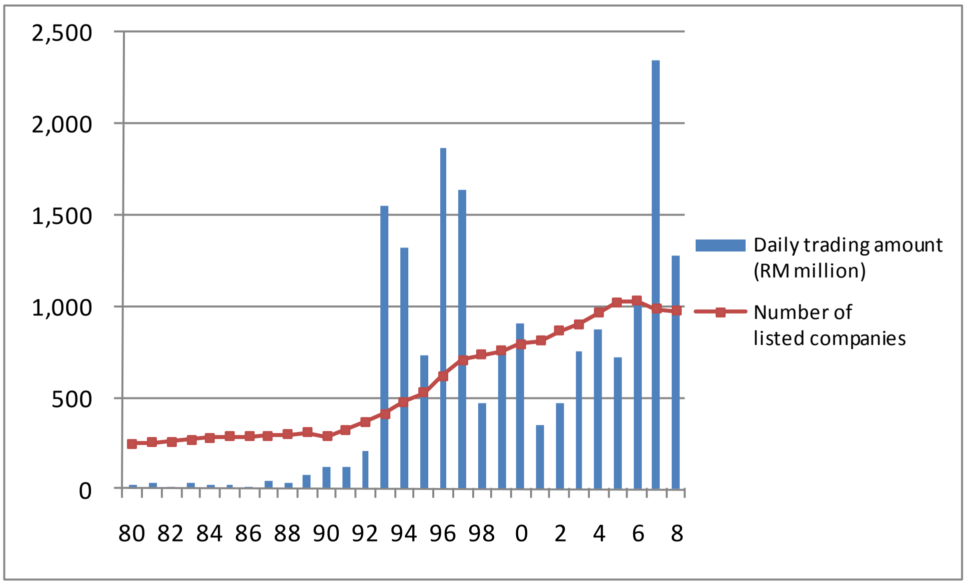


Figure 2-10-1 Trends of Stock Trading at KLSE and the Number of Listed Companies
Source: Malaysian Economy in Figures 2009 JETRO

The interest rates have been in a broadly declining trend since 1980s. Interests of fixed-term deposits of commercial banks have been around 3% for both 1 month and 3 months and their base lending rates have been around 6% - 7% since 1999.

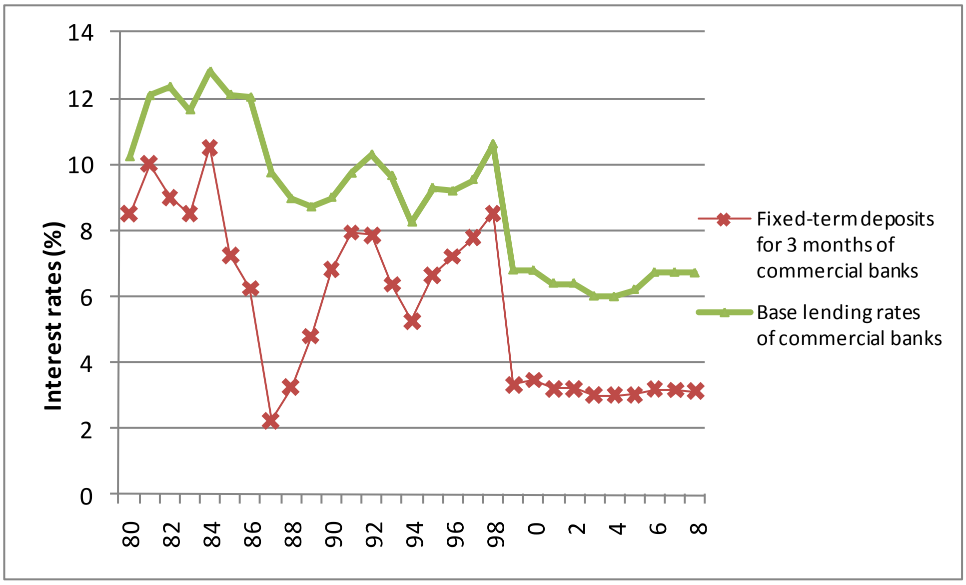


Figure 2-10-2 Trends of Interest Rates of Commercial Banks

Source: Malaysian Economy in Figures 2009 JETRO

2.11 Population Density by State

Malaysia is a federal nation comprising 13 states and 3 territories directly under control of the federal government. The federal territories are outlined below.

Federal territories	Status	Area	Population	Population density
Kuala Lumpur	Largest city in Malaysia and the legislative capital with the federal parliament building.	243km^2	1,584,400 (2008)	6,520/km^2 (2008)
Putrajaya	New administrative capital developed since the early 1990s with the federal government buildings and the federal supreme court.	50km^2	45,000 (2000)	900/km^2 (2000)
Labuan	Labuan International Business and Financial Centre was created in 1990 to provide offshore services.	92km^2	87,600 (2008)	952/km^2 (2008)

The area, population density and population vary a lot with the states and territories. Among the 13 states, Penang’s population density is by far the highest at 1,500/km^2. Among the states and territories, its density is second next to that of Kuala Lumpur. On the other hand, the low population density of East Malaysia is a factor to be considered in discussions for its poverty eradication and regional development.

Unlike its near-by countries, Malaysia did not experience overconcentration to the capital city. The reasons may be (1) the total population of Malaysia is relatively small, (2) the foreign population can be controlled, and (3) each state has its own identity in various aspects in the framework of the federation. However, as the services sector expands, urbanization especially urban expansion of Greater Kuala Lumpur is likely to accelerate. Therefore, urban policy measures consistent with the national land policy are required.

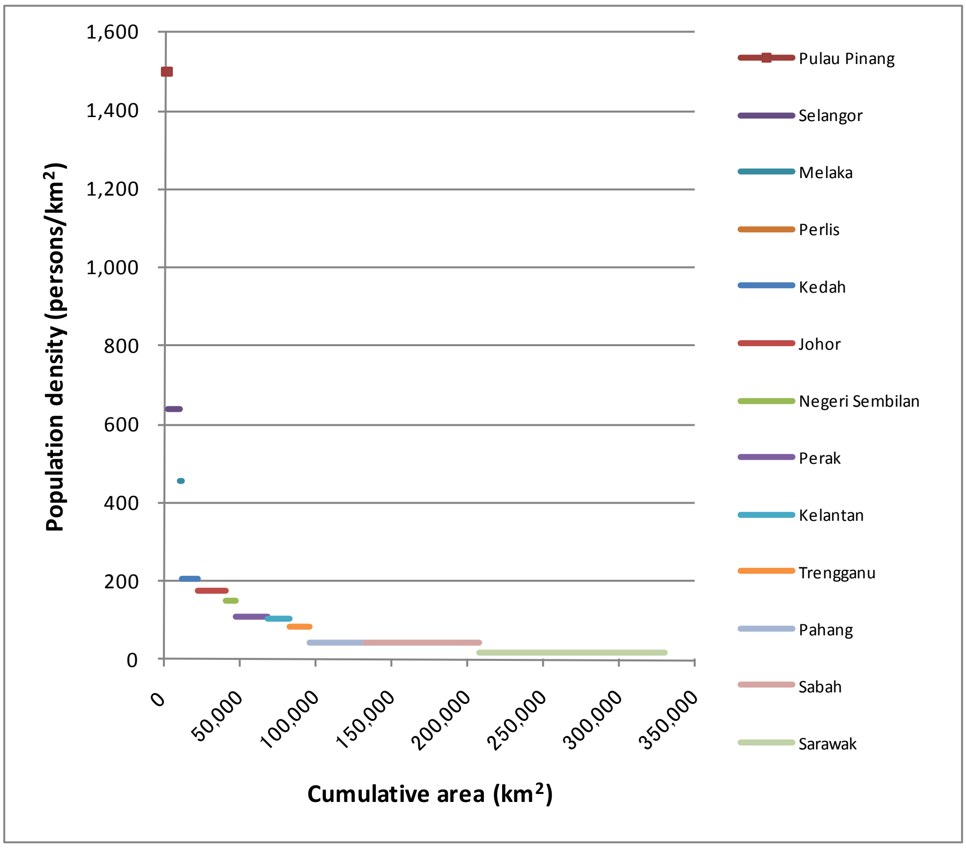


Figure 2-11-1 Population Density by State
Source: Malaysian Economy in Figures 2009 JETRO

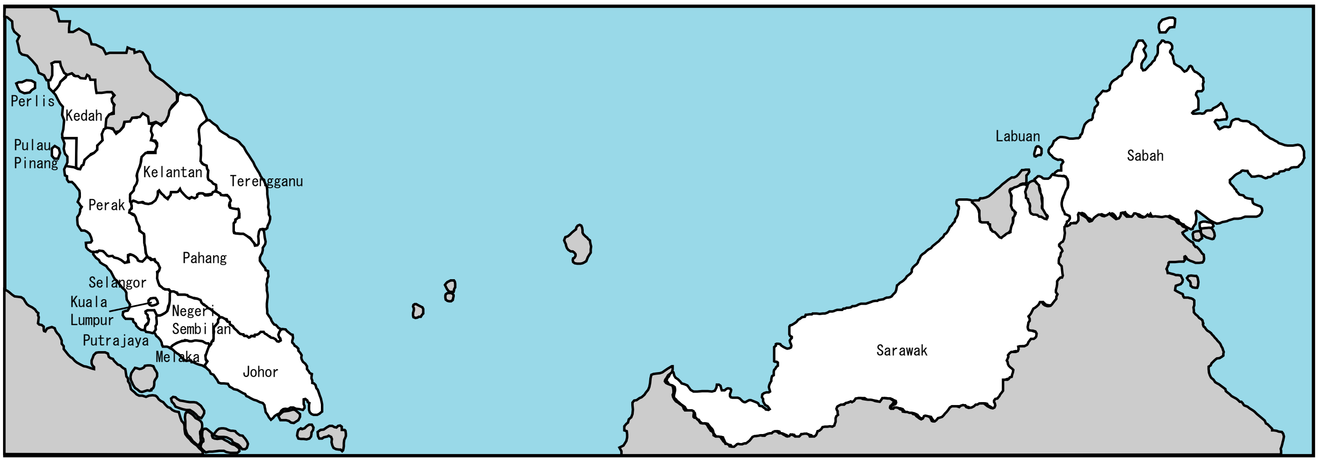


Figure 2-11-2 Locations of the States and Federal Territories
Source: Malaysian Economy in Figures 2009 JETRO

Chapter 3 Industrial Structure of Malaysia

3.1 Transition of Industrial Structure

3.1.1 Industrial Structure by Sector

The industrial structure of Malaysia has changed since 1980. As for the sectoral composition of GDP, the agriculture, forestry and fisheries sector, which was the largest sector, accounted for 22.9% of total GDP in 1980 and fell to 7.6% in 2008. On the other hand, the share of the manufacturing sector reached 21.1%, and exceeded agriculture, forestry and fisheries in 1988.

Many foreign manufacturers have been located in Malaysia and contributed a lot to the economic growth since the Malaysia Investment Promotion Act in 1986.

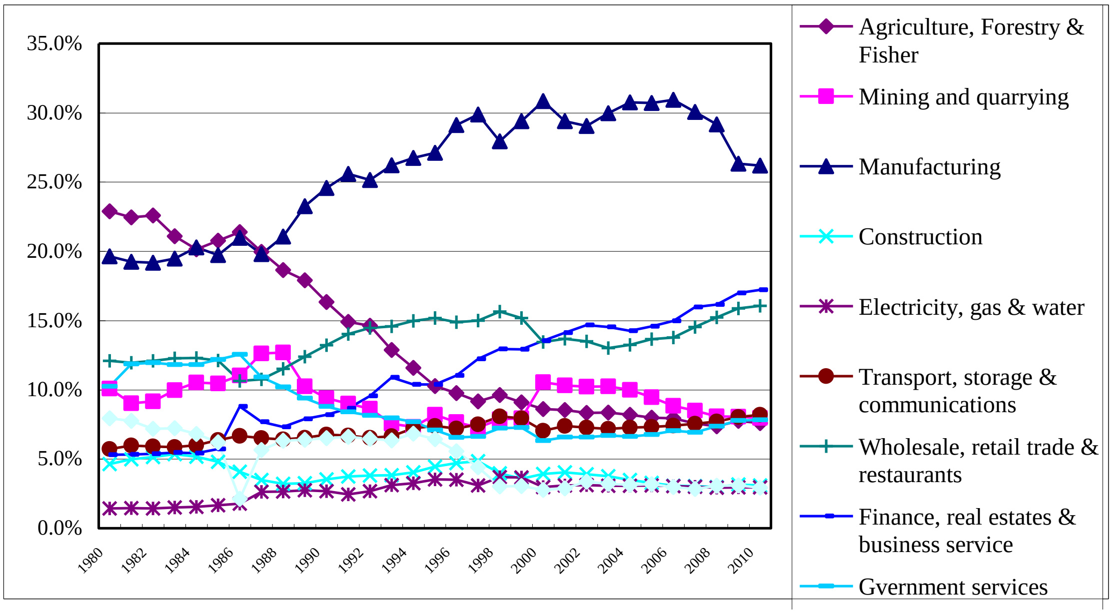
The manufacturing sector accounted for 30% of GDP in 2000, and became the driving force of the Malaysian economy. However, the share fell to 26.9% in 2008 due to the global economic crisis.

The service sector has expanded the share firmly. Especially, the total share of the private sector including the finance, insurance and real estate business and the wholesale, retail and restaurant business reached 32.3% of GDP in 2008.

Table 3-1-1 Composition of GDP by Sector

	1980	1985	1990	1995	2000	2005	2008
Agriculture, Forestry & Fishery	22.9%	20.8%	16.3%	10.3%	8.6%	8.0%	7.8%
Mining and quarrying	10.1%	10.4%	9.4%	8.2%	10.5%	9.5%	8.2%
Manufacturing	19.6%	19.7%	24.6%	27.1%	30.8%	30.7%	26.9%
Construction	4.6%	4.8%	3.5%	4.4%	3.9%	3.3%	3.2%
Electricity, gas & water	1.4%	1.7%	2.7%	3.5%	3.0%	3.1%	3.0%
Transport, storage & communications	5.7%	6.4%	6.8%	7.4%	7.0%	7.3%	7.9%
Wholesale, retail trade & restaurants	12.1%	12.1%	13.2%	15.2%	13.4%	13.7%	15.7%
Finance, real estates & business service	5.3%	5.7%	8.2%	10.4%	13.5%	14.6%	16.6%
Government services	10.3%	12.2%	8.8%	7.1%	6.3%	6.8%	7.6%
Others	7.9%	6.2%	6.5%	6.4%	2.8%	3.2%	3.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Malaysian Economy in Figures 2009, JETRO



Source: Malaysian Economy in Figure 2009, JETRO

Figure 3-1-1 Transition of Composition of GDP by Sector

3.1.2 Manufacturing Sector

The composition of the sales value of major industries in the manufacturing sector is summarized in Table 3-1-2. The share of the export-oriented products including electrical and electronics, rubber products, textile and apparel, accounted for 50.6% of the manufacturing sector in 2003, and then has been decreasing gradually to 40.6% in 2007.

Electrical and electronics is the largest industry which accounts for about 40% of the manufacturing sector. This industry is an FDI-led manufacturing which assembles mainly imported parts and intermediate materials. Therefore, there is little linkage with domestic companies with limited contribution to the development of the domestic supporting industry. Moreover, it has the structural problem that the added value of a product is not high.

The rubber and wood products manufacturing as resource-based industry, tends to be influenced by international market prices. Moreover, as for the textile and apparel industry, competition with neighboring countries such as China and Taiwan has become severe. These export-oriented industries need to strengthen global competitiveness such as technology, productivity and production cost.

The chemical and chemical products industry stands second in the manufacturing sector in terms of the sales volume, and includes petrochemical, basic industrial chemicals and other chemical products and plastic products. The petrochemical industry is one of the important industries, and Malaysia has changed from an importer to an exporter of major petrochemical products.

Major sub-sector of the transport equipment is automotive and its parts. The first national car project by Perusahaan Otomobil Nasional Bhd. (PROTON) was implemented in 1985 through the government initiative. Till the year 2000, the market share of the national cars was over 80% with protection by the government policy. However, the share of national cars fell by the trade liberalization within ASEAN and removal of a protective policy. As a result, the share of transport equipment in the manufacturing industry have accounted for only 4% to 5% since 2003.

Malaysia is the only country in ASEAN which owns national car brands. The automotive industries are now exposed to sever international competition by the trade liberalization within

ASEAN and free trade agreements, etc. The automotive industries in Thailand hold competitive power as export bases under the FDI. The Malaysia automotive industry also needs new measures in order to strengthen its competitiveness.

Although it is indispensable for machinery and equipment to implement the strategies of IMP2, "Manufacturing Plus-plus" and "Cluster-based Industrial Development", the industry accounts for only 1.1% of the manufacturing, unlike in Japan where general machine industry accounts for about 10% of the manufacturing industry.

Table 3-1-2 Composition of Sales Value of Selected Manufacturing Industries

Industry	2003	2004	2005	2006	2007
Electrical & electronics	44.8%	39.2%	41.9%	40.9%	36.9%
Rubber	3.4%	3.5%	2.2%	2.2%	2.3%
Textile & apparel	2.4%	2.4%	1.9%	-	1.4%
Wood & wood products	3.3%	3.3%	1.9%	3.1%	3.1%
Transport equipment	5.5%	4.9%	4.8%	4.1%	3.9%
Chemicals	10.2%	10.2%	16.8%	28.3%	30.2%
Processed food	3.2%	3.2%	2.8%	2.8%	3.2%
Iron & Steel	3.0%	3.0%	4.2%	3.6%	4.4%
Machinery & Equipment	0.0%	6.1%	1.1%	1.1%	1.1%
Fabrication Metal	0.0%	2.6%	2.4%	2.0%	2.3%
Non-metallic mineral	0.0%	2.1%	2.0%	2.0%	2.1%
Paper & paper products	0.0%	1.3%	0.0%	1.1%	1.2%
Others	24.2%	18.2%	18.0%	8.7%	7.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note: There are some differences in the categories of each year.

Source: Industry, Investment, Trade and Productivity Performance, MITI

3.1.3 Employment

Table 3-1-3 shows transition of the number of labor and share of employment by sector. The working population more than doubled from about 5 million in 1980 to about 12 million in 2008.

The ratio of the agriculture, forestry and fisheries which accounted for 23% of GDP in 1980 decreased gradually to 7.6% in 2008. Employment structure has also changed a lot with change of the industrial structure. The agriculture, forestry and fisheries employed about 40% of the total labor force in 1980, however, employment decreased to 12% in 2008. On the other hand, employment in the manufacturing sector increased from 15.7% in 1980 to 28.8% in 2008. The total employment of the private service sectors accounted for 41.4% in 2008, and those of the government and construction sectors accounted for 10.9% and 6.6% respectively.

The average increase rate of employment in service sector (finance, real estate, and business service) shows 33% annually, followed by 12% in manufacturing.

According to the Report on Manufacturing Industries 2007, among 32,046 manufacturers, 26,832 companies (83.7%) employ less than 50 workers, and they employ 14.4% of the total employment. The 2,107 companies (6.6%) of large scale which employ 150 employees and above employ 69.6%. Judging from the above, thus the employment of the manufacturing sector depends heavily on large scale companies (Table 3-1-4).

Table 3-1-5 shows contribution to total employment by group. The electronic valves and tubes and other electronic components group, as the largest contributor to employment, employed 11.9% of the total in 2006. Manufacturers of plastic products (7.2%), wooden goods (5.3%), furniture (5.3%), and rubber products (5.0%) followed this group.

Table 3-1-3 Number of Labor and Share of Employment by Sector

	1980	1985	1990	1995	2000	2005	2008
Total labor force (1,000)	5,108.9	6,039.1	7,042.0	8,256.8	9,572.5	11,290.5	11,967.5
Employment (1,000)	4,816.9	5,624.6	6,686.0	8,041.9	9,271.2	10,892.8	11,576.4
Unemployment (1,000)	292.0	414.5	356.0	232.9	301.3	397.7	391.0
Unemployment rate (%)	5.7	6.9	5.1	2.6	3.1	3.5	3.3
Agriculture, forestry & fishery (%)	39.7%	31.3%	26.0%	19.2%	15.2%	12.9%	12.0%
Mining & quarrying (%)	1.7%	0.8%	0.6%	0.5%	0.4%	0.4%	0.4%
Manufacturing (%)	15.7%	15.2%	19.9%	25.6%	27.6%	28.8%	28.8%
Construction (%)	5.6%	7.6%	6.3%	8.8%	8.1%	7.0%	6.6%
Finance, real estates & business service (%)	1.6%	3.5%	3.9%	4.7%	5.5%	6.7%	7.0%
Transport, storage & communications (%)	4.3%	4.3%	4.5%	5.0%	5.0%	5.8%	5.8%
Government services (%)	13.7%	14.6%	12.7%	10.8%	10.6%	10.3%	10.9%
Others services (%)	17.7%	22.6%	26.1%	25.4%	27.6%	28.2%	28.5%
Total (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Malaysian Economy in Figures 2009, JETRO

Table 3-1-4 Number of Establishments, Gross output and Total employment by Employment Size Group, 2005

Employment size group	No. of establishments		Gross output		Total employment	
	Number	% Share	RM billion	% Share	Number	% Share
Total	32,046	100.0%	710.2	100.0%	1,721,433	100.0%
< 50	26,832	83.7%	53.3	7.5%	247359	14.4%
50-149	3,107	9.7%	98.8	13.9%	275529	16.0%
150 and above	2,107	6.6%	558.1	78.6%	1198545	69.6%

Source: Report on the Manufacturing Industries 2007, Department of Statistics, Malaysia

Table 3-1-5 Contribution to Total Employment by Group, 2005 and 2006

Group Code	Description	Total employment		% Share	
		2005	2006	2005	2006
321	Manufacture of electronic valves and tubes and other electronic components	193,142	204,509	11.5%	11.9%
252	Manufacture of plastic products	119,863	123,984	7.2%	7.2%
202	Manufacture of products of wood, cork, straw and plaiting materials	93,318	92,286	5.6%	5.4%
361	Manufacture of furniture	88,337	90,708	5.3%	5.3%
251	Manufacture of rubber products	82,162	85,957	4.9%	5.0%
300	Manufacture of office, accounting and computing machinery	81,514	83,145	4.9%	4.8%
181	Manufacture of wearing apparel except fur apparel	76,424	73,713	4.6%	4.3%
323	Manufacture of TV and radio receivers, sound or video recording or reproducing apparatus and associated goods	71,263	68,373	4.3%	4.0%
151	Production, process and preservation of meet, fish fruits, vegetables, oils an fats	65,195	67,103	3.9%	3.9%
154	Manufacture of other food products	64,225	63,665	3.8%	3.7%
	Others	739,720	767,990	44.2%	44.6%
	Total	1,675,163	1,721,433	100.0%	100.0%

Source: Report on the Manufacturing Industries 2007, Department of Statistics, Malaysia

3.2 Foreign Direct Investment

The Malaysian government has promoted industrialization by introducing the foreign direct investment (FDI) to the pioneer industries.

The investment from three countries, Japan, Singapore, and the U.S., accounted for 40% of the total on average from 1886 to 2008, while the investments from Germany and Taiwan have been increasing in recent years (Table 3-2-1).

The direct investment to Malaysia continued to level off after the Asian Financial Crisis in 1998. It is said that Malaysia lost competitiveness for FDI relatively with neighboring countries due to the rise of labor cost and labor shortage.

The Malaysian government offered 100% of foreign capital to all the manufacturing companies regardless of the export ratio of products for new investment projects. As direct investment decreased rapidly in 2002, the government decided to extend this deregulation indefinitely.

The direct investment in the manufacturing sector accounted for 57.8% of total FDI in 2003. In the same year, financial sector including insurance followed the manufacturing sector (29.3%). The shares of these sectors declined every year as shown in Table 3-2-2. On the other hand, the share of service industry including trade, commerce and service industry increased from 7.1% in 2003 to 19.3% in 2007.

Malaysia set a target for becoming a fully developed country by 2020 (Vision 2020). In order to convert industrial structure into a high value-added and knowledge-intensive industry, it is indispensable to accept foreign capital and industrial technology through introduction of FDI from developed countries.

Table 3-2-1 Projects Approved with Foreign Participation by Country Unit: RM mill.

	1886	1991	1996	2001	2002	2003	2004	2005	2006	2007	2008
Japan	116	1,451	4,606	3,366	587	1,296	1,011	3,672	4,412	6,523	5,595
Singapore	184	398	4,766	2,228	1,019	1,225	1,516	2,920	1,885	2,952	2,004
USA	54	455	2,666	3,412	2,668	2,182	1,059	5,155	2,477	3,020	8,669
Hong Kong	56	315	14	65	66	103	50	105	84	60	84
United Kingdom	50	187	368	123	168	3,870	151	99	642	385	850
Rep. of Korea	4	466	644	1,703	369	447	325	674	438	1,119	198
Australia	35	176	137	128	108	105	117	156	2,560	1,685	13,106
Germany	2	57	148	2,603	5,055	170	4,724	388	232	3,757	4,438
Taiwan	11	1,606	79	1,140	252	622	415	431	405	409	912
Total incl. Others	1,688	6,073	17,057	18,907	11,578	15,640	13,144	17,883	20,228	33,426	46,099

Source: Malaysian Economy in Figures, JETRO

Table 3-2-2 Composition of FDI Position by Sector, 2003-2007 (Unit:%)

	2003	2004	2005	2006	2007
Agriculture	0.3	0.3	0.4	0.6	3.7
Mining (Oil & Gas)	5.3	4.0	4.2	8.3	8.2
Manufacturing	57.8	60.4	60.9	57.3	52.5
Construction	0.0	0.0	0.2	0.6	0.7
Trade/Commerce	4.9	4.8	5.9	7.9	7.5
Financial Intermediation (including Insurance)	29.3	27.7	24.8	15.0	15.6
Real Estate	1.2	1.2	1.1	3.1	2.9
Services	1.0	1.5	2.3	7.2	8.9
Others (Not Elsewhere Classified)	0.2	0.1	0.2	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

In terms of the shares of the approved projects by industry, investment in the electrical and electronics industry has been a major contributor (Figure 3-2-1). The chemical industry accounted for 10% to 20% in the 1990s but has declined since 2000. The basic metal products manufacturing has been increasing since 2006.

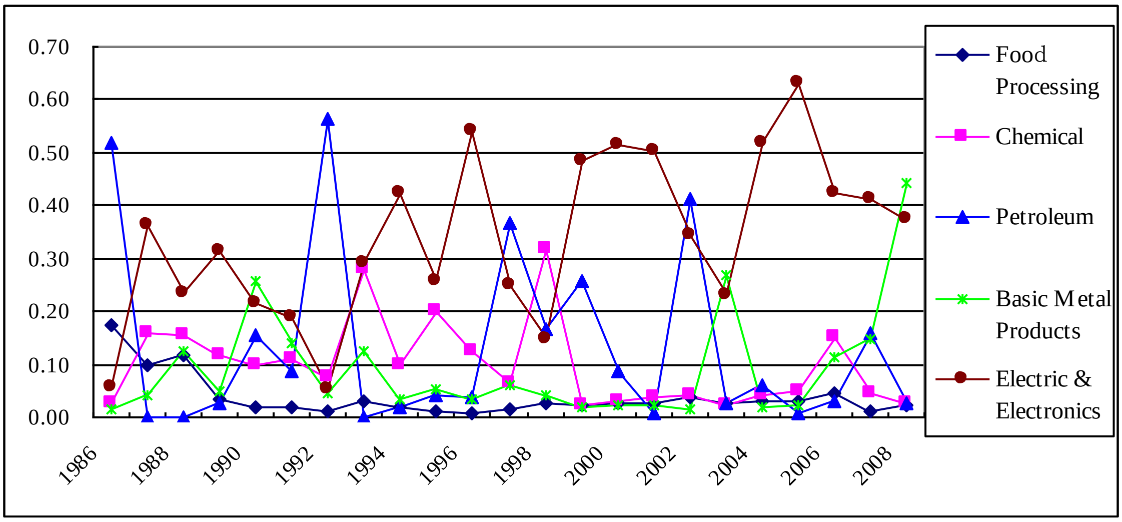


Figure 3-2-1 Transition of Composition of FDI by Sector
Source: Malaysian Economy in Figures 2009, JETRO

3.3 Trend of Foreign Companies

3.3.1 Foreign Companies in Manufacturing Sector

The industrialization of Malaysia in the 1970s changed from import-substitution to export-orientation. Since creation of employment was one of the important political issues, the government promoted to introduce FDI of labor-intensive industries. In order to promote FDI, the government established free trade zones and provided incentives. As a result, export of electrical and electronics and textile products were expanded by the foreign companies in free trade zones. The government then established a bonded warehouse system, and export oriented companies increased. The export of industrial commodities from Malaysia was dominated by electrical and electronics industry. However, the foreign companies located in free trade areas or bonded warehouses did not establish linkages with domestic industries.

The government established Heavy Industry Corporation Malaysia (HICOM) in 1980, in order to promote domestic industries. HICOM had subsidiaries of manufacturing cars, motorcycles, steel products, etc., and developed joint ventures with foreign companies, such as Japanese. However, since the government's fiscal conditions became tight, it was privatized in 1994 to be DRB HICOM BHD. From the second half of 1980s, many Japanese electrical and electronics companies rushed to Malaysia due to the sharp appreciation of the Yen.

The foreign direct investment in Malaysia fell to RM11,578 million in 2002. This was caused by the slowdown of the world economy due the terrorist attacks in the U.S. in 2001, in addition to severe competition for introduction of FDI with China, which has huge domestic market as well as cheap labor. Moreover, the competition with neighboring countries such as Vietnam also became intense, and relocation of some factories from Malaysia to these countries started. With such a background, the Malaysian government eased restrictions on FDI in 2003, and has improved the investment environment. Since Malaysia has good industrial infrastructure, investment for manufacturing high-value-added products increased.

Due to sever competition with China, export of home electrical appliances decreased, but export of electronic products such as semi-conductors increased. Export to Japan, the U.S. and Europe decreased while the share of export to ASEAN and China rose to 32% of the total in 2005. Export contents of information and telecommunications products have shifted from intermediate parts to finished products.

The approved foreign investment in the manufacturing industry amounted to RM33,425 million in 2007 as shown in Table 3-3-1. This exceeded RM 27,500 million which is the target amount of annual average investment of IMP3. It showed that foreign investment was towing economic growth. As for the new approved projects, the number of electrical and electronics industry stood at the first place as 144 (15.2%) of a total of 949. The number of the fabricated metal products was 101 (10.6%) followed by 98 machinery manufacturing products (10.3%).

Table 3-3-1 Investment Approvals by Industrial Sector, 2007

	No. of Projects	(Share)	Capital Investments （RM million）		
			Domestic	Foreign	Total
Total	949	100.0%	26,506.3	33,425.8	59,932.1
Basic metal products	52	5.5%	7,183.8	4,989.6	12,173.4
Electric & Electronics products	144	15.2%	1,374.5	13,737.1	15,111.6
Petroleum Products (including Petrochemicals)	17	1.8%	8,497.0	5,335.4	13,832.4
Food manufacturing	75	7.9%	2,014.1	369.2	2,383.3
Machinery manufacturing	98	10.3%	545.7	1,219.6	1,765.3
Chemical & chemical products	71	7.5%	2,240.6	1,560.2	3,800.8
Fabricated metal products	101	10.6%	418.3	239.1	657.4
Plastic products	92	9.7%	510.6	565.9	1,076.5
Others	299	31.5%	3721.7	5409.7	9,131.4

Source: Industry, Investment, Trade and Productivity Performance, MITI, Malaysia

3.3.2 Trend of Foreign Investment by Country

The purpose of foreign investment in the Malaysia was initially to take advantage of the low wage labor force for labor-intensive industry. However, the following differences in the business trend have arisen between Japanese and US companies (Report of JBIC Institute 2004).

Japanese Enterprises

(i) The number of Japanese companies in Malaysia has been decreasing, with a peak in 1998.
(ii) Tendency of withdrawal/reduction of their business has become strong.
(iii) Positioning of Malaysia as production base is reexamined in consideration of the change of business circumstances such as conspicuous power of China and the rise of wages in Malaysia.

European and American enterprises

(i) Typical European and American companies tend to consider Malaysia as a central core for technical development, marketing function, and supply chain.
(ii) While European and American companies show positive posture to invest in China, they also have intention to invest in Malaysia.

The investment from Japan, the U.S., Singapore, and Taiwan occupies higher ranks. However, Japan's investment was less in Malaysia than in Thailand, Indonesia, the Philippines, and Vietnam. The investment situation in 2008 was as follows. (Deputy Prime Minister Tan Sri Muhyiddin Yassin, Feb, 2009).

Japan: The investment from Japan in the manufacturing sector was RM5,600 million in the field of base metal, electronics, wooden goods, and liquefied natural gas.

U.S.A.: The investment from the U.S. was RM8,700 million in the field of renewable energy, electronics and chemistry.

Germany: The investment from Germany was RM4,400 million, the largest in Europe. The investment was concentrated on renewable energy and electronic industry.

Australia: The investment from Australia was RM13,100 million for the base metal industry (aluminum processing manufacture).

3.3.3 Japanese Companies in Malaysia

Japan’s total amount of foreign direct investment was US$130,801 million in 2008, and the investment in Malaysia was US$591 million accounting for only 0.5% of the total. On the other hand, among the projects approved by Malaysia in 2006, the invested amount by Japan stood the 1st place (22% of the total).

According to a Survey on Overseas Business Activities, 2004 by METI Japan, manufacturers accounted for 62.6% (365 companies) and non-manufacturing companies accounted for 37.4% (218 companies) of surveyed 583 Japanese companies in Malaysia (Table 3-3-3). Among the manufacturing industry, information and telecommunications apparatus companies accounted for 16.6%, chemistry 7.2%, and transport machinery 6.3%. In the non-manufacturing industry, wholesale accounted for 17.8%, transportation for 5.8%, and construction for 4.3%. Large scale investments in 2007 were manufacturing of the wafer process, glass fiber, polycetal resin, integrated circuit, and transistor (above-mentioned Investment Environment of Malaysia). It seems that the investment from Japan in electronics and chemical industries is still continuing.

Table 3-3-2 Number of Japanese Oversea Affiliated Companies in Malaysia, 2004

	Number	(Share)		Number	(Share)
Manufacturing sector	365	62.6%	Non-manufacturing sector	218	37.4%
Food manufacturing	12	2.1%	Agriculture, Forestry & Fishery	-	-
Textile	7	1.2%	Mining	3	0.5%
Wood, Paper & Pulp	12	2.1%	Construction	25	4.3%
Chemistry	42	7.2%	Information & Communication	7	1.2%
Petroleum & Coal	1	0.2%	Transport	34	5.8%
Ceramics, Stone & Clay products	15	2.6%	Wholesale	104	17.8%
Steel & Iron	9	1.5%	Retail	13	2.2%
Non-ferrous metal & products	22	3.8%	Services	19	3.3%
Fabricated metallic products	20	3.4%	Others	13	2.2%
Common machinery	8	1.4%			
Industrial machinery	10	1.7%			
Office machine	7	1.2%			
Electric machine	18	3.1%			
Information & communication equipment	97	16.6%			
Transportation machinery	37	6.3%			
Others	48	8.2%	Ground Total	583	100.0%

Source: Survey on Overseas Business Activities 2004, Ministry of Economy, Trade and Industry

3.4 Small and Medium Enterprises as Supporting Industries

3.4.1 Definition of Small and Medium Enterprises

A definition of the small and medium-sized enterprises (SMEs) in Malaysia which constitute supporting industry is shown in Table 3-4-1.

3.4.2 Positioning of SMEs

According to the Ninth Malaysia Plan, the total number of manufacturers is 39,219 and SMEs occupy 96.6% (37,866 companies) of all manufacturers. Furthermore, the number of small enterprises account for 53.4% of the manufacturers. Sector-wise, the service sector accounts for 86.5% of the SMEs, followed by the manufacturing industry 7.3% and agriculture 6.2% (Table 3-4-2).

Table 3-4-1 SME Definitions by No. of Full-time Employee or Annual Sales turnover

	Primary Agriculture	Manufacturing (including Agro-based) & MRS	Service Sector (including ICT)
Micro	Less than 5 employees or Less than RM200,000	Less than 5 employees or Less than RM250,000	Less than 5 employees or Less than RM200,000
Small	Between 5 & 19 employees or Between RM200,000 & less than RM1 million	Between 5 & 50 employees or Between RM250,000 & less than RM10 million	Between 5 & 19 employees or Between RM200,000 & less than RM1 million
Medium	Between 20 & 50 employees or Between RM1 million & RM5 million	Between 51 & 150 employees or Between RM10 million & RM25 million	Between 20 & 50 employees or Between RM1 million & RM5 million

Source: Definition for Small and Medium Enterprises in Malaysia, Secretariat to National SME Development Council, Bank Negara Malaysia

Table 3.4.2 Number of Establishment by Major Sector, 2003

Sector	Total Establishment		SMEs	
	Number	Share (%)	Number	Share (%)
Agriculture	32,397	6.2	32,126	6.2
Manufacturing	39,219	7.5	37,866	7.3
Services	451,516	86.3	449,004	86.5
Total	523,132	100.0	518,996	100.0

Source: Ninth Malaysia Plan

The textile and apparel sub-sector accounts for 23.2% of the number of SMEs followed by food and beverage (15.0%), and metalworking (12.4%). These industries are manufacturers of common consumer goods for the domestic market.

On the other hand, the share of machinery is 3.7% followed by electrical and electrons (2.8%), and transport equipment (1.8%). These three types of industries are specified as the first category of important industries by SMI Development Plan (SMIDP) 2001-2005, which states it is indispensable to strengthen SMEs in order to promote linkages among industries, and cluster development.

In the service sector, SMEs occupy 449,004, 96.6% of the total of 451,516 companies. Wholesale and retail account for 55.3% of the number of SMEs, followed by restaurants (14.0%) and transportation/communication (6.2%). The Malaysian government has positioned the service sector as a driving force of new economic growth.

Table 3.4.3 Distribution of SME in Manufacturing by Sub-sector, 2003

Sub-Sector	Total No. of Establishment	SMEs	
		Number	Share
Textile and apparel	8,855	8,779	23.2%
Food and beverage	5,804	5,664	15.0%
Metals & metal products	4,809	4,686	12.4%
Paper, printing & publishing	3,549	3,483	9.2%
Furniture	2,352	2,286	6.0%
Rubber & plastic products	2,343	2,166	5.7%
Wood & wood products	2,149	2,052	5.4%
Non-metallic mineral products	1,708	1,650	4.4%
Machinery & mineral products	1,435	1,390	3.7%
Electrical & electronics	1,362	1,077	2.8%
Chemicals & chemical products	1,115	1,047	2.8%
Transport equipment	769	699	1.8%
General manufacturing[1]	2,969	2,887	7.6%
Total	39,219	37,866	100.0%

Note: 1 includes leather products, tobacco products, medical, precision & optical instruments, recycling & petroleum products

Source: Ninth Malaysia Plan

Table 3-4-4 Distribution of SME in Services by Sub-sector, 2003

Sub-Sector	Total No. of Establishment	SMEs	
		Number	Share
Wholesale & Retail	249,178	248,221	55.3%
Restaurants	63,067	63,013	14.0%
Transport & Communication	28,231	27,980	6.2%
Financial intermediates	19,291	19,108	4.3%
Professional service	11,245	11,120	2.5%
Real estate activities	8,847	8,779	2.0%
Business & Management Consultancy Services	8,404	8,352	1.9%
Health[1]	7,838	7,759	1.7%
Education	7,738	7,618	1.7%
Hotel	2,494	2,275	0.5%
Computer	1,182	1,095	0.2%
Telecommunication	88	58	Neg.3
Selected services[2]	43,913	43,626	9.7%
Total	451,516	449,004	100.0%

Note: 1 Include hospital, medical, dental & veterinary services, homeopathy & foot reflexology

2 Include rental services, advertising, research & development, business activities (such as labour recruitment, cleaning of building, packing services & duplication services), recreation, cultural & sporting activities (such as motion picture projection & recreation clubs) and other service activities (such as hair dressing, beauty & funeral services)

3 Negligible

Source: Ninth Malaysia Plan

3.4.3 Small and Medium Industries Development Plan, SMIDP

IMP3 specifies development of clusters which have international competitiveness, and promotion of the SMEs as central core for supporting industry as important measures. The Small and Medium Industry Development Corporation, SMIDEC was founded in 1996 as a sole agency for SME promotion. It was reorganized to Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia) in 2007.

Small and Medium Industries Development Plan, SMIDP 2001-2005 for promotion of domestic SMEs was announced by SMIDEC in 2002. SMIDP positions SMEs as a core of domestic industries, and states (1) promoting development of SMEs with global competitiveness, and (2) establishing the comprehensive business environment for nurturing knowledge based SMEs. The strategic thrusts of the SMIDP are to:

- enable SMEs to be technologically capable, productivity driven and globally competitive;
- facilitate organizational change at enterprise level to accelerate the transition towards globalised production platforms; and
- promote lead enterprises to drive SMEs to deepen cluster development.

SMIDP targets SMEs especially those in industry sectors with prospects for further growth. The following three categories of clusters are indentified.

- International clusters with basically foreign investment driven such as the electronics industry;
- Policy-driven clusters for technology acquisition such as the automotive industry; and
- Naturally-evolving or indigenous clusters of resource-based clusters such as the palm based and wood based clusters.

The SMIDP was decided based on IMP2, as an indicator for five years activities of SMIDEC. In addition to manufacturing sector, IMP3 added fostering of a service sector as an important target, therefore, SME Cop. is directing power towards promotion of service industries.

3.4.4 Problems Concerning SME Promotion

The following issues are raised for SME promotion.

- Mismatch between SME promotion and recognition of SME
  shortage of recognition, utilization, understanding of promotion measures, complicated application procedures
- Mismatch between SME promotion and needs of SME
- Capacity of implementation agency
  capability of coordination, shortage of manpower, cooperation with employers' organization, shortage of management know-how
- Increase of international and inter-corporate competition
  expansion of FTA, competition with surrounding countries, necessity of related service industries
- Conflict with industrial policy and Bumiputera policy
  measurements for Bumiputera companies and Chinese companies
- Present situation of SMEs as supporting industries
  shortage of leading companies, advanced demand of products
- Necessity of IT education

In the manufacturing industry of Malaysia, foreign and multinational companies are expected as a driving force for growing domestic SMEs. The Vendor Development Program (VDP) is one of the measures for strengthening the linkage among large companies and SMEs. Financial support and incentives would be given to the companies which participate in this program. However, one of the problems with SMEs as supporting industry, is the shortage of medium-class or leading companies. There is a structural problem for hindering the linkage that only few medium-class companies with technical capabilities exist between large and small companies.
Second problem is lack of capacity of executing agencies and the shortage of talents which conducts SME analysis. It is forecasted that the business environment of SMEs becomes more severe as economic internationalization progresses and competition become severe. It is indispensable for SMEs to reform their own management in such a situation.

3.5 Business Environment

According to the evaluation of Japanese companies in Malaysia, the following comments are mentioned as attractions and important issues for investment in Malaysia (Business Environment in Malaysia, JBIC).

Attractions
(i) Malaysian government supports foreign companies and businesses.
(ii) High quality labour force with English proficiency is available.
(iii) High level infrastructure has been developed.

(iv) Living conditions are good.

Important issues

(i) Examination for incentives for FDI has become strict.
(ii) Utility costs have risen.
(iii) Wages of middle management are high.
(iv) Employment Act is advantageous to labour.
(v) It is necessary to avoid talking about politics and ethnic groups.

According to the "Doing Business 2010" by International Finance Corporation (IFC), Malaysia was in the 23rd place out of 183 nations and areas. The major Asian countries with higher ranks are Singapore (the 1st place), Hong Kong (the 3rd place), Thailand (the 12th place), and Japan (the 15th place). China is placed in the 89th and other ASEAN members are Vietnam (the 93rd place), Indonesia (the 122nd place), and the Philippines (the 144th place).

Among ten indices, Malaysia ranked 1st in "Getting Credit", and ranked 4th in "Protecting Investors." On the other hand, in "Dealing with Construction Permit", Malaysia was in the 109th place among 183 nations and areas.

3.5.1 Major Investment Related Law

Major investment related laws are following.

(i) Companies Act, 1965
Regulation for company registration
(ii) Income Tax Act, 1967
Tax related regulation such as income tax and tax incentives
(iii) Industrial Coordination Act,1975
Regulation for manufacturing licenses
(iv) Promotion of Investment Act, 1986
Regulation for pioneer status and its incentives

3.5.2 Investment Procedures

The Malaysian Investment Development Authority, MIDA affiliated to the Ministry of International Trade and Industry, MITI deals with the procedure for investment application. The rank of Malaysia in ‘starting a business’ including investment procedure is the 88th place. It shows that longer period is necessary for acquisition of a manufacturing license etc. Although the required period for acquisition of necessary permits became shorter, rank is retreated from the 76th place in 2009. This is attributed to improvement of the investment environment of other countries.

3.5.3 Infrastructure

Malaysia is one of the newly industrialized countries which have developed infrastructure. Especially as an industrial location, Malaysia has established (1) industrial complex (Industrial Estates), (2) free areas (Fee Zones, Free Industrial Zones and Free Commercial Zones), and (3) bonded storages (Licensed Manufacturing Warehouse). Neighboring nations have also established the industrial complex for FDI attraction. In addition, the Malaysian government established an industrial complex specializing in high-tech industries to advance its industrial structure.

Table 3-5-1 Economy Rankings, 2010

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Singapore	1	4	2	1	16	4	2	5	1	13	2
Hong Kong, China	3	18	1	6	75	4	3	3	2	3	13
Thailand	12	55	13	52	6	71	12	88	12	24	48
Japan	15	91	45	40	54	15	16	123	17	20	1
Korea, Rep.	19	53	23	150	71	15	73	49	8	5	12
Malaysia	23	88	109	61	86	1	4	24	35	59	57
Taiwan, China	46	29	97	153	30	71	73	92	33	90	11
China	89	151	180	140	32	61	93	125	44	18	65
Vietnam	93	116	69	103	40	30	172	147	74	32	127
Indonesia	122	161	61	149	95	113	41	127	45	146	142
India	133	169	175	104	93	30	41	169	94	182	138
Philippines	144	162	111	115	102	127	132	135	68	118	153

Source: Doing Business, 2010, International Finance Corporation

3.5.4 Incentives for Investment

The major tax incentives for investments of manufacturing companies are the Pioneer Status and the Investment Tax Allowance.

(i) Pioneer Status

A manufacturing company granted Pioneer Status enjoys a 5-year partial exemption from the payment of income tax. It pays tax on 30% of its statutory income, with the exemption period commencing from its Production Day (defined as the day its production level reaches 30% of its capacity).

(ii) Investment Tax Allowance (ITA)

As an alternative to Pioneer Status, a company may apply for ITA. A company granted ITA is entitled to an allowance of 60% on its qualifying capital expenditure (factory, plant, machinery or other equipment used for the approved project) incurred within five years from the date the first qualifying capital expenditure is incurred. The company can offset this allowance against 70% of its statutory income for each year of assessment. Any unutilised allowance can be carried to subsequent years until fully utilized. The remaining 30% of its statutory income will be taxed at the prevailing company tax rate.

There are many other incentives for investments as mentioned below.

- Relocating Manufacturing Activities to Promoted Areas
- High Technology Companies
- Strategic Projects
- Small and Medium-Scale Companies
- Strengthen Industrial Linkages
- Machinery and Equipment Industry
- Automotive Component Modules or Systems
- Utilization of Oil Palm Biomass
- Manufacturing Sector （Reinvestment Allowance）

(Source: Website of Malaysia Investment Development Authority)

3.5.5 Restriction on Foreign Investment

The Malaysian Government had relaxed the equity policy for all investments in manufacturing sector in 2003. Under this relaxation, foreign investors could hold 100% of equity irrespective of the level of exports. The controls on foreign ownership of equity of non-manufacturing sectors are set out in the guideline of Foreign Investment Committee, FIC. With at least 30% of Bumiputra equity, the remaining shareholding can be held by either local or foreign investor or both parties.

In 2009, the government liberalized 27 sub-sectors in order to attract more investments. The areas targeted for liberalization are in the areas of health and social services, tourism, transport, business services and computer and related services. Those service industries do not need to be 30% owned by Bumiputra.

3.5.6 Taxation

The following sources of income are liable to tax:

- gains and profits from a trade, profession and business
- gains or profits from an employment (salaries, remunerations, etc.)
- dividends, interests or discounts
- rents, royalties or premiums
- pensions, annuities or other periodic payments

- other gains or profits of an income nature

Major tax rates are:

- Company tax: 25%（year of 2009）
- Personal income tax: 0～27%
- Withholding tax: 10%
- Real property gain tax: exempted from the provisions of the Real Property Gains Tax Act 1967 in 2007
- Sales tax: 10%
- Service tax: 5%

The Malaysia has concluded Double Taxation Agreement with 60 countries including Japan.

3.5.7 Trade and Exchange Control

(1) Financial institutions

The central bank of Malaysia is Bank Negara Malaysia. There are 53 banks including the Islamic banks. Moreover, there are 60 insurance companies including takaful.

Table 3-5-2 Number of Financial Institution, 2008

Financial Institution	Total	Malaysian Controlled Institutions	Foreign Controlled Institutions
Commercial Banks	22	9	13
Investment Banks/ Merchant Banks	15	15	-
Islamic Banks*	15	10	5
International Islamic Banks	1	-	1
Insurers	41	25	16
Islamic Insurers (takaful operators)	8	8	-
International Takaful Operators)	1	-	1
Reinsurers	7	3	4
Islamic reinsurers (retakaful operators)	3	1	2
Development financial institutions	13	13	-

(2) Interest rate

Overnight Policy Rate (OPR) is set by Bank Negara Malaysia as an official rate used for monetary policy. OPR was 2.0% in the first quarter of 2009.

(3) Exchange Rate

The government replaced the dollar peg by a managed floating exchange system. Then, the rate of RM per US dollar continued to rise to 3.333 in 2008.

Table 3-5-3 Change of Foreign Exchange Rates

	2005	2006	2007	2008
RM per US $	3.7871	3.6682	3.4376	3.3333
RM per Singapore $	2.2759	2.3087	2.2814	2.3552
RM per 100 Japanese Yen	3.4459	3.1553	2.9216	3.2384
Japanese Yen per RM	29.02	31.69	34.23	30.88

Source: Malaysian Economy in Figure 2009, JETRO

3.5.8 Labour Condition

(1) Employment of Foreign Workers

In the case that there is a shortage of trained Malaysians, foreign companies are allowed posts that are permanently filled by foreigners. Foreign workers are allowed to work only in the approved industry by nationality. For example, Indonesian can work in the all industries, and Thai, Cambodia, Vietnam, etc. are allowed to work in manufacturing, construction, plantation, agriculture and service sector. With effect from 2003, the guidelines on the employment of foreign expatriate personnel in the manufacturing sector were relaxed.

(2) Employment condition

According to the Employment Ac, 1955, major registrations on labour matters in Malaysia are the following:

(i) Minimum condition of employment
  - Paid maternity leave: 60 days
  - Normal work hours: Not exceeding 8 hours in one day or 48hours in one week
  - Paid holiday: At least 10 gazetted public holidays

(ii) Paid annual leave for employees
  - Less than two years of service: 8 days
  - Two or more but less than 5 years of service: 12 days
  - Over five years of service: 16 days

(iii) Paid sick leave per calendar year
  - Less than two years of service: 14 days
  - Two or more but less than 5 years of service: 18 days
  - Over five years of service: 22 days
  - Where hospitalization is necessary: up to 60 days

(iv) Payment for overtime work
  - Normal working days: one-and-a-half times the hourly rate of pay
  - Rest days: two times the hourly rate of pay
  - Public holiday: three times the hourly rate of pay

(3) Wages

There is no legislation which stipulates a minimum wages in Malaysia. Table 3-5-4 shows average basic monthly salary announced by MIDA. As for the managerial staff, the salary of general manager is U$ 2,743 to U$ 4,954, Electrical/Electronic Engineer is U$ 670 to U$ 1,469. For non-managerial staff, the salary of a production supervisor/technical supervisor is U$421 to U$834, and an electrician is U$243 to U$606.

Table 3-5-4 Average Basic Monthly Salary, 2005 (Unit: US$)

Executive Positions	Min.	Max.	Executive Positions	Min.	Max.
General Manager	2,743	4,954	Training Manager	1,426	2,538
Plant/Factory Manager	1,975	3,880	Marketing Manager	1,949	3,498
Company Secretary	1,604	3,040	Finance/Accountants Manager	1,335	2,472
Financial Controller	3,175	6,445	Mechanical Engineer	588	1,355
Operation Manager	1,446	2,572	Exec. Secretary/P.A.	606	1,368
Quality Assurance/ Control Manager	1,308	2,570	Electrical/Electronic Engineer	670	1,469
Production/Manufacturing Manager	1,170	2,288	Marketing Executive	545	1,156
Purchasing Manager	1,454	2,431	IT Executive	581	1,259
Non-Executive Positions	Min.	Max.	Non-Executive Positions	Min.	Max.
Secretary	337	711	Electrician	243	606
IT Supervisor	432	808	Wireman/Welder	227	522
Charge man (Medium Pressure)	388	800	Accounts Clerk	236	518
Production/Technical Supervisor	421	834	General Clerk	216	567
Quality Control/Assurance Supervisor	406	831	Receptionist/Telephone Operator	213	464
Service/Maintenance Technician	242	577	Laboratory Assistant/Technician	220	463
Foreman	323	807	Lorry/Truck Driver	186	457
Storekeeper/Warehousemen	262	583	Security Guard	174	398
Production Operator (Semi-skilled)	163	413	Production Operator (unskilled)	147	330

Source: Website of Malaysian Investment Development Authority

The comparison of wage level in Singapore and the major ASEAN countries is shown in Table 3-5-5. Although the wages of Malaysia are about 1/3 of Singapore, they are the highest in other ASEAN countries. Furthermore, increase of job hopping due to the shortage of labor causes inefficiency in company operation.

Table 3-5-5 Comparison of Wage Level in Major ASEAN Countries (Unit: US$)

	City	Worker	Engineer	Middle Class Manager	Minimum Salary
Singapore		1,023.8~1,471.7	1,553.5~2,320.5	3,279.9~4,513.6	-
Malaysia	Kuala Lumpur	305.2~568.1	484.6~875.2	1,370.8~2,118.8	-
Philippine	Manila	248.4~339.1	384.5~634.6	835.7~1,727.9	6.95/day
Thailand	Bangkok	231.9~361.2	314.0~551.6	1,234.0~2,050.8	5.86/day
Indonesia	Jakarta	125.0~261.9	181.2~289.8	648.9~1,040.8	103.47/momth
	Batam	106.14~154.54	190.20~432.80	594.88~1,143.87	102.13/momth
Vietnam	Hanoi	78.7~125.6	100.5~208.5	391.2~736.1	79.7/momth
	Ho Chi Minh	78.7~125.6	100.5~208.5	391.2~736.1	79.7/momth
Myanmar	Yangon	27.9~47.8	43.8~71.7	63.7~199.2	-

Source: Investment Environment in Indonesia 2008, JBIC

3.6 Trend of Manufacturing Sector

3.6.1 Electrical and Electronics Industry

(1) Industrial trend

Electrical and electronics industry in Malaysia began in late half of 1960s for import-substitute industry. In middle of 1960, Panasonic (former Matsushita) and Sanyo Electric Co. invested in Malaysia. As the government attracted FDI for export-oriented industries under New Economic Policy in 1970s, there was a rush for investment in the electrical and electronics industry from Japan, Europe and U.S.A. National Semiconductor Co., Intel, and other electronics companies of U. S. launched in 1970s. They imported parts, assembled them and re-exported to U.S. In the1980s, the major Japanese manufacturers further accelerated to construct their factories in Malaysia and established their industrial bases for export towards a world market.

(2) Major products

Major products of U.S. manufacturers in Malaysia are electronics products such as semiconductors, HDD and HDD parts. On the other hand, products of Japanese manufactures are more diverse than that of U.S. manufactures. In the early stage, the Japanese manufacturers invested for assemblies of the home electronics such as TV sets, refrigerators, air-conditioners utilizing low labour wages in Malaysia. Recently, many of these productions have been shifted to the other countries such as China and Vietnam which have the large domestic market with comparatively low wage workers.

Malaysia is currently the world’s leading base for production, assembly and testing of semiconductor devices which include microprocessors, memory chips, ICs and other logic circuits. The semi-conductor industry today became a major part in Malaysia's electronics sector, accounting for 42.8% (RM83.2 billion) of the total sales of electrical and electronics in 2007 (Industry, Investment, Trade and Productivity Performance, 2007). The Malaysia’s semiconductor industry is currently integrating production process of silicon ingot growing, cutting and polishing of silicon wafers, chip designing and wafer fabrication.

The importance of Japanese electrical and electronics companies is obvious in Malaysia’s economy, as it is said that the export value of Panasonic accounted for 3% of the total export. Approved projects in the electronics sub-sector in 2006 with Japanese participation amounted to RM1,488.2 million for electronic components, RM26.1 million for industrial electronic products and RM21.1 million for consumer electronic parts.

3.6.2 Automotive Industry

(1) Industrial trend

In the early 1980s, there were about 15 assemblers of Japanese and other foreign vehicles. As the domestic market was small and there were too many assemblers, it was difficult to be profitable. Almost all parts were imported and the level of the technology transfer and human-resources development was also very low because the assemblers imported complete knock down (CKD) kits from their foreign affiliates.

As the Nationa1 Car Project, the development of the automotive industry was started under the initiative of former Prime Minister Dr. Mahathir. The national automotive company, Perusahaan Automobi1 Nasiona1 (PROTON) established in 1984. The PROTON, joint-venture with Mitsubishi Motors Corporation of Japan, began to produce the PROTON Saga which was the first national model in 1985. As the next stage of the national car project, Perusahaan Otomobi1 Kedua Sdn. Bhd. (PERODUA) was established jointly with Daihatsu Motor Co. Ltd of Japan in 1992. The Malaysia’s automotive industry developed rapidly under the government protection. In the peak period, Malaysia's national cars produced by PROTON and PERODUA accounted for 80% of the vehicles in the domestic market.

The national car project has various objectives which are promotion of technology transfer, human resource development and increase of national brands and intellectual property of the industry. In addition, as the development of automotive parts industry, it is expected to promote industrial linkage among domestic companies, and to reduce import amount.

The National Automotive Policy (NAP) was introduced on March, 2006 for further development of the domestic automotive industry. According to the NAP, “Approved Permit” system of the license for local companies to import cars for distribution in the country phased out by end of Dec. 2010. The NAP also covered other measures including a ban on import of second hand cars by 2016, and a reduction in import duties on cars from the ASEAN countries to 5% by 2010. In addition, excise duty for completely knocked down passenger cars from ASEAN countries reduced 75% to 125% depending on engine capacity, which were 80% to 200% previously. These measures applied to the Common Effective Preferential Tariff, CEPT correspondingly within ASEAN members. There is the sense of impending crisis that the competitive power of the domestic auto industry of Malaysia is lost, and the domestic car maker is groping for cooperation with foreign companies.

(2) Production and sales

Malaysia leads ASEAN countries in the share of a passenger car of domestic vehicles in use. Although the selling number of cars was declining from 2005, it recovered on the 548,000 number in 2008. It was considered that the effect of reducing a customs duty and a commodity tax under the NAP is a main cause.

By the protective policy for domestic industry, the national-car monopolized 80% of the domestic market in the peak. However, the share of a national-car fell to 63.7% by relief of a protective policy, and progress of trade liberalization in 2007.

(3) Problems of automotive industry

The percentage of the auto industry to the whole manufacturing industry in Malaysia is about 3% which is low as compared with electrical and electronics industry. However, as the number of companies in the industry including part manufacturers may exceed 150 companies, their movement has large influence on domestic economy.

The auto industry of Malaysia protected by the government has been aimed at the small domestic market. Therefore, one of the important subjects for this sector is expansion of export by means of progress of trade liberalization, such as ASEAN-CEPT. The auto industry of Thailand is already growing as export oriented industry. It is obliged for entry to the international automotive market to be extensively dependent on the international strategies of the multinational companies. It has been a subject how the auto industry of Malaysia which has original national-car models gains competitive power in the world market.

Table 3-6-1 Summary of New Passenger & Commercial Vehicles Registered in Malaysia

Year	Passenger Vehicles	Commercial Vehicles	4 X 4 Vehicles	Total Vehicles
1980	80,420	16,842	-	97,262
1985	63,857	26,742	4,400	94,999
1990	106,454	51,420	7,987	165,861
1995	224,991	47,235	13,566	285,792
2000	282,103	33,732	27,338	343,173
2005	416,692	97,820	37,804	552,316
2006	366,738	90,471	33,559	490,768
2007	442,885	44,291	-	487,176
2008	497,459	50,656	-	548,115
2009	486,342	50,563	-	536,905

Source: Malaysia Automotive Association

(4) Malaysia Japan Automotive Industries Cooperation, MAJAICO

Malaysia Japan Automotive Industries Cooperation, MAJAICO is the assistance programme for promoting the Malaysia’s auto industry and strengthening competitive power in a world market based on the Malaysia Japan Economic Partnership Agreement agreed in 2006. MAJAICO is the government-and-private sector cooperation project carried out for five years from 2006, and the following ten projects are carried out.

(i) The Automotive Technical Experts Assistance Programme;
(ii) Enhancement of the Mould and Die Center in Malaysia;
(iii) Capacity building for Malaysian auto parts suppliers to enhance their ability to ensure conferment with Vehicle Type Approval;
(iv) Setting up of an Automotive Skill Training Centre in Malaysia;
(v) Malaysian workers to be exposed to the latest technology and production system in Automotive Skill Training Centre in Japan;
(vi) Establishment of a Components and Parts Testing Centre in Malaysia;
(vii) Business Development Programme to strengthen ties and to increase sales of auto parts from Malaysian companies;
(viii) Cooperation in automotive market information;
(ix) Cooperation in auto exhibition; and
(x) Consultation on joint-venture contracts.

3.7 Trend of Service Sector

3.7.1 Positioning of Service Sector

The service sector of Malaysian economy is expanding. The Malaysian government is shifting the economic policy for development of knowledge-intensive industries from the economic growth depending on the manufacturing industry based on FDI. The market scale of the whole service sector was RM296 billion (US$ 89 billion) in 2008. The percentage of the service sector in GDP was going up from 47.8% in 2000 to 54.2% in 2008. It is also expected that the market of service industries expands since the GDP of Malaysia is the highest as about US$ 8,000 per person in ASEAN members.

Table 3-7-1 GDP by Industrial Origin and Composition

	Value (RM million)			Composition ratio		
	2000	2007	2008	2000	2007	2008
Agriculture, Forestry & Fishery	30,647	38,224	38,851	8.3%	7.4%	7.1%
Mining & Quarrying	37,617	42,881	42,550	10.2%	8.3%	7.8%
Manufacturing	109,998	151,789	153,744	29.9%	29.2%	28.1%
Construction	13,971	15,332	15,657	3.8%	3.0%	2.9%
Sub-total of Services	175,828	270,901	296,547	47.8%	52.2%	54.2%
Utilities	10,629	15,106	15,220	2.9%	2.9%	2.8%
Wholesale, Retail trade& Restaurant	39,957	61,539	68,377	10.9%	11.9%	12.5%
Accommodation & Restaurants	7,977	11,851	13,117	2.2%	2.3%	2.4%
Transport, storage	13,871	19,139	19,632	3.8%	3.7%	3.6%
Communication	11,207	18,998	21,548	3.0%	3.7%	3.9%
Finance & Insurance	32,628	53,890	59,750	8.9%	10.4%	10.9%
Real estate & Business services	15,659	26,781	27,432	4.3%	5.2%	5.0%
Government services	22,576	35,004	39,900	6.1%	6.7%	7.3%
Other service	21,324	28,593	31,571	5.8%	5.5%	5.8%
Total	368,061	519,127	547,349	100.0%	100.0%	100.0%

Source: Malaysian Economy in Figure, JETRO

3.7.2 Outline of Major Sub-sectors

(1) Commerce

The sales amount of the commerce (including wholesale and retail) is RM 68,400 million (US$20.5 billion) in 2008. The percentage to GDP of commerce was expanded from 10.9% in 2000 to 12.5% in 2008. The wholesale accounted for 70.2% of the commerce.

The number of shopping complexes increased to 550 in 2005 from 392 in 2000. In large cities, the hypermarket (large-scale markets with an area of 5,000 meter^2 or more) increased from 22 places to 88 places. Thus, in Malaysia, modern retail business occupies 70% or more, and its market has matured.

Table 3-7-2 Selected Performance Indicator, 2000-2005

	2000	2005	Average Annual Growth Rate (%) 2001-2005
Shopping Complexes	392	550	7.0
Shop Units ('000)	242	297	4.2
Hypermarket	22	81	29.8
Foreign	16	68	33.6
Local	6	13	16.7
Franchisors	90	204	17.8
Franchisees	2,159	2,584	3.7
Direct Selling License	712	569	-4.4
e-Commerce (RM million)	11.1*	36.7	81.8**
Business to Business	7.7*	29.3	95.1**
Business to Commerce	3.4*	7.4	47.5**

Note: * Year 2003
** Growth 2004-2005
Source: Ninth Malaysia Plan

(2) Tourism

Malaysia earned RM 53,400 million (US$17.7 billion) from tourism in 2009, and the earnings was increasing at 12.8% of annual average rate from 2005. Number of travelers was 23,600,000 in 2009. As for the number of travelers by country, Singapore stands first followed by Thailand, Indonesia, and Brunei continue. The tourists from China are increasing in recent years. The number of summer visitors from Arabic countries is also increasing. Although room occupancy rate fell at 53% in 2003, it was exceeding 60% after that.

It is expected that the tourism of Malaysia expands favorably with economic growth of Asian countries. The Malaysia government holds international events such as "F1 Grand Prize" etc., and attracts international conferences, etc. Moreover, the government implements promotions for tourism such as "My Second Home Programme" for attraction of long stay visitors and an “Promotion for School Excursion” for a school trip from Japan, etc.

Table 3-7-3 Tourist Arrivals and Receipts to Malaysia

Year	Arrivals (million)		Receipts (RM million)	
2009	23.6	7.3%	53,368	7.7%
2008	22.0	5.3%	49,561	5.3%
2007	20.9	19.4%	47,070	29.8%
2006	17.5	6.7%	36,271	13.5%
2005	16.4	4.5%	31,954	7.8%
2004	15.7	-	29,651	-

Source: Malaysia Tourism Promotion Board

(3) Market of higher education

The number of universities in Malaysia is shown in Table 3-7-4. The Malaysian government has actively accepted foreign students. The number of foreign students in 2007 was about 65,000 (Peninsular Malaysia), increased by 35% from about 45,000 in 2006. The foreign students came from 100 countries.

The Ministry of Higher Education takes two strategies. The first one is to increase liberalization for establishing new private colleges and the second is to attract overseas universities to set up "branch campuses" in Malaysia. Moreover, the government receives foreign students from developing countries through "The Malaysia Technical Cooperation Programme, MTCP" which is a part of official technical assistance.

Singapore, Hong Kong, the Philippines, etc. have also strengthened the measures for attracting foreign students. Malaysia has advantages to attract foreign students from developing and Islamic countries, such that (1) living expenses is cheap as compared with developed countries, and (2) the national religion is Islam.

Table 3-7-4 Tertiary Education Institutions[1] , 2000 2005

Institution[1]		2000	2005
Public			
	University	11	11
	University College	0	6
	Polytechnic	11	20
	Community College	0	34
	Sub-total	22	71
Private			
	University	5	11
	University College	0	11
	Branch Campus	3	5
	College	632	532
	Sub-total	640	559
Total		662	630

Source: Ninth Malaysia Plan

Note: 1 Refer to university, university college, branch campus college, polytechnic and community college

3.8 Industrial Linkages of Surrounding Countries and Areas

3.8.1 Common Effective Preferential Tariff, CEPT

ASEAN Free Trade Area, AFTA was established in order to abolish import duties and nontariff barriers in 1992 within ASEAN. The purpose of AFTA is to build one market and to strengthen the competitive power of ASEAN members as a production base in a world market by unifying the ASEAN area. In order to realize AFTA, the Agreement on the Common Effective Preferential Tariff, CEPT was introduced in 1993. The CEPT reduces the tariff rate of wide range of goods to 5% or less in the ASEAN area. It is agreed that six original members (Singapore, Malaysia, Thailand, Indonesia, Philippines, and Brunei) and Vietnam will abolish all customs duties by 2010, and new member countries (Laos, Myanmar, and Cambodia) will abolish them by 2015.

3.8.2 ASEAN Economic Community, AEC

At the ASEAN Summit in 2007, the ASEAN members affirmed their commitment to accelerate the establishment of an ASEAN Community, AEC by 2015. The AEC envisages the following characteristics:

i) a single market and production base,
ii) a highly competitive economic region,

iii) a region of equitable economic development, and
iv) a region fully integrated into the global economy.

An ASEAN single market and production base comprises five core elements: (1) free flow of goods; (2) free flow of service; (3) free flow of investment; (4) free flow of capital; and (5) free flow of skilled labour.

(1) Free flow of goods

Through AFTA, ASEAN has eliminated the import duties on almost all products, except for those listed in the Sensitive and Highly Sensitive Lists. In addition, the components of free flow of goods are not only the removal of custom duties and non-tariff barriers but facilitation of trade such as integrating custom procedures, establishing ASEAN Single Window.

(2) Free flow of service

In facilitating the free flow of service, all restrictions on trade in services for all service sectors will be removed substantially by 2015. The ASEAN members will allow for foreign (ASEAN) equity participation of not less than 70%, and complete mutual recognition arrangements (MRAs) for all professional services by 2015. The member countries should progressively liberalize restrictions in the financial service sectors by 2020.

(3) Free flow of investment

In order to promote investment, the ASEAN Comprehensive Investment Agreement, ACIA, covers the following;

(i) Provide enhanced protection to all investors and their investments;
(ii) Adopt more transparent, consistent and predictable investment rules, regulations, policies and procedures
(iii) Promote ASEAN as an integrated investment area and production network; and
(iv) Progressive liberalization of ASEAN member countries' investment regime to achieve and open investment by 2015.

(4) Free flow of capital

The objective of free flow of capita is to strength ASEAN capital market development and integration. The components include following actions:

(i) Achieve harmonization in capital market standard in ASEAN for debt security, disclosure requirements and distribution rules;
(ii) Facilitate mutual recognition arrangement for the cross recognition of qualification and education and experience of market professionals;
(iii) Achieve flexibility in language and governing law requirements for securities issuance;
(iv) Enhance withholding tax structure to promote the broadening of investor base in ASEAN debt issuance; and
(v) Facilitate market driven efforts to establish exchange and debt market linkages, including cross-border capital raising activities.

The liberalization of capital movement includes the following actions:

(i) Remove or relax restrictions to facilitate the flows of payments and transfers for current account transactions; and
(ii) Remove or relax restriction on capital flows to support foreign direct investment

and initiatives to promote capital market development.

(5) Free flow of skilled labour

ASEAN is working to facilitate the issue of visas and employment passes for ASEAN professionals and skilled labour who engage in cross-border trade and investment related activities. In facilitating the free flow of services (by 2015), ASEAN is also working to:

(i) Enhance cooperation among ASEAN University Network (AUN) members to increase mobility for both students and staff within the region;
(ii) Develop core competencies and qualifications for job/occupational and trainers skills required in the service sectors; and
(iii) Strengthen the research capabilities of each ASEAN member country in terms of promoting skills, job placements, and developing labour market information networks among ASEAN member countries.

3.8.3 Positioning of Malaysia in ASEAN.

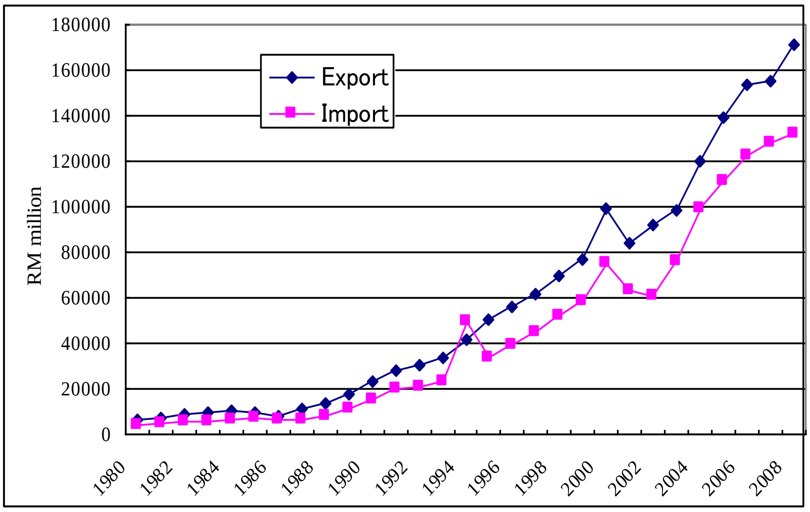
Malaysia's regional trade of export and import to and from ASEAN is increasing as shown in Figure 3-8-1. Especially the export increases at 11.0% of annual averages, and import increases at 11.6% since the customs duties of Inclusive List, IL were reduced from 0% to 5% in 2003. The percentage of export to ASEAN to the whole was 25.8% in 2008, and import was 25.3%. As for the trading partner of in export and import within the area, Singapore stands the first place.

In the investment within ASEAN, Singapore occupies 40 to 50% of the whole, and Malaysia, Thailand, and Indonesia stand the second group (Figure 3-8-2).

3.8.4 Importance of ASEAN Free Trade Area, AFTA

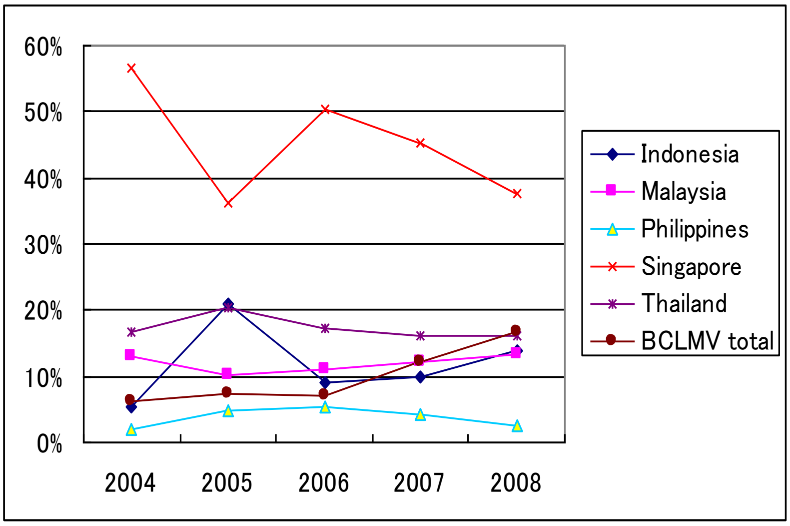
Since ASEAN Free Trade Area, AFTA went into effect, specialization of the production among the ASEAN countries is taking place. It is one of backgrounds for establishing AFTA that FDI has been shifting destinations from ASEAN to China. In recent years, FDI in China has reached 3 times that in the whole ASEAN area. It is predicted that this tendency will continue with expectation of economic growth of Chinese market.

On the other hand, according to a JETRO survey carried out in 2009, companies utilizing AFTA occupy 1/3 of all the companies responded to the questionnaire. These companies together with those which are considering future utilization of ASEAN account for over 50%. Therefore, progress of AFTA is necessary conditions for future development of ASEAN.



Note : Up to year 1983 ASEAN figures include Indonesia, Thailand, Philippines and Singapore.
From year 1984 include Brunei
From year 1995 include Vietnam
From year 1997 include Laos PDR, Myanmar
From year 1999 include Cambodia

Figure 3-8-1 External Trade by Direction
Source: Malaysian Economy in Figures 2009, JETRO



Note: BCLMV include Brunei, Cambodia, Lao PDR, Myanmar and Vietnam

Figure 3-8-2 FDI Inflows into ASEAN by Host Country
Source: ASEAN Statistical Yearbook 2008, The ASEAN Secretariat Jakarta

Chapter 4 Past and Current National Plans

4.1 Main National Plans

Main national plans and their target years are as follows.

This chapter outlines the Malaysia Plans, the Industrial Master Plans (IMPs) and the Regional Growth Corridors.

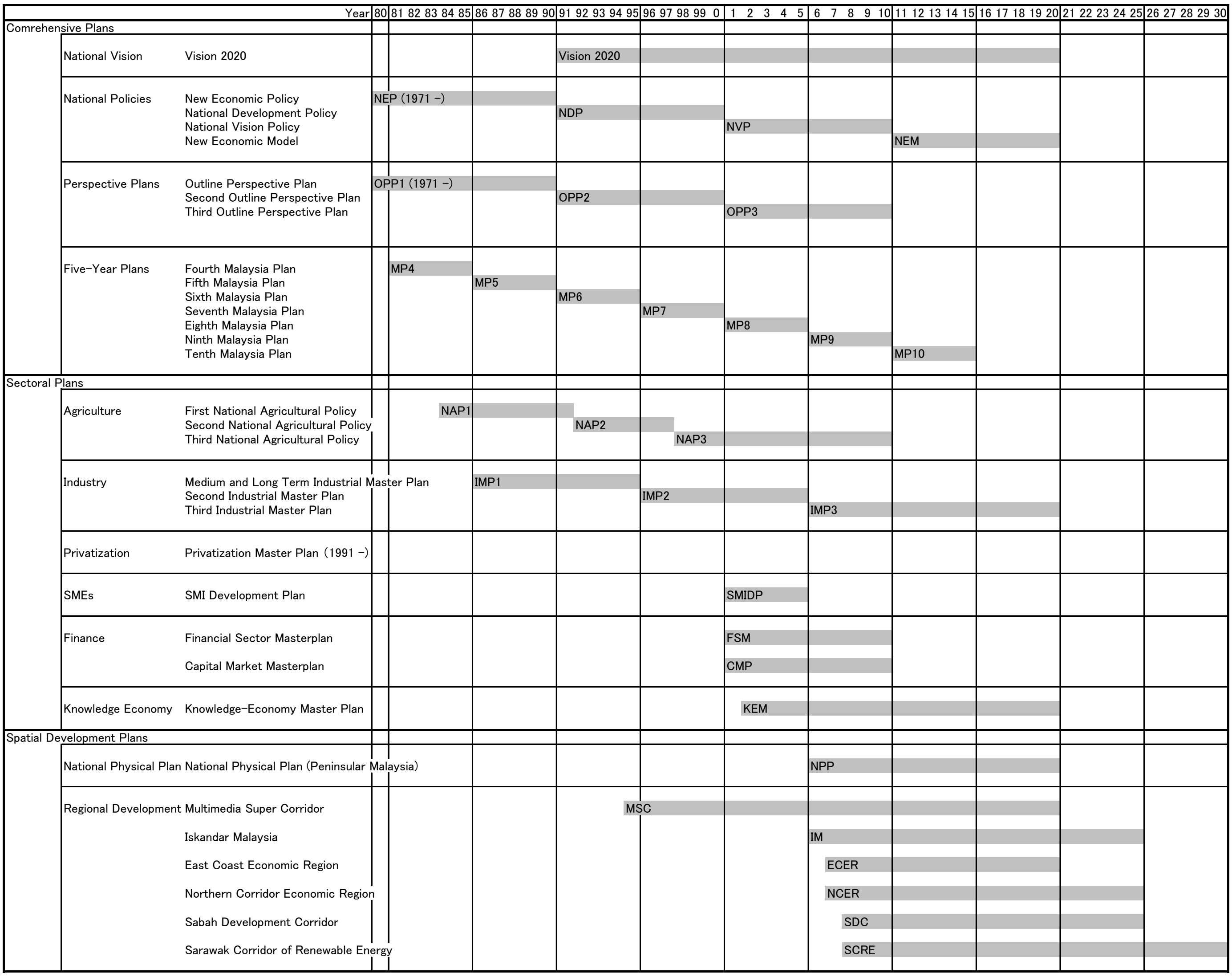


Figure 4-1-1 Main National Plans

4.2 Malaysia Plans in Recent Years

(Sources: Plan contents of the Malaysia Plans of respective 5 year periods and the review of them by the following Malaysia Plans of the next periods.)

4.2.1 Fourth Malaysia Plan 1981-1985

Outline of Plan Contents	Outline of Achievements
New Economic Policy (NEP) The objective of the NEP, adopted in 1971, was to achieve the national unity. The two strategies for the objective were (1) eradicating poverty by raising the income levels and increasing the employment opportunities for all Malaysians irrespective of ethnic groups, and (2) restructuring society to reduce the economic imbalances among various ethnic groups and to eliminate the identification of such groups with economic functions. In order to achieve the objective by 1990, the outline perspective plan (OPP) was formulated in 1971. The Fourth Malaysia Plan corresponded to the third stage of the OPP and incorporated the revised contents of the OPP.	
GDP The Plan aimed at an average annual growth rate of 7.6% to increase GDP by 45% in 5years. This growth rate would double the GDP in 10 years time. The plan addressed the following major challenges. (1) Generating 860,600 jobs to reduce the unemployment rate from 5.3% in 1980 to 4.9% in 1985. Allocating a considerable portion of agricultural investment to reduce underemployment and to generate the productivity and income in rural areas. (2) Reducing the poverty ratio to 15% by 1990 through further reduction of unemployment (3) Achieving the objective of OPP by 1990 by restructuring the pattern of asset ownership and employment. (4) Raising the quality of life of all the Malaysians in both rural and urban areas by expanding basic social services such as education, housing, health, etc.	The real growth rate was 5.8%, that was lower than the target, mainly due to the rate of minus 1.2% in 1985. The recession was caused by the poor performance of the manufacturing and mining sectors. The private sector did not contribute to economic growth as expected at the beginning of the plan period.

Outline of Plan Contents	Outline of Achievements
Industrial Sectors Manufacturing and agriculture sectors were expected to expand production and diversify their products. However, agriculture sector was forecast to reduce its share in the total GDP. Production of rubber and palm oil was expected to decline due to planting and replanting in the late 1970s. Lumber production was also expected to decline due to the policy on the forest environment.	Manufacturing sector had expanded to be the largest sector by exceeding agriculture sector in 1984. In the next year, it was below the agriculture sector again, due to the poor performance of electronics, steel, non-ferrous metal, non-metallic mineral and petroleum products. In agriculture sector, the diversification-from-rubber policy since 1960s made palm oil the top agricultural product in 1981. In the mining sector, the value of oil production largely expanded while the share of tin production declined.
Manufacturing Manufacturing sector was expected to grow at 6.0% per annum in real terms. The sector plans to push both export promotion and import substitution in order to reduce the employment gap among ethnic groups and regions. In addition to relative advantages of agro-industries, industrial development based on Malaysia's natural resources was emphasized to meet domestic and foreign demand. Development of heavy industries was also expected through collaboration between the Heavy Industries Corporation of Malaysia (HICOM) established in 1980 and private sector companies.	The average annual growth rate of 4.9% fell below the target of 6.0%.The sector had kept good performance before 1985. In this year however the sector recorded a growth rate of -3.0%, negative growth for the first time since 1961. The fall showed that the manufacturing sector depending heavily on export was vulnerable to a downturn in foreign markets.
Aggregate Demand Exports, private investment and public consumption were emphasized. While seeking consolidation of public projects and greater roles of the private sector, total wages of the public sector employees were planned to expand.	The private consumption was weak due to slow growth of export income and the recession in 1985. The private investment was also weak due to the inadequate industrial development policy, the competitive weakness of the domestic manufacturers, and lack of investment opportunities. Public consumption increased due to the expansion of public employment for strengthening the sector. Accordingly, public investment also expanded, 38% of which was by the non-financial public enterprises during the 5 year period. Considering the deteriorated public finance, the government started to reduce public investment programmes in 1983. However, the public investment resulted in an increase by 12.5%. Exports fell below the target due to weak foreign markets and low commodity prices. However, exports in the manufacturing sector exceeded those of agriculture in 1982 and those of mining in 1984. Expansion of exports in manufacturing was mainly caused by electrical products and parts. Imports also fell below estimation according to the decline in public and private investments during the latter half of the plan period. The import amount decreased in 1985 for the first time after 1975.

Outline of Plan Contents	Outline of Achievements
Savings and Investments	The gap between savings and investments expanded in both public and private sectors during the plan period. The total gap peaked at minus 14.1% of GDP in 1982. Then with the public spending reduction policy, it reached minus 8.5% at the end of the period. The gap was filled by borrowing from abroad.
Balance of Payments	The commodity trade surplus was smaller than the deficit of services such as investment income outflow resulting in the deficit on the current account, though the amount was less than the estimation.
Poverty Eradication Poverty eradication was a focal issue and restructuring of the society was planned to reduce the gap between Chinese, Indians and Bumiputera in industries, occupations and ownership and management of companies. In addition, reduction of regional gaps and urban-rural gaps was emphasized.	

Remarks
The above plan contents suggest the following issues. - Possibility of mismatch between the investment in rural areas and the general trend of industrialization and urbanization. - Possibility of side effects of the regulations to restructure the society for reducing gaps among ethnic groups and regions. - Possibility of expansion of the public sector in spite of the policy to promote roles of the private sector. The above achievements suggest the following issues. - The achieved GDP growth rate was 5.8% per annum in real terms. It was below the target but high enough to double in 13 years, although the growth rate was negative in 1985. - As expected, the share of agriculture decreased while that of manufacturing expanded. - How to best balance import substitution and export promotion was an issue. - Evaluation of the concentration to the Capital Region and how to address the possibility of expansion of regional gaps. - How to best balance diversification and specialization of industries.

4.2.2 Fifth Malaysia Plan 1986-1990

Outline of Plan Contents	Outline of Achievements
International Economy Average annual growth rate of the industrialized countries was assumed to be 3.0% - 3.5%. Among the focal international issues were liberalization of the economy and expansion of the trade. Structural adjustment programs were being implemented to solve the accumulated debt problem of the developing countries. (Note: Thatcher Administration of UK (1979-1990), Reagan Administration of USA (1981-1989), Nakasone Administration of Japan (1982-1987), and Plaza Accord on exchange rates (1985) resulting in rapid appreciation of Japanese Yen and acceleration of the move of Japanese companies to Southeast Asia.)	At the beginning of the plan period, Malaysia was in a serious recession. But for 3 years from 1988 to 1990, it recorded an average annual growth rate of 9.1%, the highest rate since its independence. The external factors were the sustained growth of the world economy and associated growth of flow of commodities, investment and money. As the result of the boom in Malaysia, signs of inflation, tightening of labor market, bottlenecks of infrastructure appeared. The average annual growth rate through the period was 6.7%, attributed to (1) consolidation of the public sector and reduction of the budgetary deficit since 1983, (2) expansion of the private investment, especially the foreign direct investment, due to the liberalization policy of trade and investment introduced during the recession period from 1985 to 1986. (3) expansion of exports, and (4) following expansion of the private consumption. The government had maintained efforts to reduce public finance since 1983 as well as management of external debts. In addition, public sector reform and institutional improvement were implemented towards an efficient public sector and a vibrant private sector, including liberalization and deregulation for encouraging the private investment and strengthening the competitive power.
Domestic Economy Among the major issues are need for continued reduction of expenditure and borrowing, and improvement of debt management. On the other hand, promotion of the private sector's development was required through encouraging entrepreneurship, raising productivity, innovating technologies, and introducing privatization. A key to growth during the plan period was rapid expansion of the private investment. As roles of the public sector were decreasing, efforts were needed to best utilize the limited resources. The GDP growth rate was targeted at 5.0% per annum. The private sector was required to function as the engine for sustainable economic growth.	
Industrial Sectors The secondary and tertiary industrial sectors were expected to lead the economic development during the plan period. The prospective growth rate of the manufacturing sector was higher than in the previous period. The construction sector's growth rate was expected to be lower due to reduction of the public investment. Growth of agriculture and mining was thought to be slow. The tertiary sector expected growth of the utility sector and slow down of the government sector. Expansion of the share of the tertiary and the secondary sectors in GDP and reduction of that of the primary sector were expected.	The growth rate of the construction sector was low at 0.4% and that of the wholesale, retail trade, accommodation, restaurants sector was 4.7%. These two sectors' achievements were below the targets. The government service sector grew at a rate equal to the low target of 4.0%. In all the other sectors, the achievements exceeded the targets. Among others, the manufacturing sector grew at a remarkable rate of 13.7%.

Outline of Plan Contents	Outline of Achievements
Aggregate demand Among the demand items, the private investment was set the highest at 7.0%. On the other hand, the growth rate of the public investment was targeted at minus 1.0%. Based on the reduced public investment and need to curb expansion of imports, the growth rate of imports was expected to be low.	The plans to control expansion of the public sector and promote the private sector were realized. The public sector was not reduced but the average annual growth rate was low at 0.2%. On the other hand, the private investment rapidly grew at an average annual growth rate of 12.9%. The trade amount exceeded the target. However, the imports grew faster than the exports and the trade surplus did not expand. Expansion of the public consumption was small but the public investment turned from the negative growth rate in 1987 to a positive rate in 1988 onward, as the projects halted during the recession were resumed. Bottlenecks of infrastructure emerging in the economic recovery needed to be addressed by public investment.
Savings and Investments The minus gap of the public sector was expected to be expanded as a result of the reduction of the savings due to income tax revenue reduction, lower prices of oil and tin, and smaller profits of the non-financial public enterprises in spite of the reduction of the public investment. On the other hand, the plus gap of the private sector was thought to be reduced due to rapid growth of the investment in spite of the increased savings. After all, the overall minus gap in 1986 was forecast to expand.	The public sector gap was minus 0.2% of GNP due to the reduction of the investment, while the private sector gap was minus 4.6% by the investment greater than the target. The overall gap was minus 4.8% falling below the target.
Trade	Exports in the manufacturing sector rapidly expanded to account for 60.4% of the total export amount in 1990.
Balance of Payments	After the deficit from 1980 to 1986, the balance on current account turned to be surplus in 1987 due to the rapid expansion of the exports. The expansion was accompanied by rapid expansion of imports such as intermediate goods and capital goods, the surplus declined drastically in 1989 and turned to be deficit again in 1990. During the period, the balance on services remained in deficit due to payment of interests, out flow of dividends and profits, transportation costs, insurance and overseas education. Both merchandize account surplus and service account deficit were smaller than the targets resulting in reduced deficit in the current account.

Outline of Plan Contents	Outline of Achievements
Prices	Prices were rising very slowly with the government’s measures in the currency, the public finance and the administration. The GDP deflator was 1.3% per annum and the average annual increase rate of the consumer price index was 2.0%. In 1990, however, inflationary pressure appeared.
Unemployment Rate	The unemployment rate was improved from the 8.3% peak in 1986 to 6.0% in 1990. The rates included those who were not seeking jobs. If they had been excluded, the rates would have been even lower. The low unemployment rate caused labor shortage and pressure to raise wages.
Poverty Reduction	Through the plan period, the poverty ratio reduced from 20.7% to 17.1%, specifically from 8.5% to 7.5% in urban areas and from 27.3% to 21.8% in rural areas.

Remarks
Recession from 1985 to 1986 The recession was caused by both domestic and international factors. Fall in prices of international commodities, reduction of demand for Malaysian products, unfavorable terms of trade, appreciation of Ringgit, inactive domestic and foreign private investment, and so forth. The GDP growth rate was minus 1.2% in 1985 and low at 1.2% in 1986. Since 1987 the economy had recovered due to the expansion of demand for Malaysian products such as semi-conductors and textile products, depreciation of Ringgit, and low interest rates.

4.2.3 Sixth Malaysia Plan 1991-1995

Outline of Plan Contents	Outline of Achievements
Domestic Economy	The economic performance in the plan period was tremendous. Strong economic fundamentals contributed to rapid growth and stable prices, based on the appropriate macro-economic policy and strengthened competitiveness of the economy. Large inflow of foreign capital, high domestic saving rate, and active private investment supported by the privatization policy led the economic growth. During the first half of the plan period, although economies of the industrialized countries were inactive, the performance of exports was high. The rapid growth faced constraints on supply such as insufficiency of infrastructure and labor. On the other hand, deficit of the current account persisted during the plan period. In addition, large inflow of short-term capital affected the currency operation at the middle of the period. In order to address the issue, pragmatic measures with due attention were taken.
Growth Factors	The economy grew at an average annual growth rate of 8.7%. The rate exceeded not only the target of 7.5% but also the revised target of the mid-term review of 8.1%. This rapid growth depended on the high growth rate of 11.3% per annum of the domestic demand and was realized with the macro-economic stability. The domestic economy was supported also by the recovery of the world economy during the second half of the plan period. As the results, the per capita income rose from RM 6,099 in 1990 to RM 9,786 in 1995 and further expansion of foreign direct investment became possible. The private sector led the economy and the public sector continued positive support for the development process. The public finance was improved through increased revenue from active economy and prudent expenditure. Since 1993, therefore, the overall account of the federal government had been surplus.
Macro-economic Strategies	During the plan period, the production and competitiveness of Malaysia were strengthened with pragmatic macro-economic operation. The continued high economic growth and stable prices were attributed to the appropriate policy and strategies. Further liberalization of procedures and regulations and the political stability promoted private investment. Domestic savings and large inflow of foreign capital financed private investments. Industrial development efforts contributed to (1) improved quality, (2) higher efficiency, and (3) strengthened competitiveness. Toward higher productivity, resources were allocated to science and technologies, research and development, and human resource development. The strengthened financial market mobilized domestic savings. In addition, the capital market was established in order to meet growing and varying demands of the industrializing economy.

Outline of Plan Contents	Outline of Achievements
Industrial Sectors	Among the industrial sectors, manufacturing, construction and services sectors contributed a lot. The growth rate of manufacturing was 13.3% per annum, accounting for 33.1% of the total GDP in 1995. The growth of the sector was led mainly by improvement of production efficiency and capacity and higher value-added of export commodities such as electric machines and equipment. The domestic market oriented chemical industry also contributed to the growth. Especially, activities of the downstream of oil subsector expanded. Multi-national companies contributed to technological development and competitiveness of Malaysia. Construction sector greatly benefited from the privatization and large scale infrastructure projects. The service sector grew at an average annual rate of 9.3% and accounted for 43% of the total GDP in 1995. The Visit Malaysia Year 1994 Campaign contributed to the tourism. The financial subsector was modernized with development of the private debt securities market and increase of banks providing Islamic banking services. The agriculture sector was contributed to by the palm oil, livestock and fishing subsectors. In the mining subsector, natural gas related industries expanded while tin industry continued to decline.
Aggregate Demand	The private investment rose by 16.6% per annum in response to the good economic performance, the low corporate tax rate and the increase in the reinvestment allowance. Part of the investment was inflow of the foreign capital. With the Domestic Investment Initiative (DII) introduced by the government in 1993, private investment was increased especially in manufacturing, oil and gas sectors. Similarly, with accelerated implementation of the privatization programs in public projects, transportation and communication, investment in the service sector grew. Since 1993 the federal government budget had kept surplus largely due to the increase of the revenue. The public investment increased by 14.7% annually, which was higher than the planned 11.1%. The increase was partly to meet the infrastructure demand to support the increased private investment and largely for expansion and modernization of the non-financial public enterprises. During the plan period, although the public investment was more than planned, the public finance was rapidly improved resulting in the surplus of RM 3.5 billion or 0.4% of GNP due to improvement of the federal government finance as well as restructuring and financial improvement of the non-financial public enterprises. The public investment was at a high level but lower than the private investment as targeted by the sixth plan. The private consumption expanded by 7.6% per annum compared with the planned 6.0% due to the expanded disposable income. The public consumption was increased more rapidly than the private consumption by 9.5% per annum mainly due to improvement of the service quality and modernization of the defense facilities.

Outline of Plan Contents	Outline of Achievements
Saving and Investment	The total savings reached 34.2% of GNP at the end of the plan period compared with the planned 30.5% due to the following factors. (1) expansion of consumption less than that of income, (2) expansion of the Employees Provident Fund (EPF), (3) expansion in the unit trust schemes, (4) introduction of new savings instruments, (5) introduction of new private debt instruments in the capital market, and (6) mobilization of deposits by the Islamic financial system. The public sector savings were also increased with its commitment to fiscal prudence.
Trade	The trade amount expanded by 19.1% annually. ASEAN was the largest partner followed by Japan, USA, and EU. Their total share slightly decreased from 76.3% in 1990 to 75.5% in 1995. The government tried to expand trade with developing countries in order to diversify the trade partners. The exports rose by 18.4% per annum, higher than the planned 13.2%. Contribution of the manufacturing sector (25.8%) was large, among which electrical machines, appliances and parts accounted for 65.7%. The import share was large in the industrial structure and they expanded by 19.7% per annum. In 1995, intermediate goods and capital goods accounted for 85.3% of the total imports. Imports of construction materials, transportation equipment and telecommunication equipment also expanded. As a result, the contribution of the trade to the economic growth decreased by 2.7%. During the plan period, the following events took place. - Success in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and establishment of the World Trade Organization (WTO) - Signing of the North American Free Trade Agreement (NAFTA) - Formation of the single EU market - Development of the Asia-Pacific Economic Cooperation (APEC) - Establishment of the ASEAN Free Area (AFTA) - Approval of the East Asian Economic Caucus (EAEC)
Balance of Payments	Decrease of the trade surplus and the expansion of the service account deficit resulted in the deficit of RM 53.5 billion or 6.7% of GNP in the current account of the plan period. However, the overall balance of payments registered a surplus of 4.6% of GNP due to the capital inflow.

Outline of Plan Contents	Outline of Achievements
Price Development	The prices were stable. The average annual increase rate of the consumer price index (CPI) was 4.0% with a comprehensive anti-inflationary package comprising monetary, fiscal and administrative measures. The producer price index (PPI) increased by 3.4% per annum. The GDP deflator was 4.0%
Labor Force and Employment	Due to tightening of the labor market, the government allowed employment of foreign laborers as a temporary measure. It also took measures for upgrading skills, promoting automation, capital and technology intensive industries. The economic growth during the plan period was mainly due to investments in physical infrastructure, research and development, education and training as well as large inflow of the foreign direct investment. The contribution of the total factor productivity to the growth of GDP rose from 1.2% during the 1971 - 1990 period to 2.5% during the plan period. Contribution of Total Factor Productivity (TFP) (average annual growth in %)

	1971 - 1990 (achievement)	Sixth Plan Period (achievement)
GDP growth	6.7	8.7
Contribution of labor	2.3	2.5
Contribution of capital	3.2	3.7
Contribution of TFP	1.2	2.5

Remarks
According to the Seventh Malaysia Plan, the most important issue at the mid-term review of the Sixth Malaysia Plan was the large inflow of the short-term capital in the form of portfolio investments, due to the high interest rate, expectation of appreciation of Ringgit, and opportunities in the stock market. By knowing that such inflow of short-term capital might be a threat to the domestic financial and economic stability, the government introduced a set of measures in 1994 to directly address speculative capital inflow. They comprised levies on all funds from abroad, ceiling on non-trade-related external debts of bank operation, and prohibiting sales of short-term monetary papers to non-residents. Such measures were terminated when the domestic financial market was stabilized, in order to avoid market distortion and inappropriate allocation of financial resources.

4.2.4 Seventh Malaysia Plan 1996-2000

Outline of Plan Contents	Outline of Achievements
Domestic Economy	During the plan period, high economic growth was achieved before the financial crisis in 1998. The economic contraction by the crisis lasted for a short period. Then the GDP surpassed the pre-crisis level in 2000 with the recovery of the external demand and the recovery measures of the government to ease the monetary policy and provide fiscal stimuli. The average annual growth rate of GDP throughout the plan period was 4.7%. (8.7% from 1996 to 1997, -7.4% in 1998, and 7.2% from 1999 to 2000) However, the government's financial position recorded deficit due to the expansionary fiscal policy. From 1996 to 1997, expansion of imports was greater than that of exports and so the growth was attributed mainly to the domestic demand. After the crisis in 1998, external demand became the main growth factor due to the increased global demand for electronic products, the depreciation of Ringgit, and the reduction of import demand. The policy to shift from input-driven strategy to productivity-driven strategy was affected by the crisis.

	Seventh Plan Period (plan)		Seventh Plan Period (achievement)	
	Average annual growth rate (%)	Share (%)	Average annual growth rate (%)	Share (%)
GDP growth	8.0	100.0	4.7	100.0
Contribution of labor	1.7	21.3	1.2	25.0
Contribution of capital	3.0	37.5	2.3	50.2
Contribution of TFP	3.3	41.2	1.2	24.8

Industrial Sectors	The manufacturing and service sectors reached the pre-crisis levels. The manufacturing sector recorded an average of 9.1% annual growth throughout the period. Major contribution was from export-oriented semiconductors, electronic machines and telecommunication equipment. Then domestic automotive industry and construction-related metal industry expanded. The service sector recorded an average of 5.2% throughout the period in spite of the decline of minus 0.7% in 1998. The growth was attributed to the finance, insurance, real estate, business and services sector, and the transport, storage and communication sector. On the other hand, the growth of the agriculture, livestock, forestry and fishing sector and the mining and quarrying sector remained at low levels. The construction sector grew by 13.4% per annum from 1996 to 1997 but sharply shrank with the crisis.

Outline of Plan Contents	Outline of Achievements
Aggregate Demand	The private investment recorded an average annual rate of minus 11.6%. Banks' lending capacity was constrained due to the increase of non-performing loans and the decline in liquidity. The share of the non-performing loans to the total loans was 4.1% at the end of 1997 then increased to the peak at 9.0% at the end of November 1998. Since mid 1998, measures to stimulate private investment and restore business confidence were taken. They included lowering interest rates, increasing the liquidity and adding funds for investment. With these measures, the private investment slightly increased but the amount in 2000 remained at RM 31,677 million at 1987 prices or 54.0% of the 1997 level at RM 58,633 billion. In order to promote foreign direct investment, regulations of a number of sectors such as manufacturing, telecommunication, transportation and insurance were relaxed. During the plan period, the public investment expanded by 7.1% per annum. From 1996 to 1997, the public investment grew by 4.4%. Facing the crisis, the government initially tightened the monetary policy and reduced the public investment in order to reduce the deficit in the balance of payments and avoid the depreciation of the Ringgit. However, to address the worsening of the crisis, the government reversed the initial measures of reducing the expenditure and injected additional development expenditure of RM 30.7 billion in order to stimulate economic activities and address the sharp decline of private investment. As the result, the public investment expanded to be 36.9% of the total investment from 33.1% during the sixth plan period. The additional expenditure targeted at projects with strong economic linkages and weak linkages with imports. The private consumption sharply shrank by the crisis but recorded 3.1% increase in 1999 and 12.4% in 2000 with the expansionary monetary policy, the low interest rates and the rising income during the economic recovery. The average annual growth rate of the private consumption was 2.9%. The public consumption rose by 3.3% per annum throughout the plan period corresponding to increase of the current expenditure, recruitment of teachers and medical staff, etc. Exports rose by 8.8% per annum through the plan period. The growth rate was 0.5% in 1998 due to shrinkage of external demand but rose to be 14.1% from 1999 to 2000 due to expansion of the global demand for electronic products and recovery of economies of the neighboring countries. Imports rose by 4.3% per annum through the plan period. Since about 60% of the exports were import-intensive, they reduced by 18.8% in 1998 due to the decline of exports and the depreciation of the Ringgit. However, they grew at 17% per annum from 1999 to 2000 accompanied by the increased demand for intermediate and capital goods.

Outline of Plan Contents	Outline of Achievements
Saving and Investment	The shares of both public and private savings in GNP expanded. The share of the public investment also increased but the share of the private investment fell from 32.8% in 1995 to 14.0% in 2000. The saving investment gap turned from minus 10.2% of GNP in 1995 to plus 10.0% in 2000.
Trade	The nominal trade amount increased by about 80% during the plan period. Main trade partners were ASEAN, USA, Japan and EU, which accounted for 73.2% of the total. On the other hand, trade with Australia, NIEs (Hong Kong, Korea and Taiwan), and Southern Asia expanded reflecting the government's trade market diversification policy.
Balance of Payments	Throughout the plan period, the merchandise account recorded surplus and the service account recorded deficit due to out-flow of profits and dividends of foreign investors, shipping and insurance, fees for expert services. On the other hand, tourism recorded surplus. Since 1994, the transfer account had been deficit by increase of money transfer of the foreign workers.

Remarks
After the Asian Financial Crisis, the saving investment gap turned positive. The Seventh Malaysia Plan launched in 1996 and the Japan's Second Comprehensive National Land Development Plan launched in 1969 have the following similar features. - Rapid economic development had continued by the time of the planning. - Negative side effects of the rapid development hade been recognized and the importance of quality of life, peace of mind, and various values was featured against the economic and materialistic growth. - In the plans, continuation of rapid or large scale growth was expected in spite of the emphasis on the quality of life, peace of mind, and various values. - There appeared gaps between the plans and the achievements such as delays in implementation of large scale industrial development schemes. The reasons were said to be existence or emergence of domestic and external constraints as well as possibilities that the plans were not realistic enough. - After the plans, economic development slowed down compared to that in the previous periods.

4.2.5 Eighth Malaysia Plan 2001-2005

Outline of Plan Contents	Outline of Achievements			
Development Strategies	The GDP growth rate was 4.5% per annum, lower than the planned 7.5%. The GDP per capita rose by 2.1% per annum.			
	Eighth Plan Period (plan)		Eighth Plan Period (achievement)	
	Average annual growth rate (%)	Share (%)	Average annual growth rate (%)	Share (%)
GDP growth	7.5	100.0	4.5	100.0
Contribution of labor	1.6	21.5	1.5	33.2
Contribution of capital	3.1	41.3	1.7	37.8
Contribution of TFP	2.8	37.2	1.3	29.0
Industrial Sectors	The largest contributor to the growth of GDP was the service sector. The sector grew by 6.1% per annum, accounting for 58.1% of GDP in 2005. Among the sector, the finance, insurance, real estate, business service sub-sector grew by 8.1% per annum. The transportation, storage and communication sub-sector grew by 6.6% due to expansion of trade and tourism. The growth rate of the manufacturing sector was 4.1% per annum and the share in GDP slightly decreased in 2005 to be 31.4%. The largest sub-sector was electronics, of which the value added accounted for 28.0% in manufacturing in 2005. Chemical products, food processing, rubber products, and paper products recorded high growth rates. The growth rates of the agriculture, livestock, forestry, and fishing sector, the mining and quarrying sector, and the construction sector were low. Especially the construction sector grew only by 0.5% due to the contraction of construction projects during the latter half of the plan period.			
Aggregate Demand	The plan envisaged economic development led by the private investment with supportive roles of the public sector. In reality, however, the private investment declined and the public sector had to fill the gap, mainly caused the recession in 2001 and 2002. The economy recovered in 2004 and 2005, Among the private investment, the share of the manufacturing sector (33.9%) and that of the service sector (21.6%) were large. Among the public investment, the growth rate of the non-financial public enterprises was high at 11.3% mainly for investment in their facilities and equipment. These examples were Petroliam Nasional Berhad (PETRONAS), Tenaga Nasional Berhad (TNB), and Telekom Malaysia Berhad (TM).			

Growth Rates of Aggregate Demand Categories (in 1987 constant price)			
		Eighth plan period (plan)	Eighth plan period (achievement)
Consumption		7.5	7.4
	Private	7.4	6.6
	Public	7.7	10.2
Investment		11.3	1.6
	Private	19.0	-1.0
	Public	1.1	3.9
Exports (goods & services)		6.8	5.2
Imports (goods & services)		7.8	5.6
GDP		7.5	4.5

Outline of Plan Contents	**Outline of Achievements**
Saving and Investment	During the plan period, savings exceeded investments in both the public and the private sectors. The ratio of the cumulative saving to GNP during the plan period was 36.3%, that of the investments was 23.6%, and the balance was 12.7%. Thus the domestic financial resource was greater than the actual investment amount during the period.
Trade	The exports grew by 7.4% per annum. The manufacturing sector held the majority share of the export and the electrical and electronics subsector accounted for the majority share of the sector. However, the manufacturing's share declined from 85.2% to 80.5% and the subsector's share in the sector declined from 72.5% to 65.8%. Besides the manufacturing sector, exports of petroleum and LNG expanded. Imports expanded by 6.9% per annum. In 2005, the intermediate goods and the capital goods accounted for 71.0% and 14.0% of the total imports respectively.
Balance of Payments	The cumulative balance during the plan period resulted in the current account surplus and the overall account surplus due to the commodity trade surplus exceeding the total deficit of service trade, income, current transfer, and financial account.
Price Development	During the plan period, the consumer price index was stable with the average annual growth rate of 1.8%.
Public Sector Account	The public sector account turned from deficit (minus 3.0% of GDP) in 2000 to surplus (1.4% of GDP) in 2005 due to increased earnings of the non-financial public enterprises.

Remarks
Thrusts of National Vision Policy (2001-2010) are: - building a resilient nation with enhanced unity, patriotism, culture and quality of life, - promoting an equitable society without poverty, - sustaining high economic growth, - enhancing competitiveness to meet globalization and liberalization, - developing a knowledge-based economy, - strengthening human resource development, and - pursuing environmentally sustainable development. Balance of payments had the following features. - Tourism in the service account recorded surplus, - Continued deficit of the income was due to the outflow of profit from the foreign investment and dividends. - Deficit of the capital account means that the capital outflow of Malaysian private and public enterprises was greater than the capital inflow from abroad, although the deficit does not mean the balance of the direct investments.

4.2.6 Ninth Malaysia Plan 2006-2010

Outline of Plan Contents	Outline of Achievements
Five Key Thrusts for Malaysia	
Thrust 1 Moving the Economy up the Value Chain	Broadband infrastructure was significantly extended, with household penetration rising from 2% in 2005 to 32% in 2009. Significant capacity expansion and improvements were made in the transportation network. The provision of reliable and quality supply of energy at competitive rates has helped contain the cost of doing business. The Foreign Investment Committee (FIC) guidelines were removed, eliminating equity conditions imposed on nonstrategic sectors.
Thrust 2 Raising the Capacity for Knowledge and Innovation and Nurture 'First Class Mentality'	Enrolment at pre-school, primary and secondary levels increased with improved accessibility to quality education. Enrolment in higher education rose from 649,000 in 2005 to 949,000 in 2009. Intake in public technical and vocational training institutes rose by 1.5% per annum. Under the two economic stimulus packages, 76,940 unemployed graduates, school leavers and displaced workers were trained.

Thrust 3 Addressing Persistent Socio-Economic Inequalities Constructively and Productively	Hardcore poverty was reduced from 1.2% in 2004 to 0.7% in 2009. Bumiputera ownership of share capital of limited companies rose from 19.4% in 2006 to 21.9% in 2008. Five regional growth corridors were established, each with a Corridor Development Authority (CDA) to promote its development.
Thrust 4 Improving the Standard and Sustainability of Quality of Life	Access to healthcare expanded with the establishment of 39 new health clinics in the urban areas and 81 new clinics in the rural areas. Daily urban rail ridership rose from 447,200 in 2006 to 451,000 in 2009 with improved urban public transport coverage and facilities. The National Climate Change Policy and the National Green Technology Policy were adopted in 2009 to address the pressing issue of climate change. The national policy on women has helped raise representation of women in management positions in the public sector from 18.8% in 2004 to 30.5% in 2010, while it rose from 13.5% to 26.2% in the private sector. A total of 436 registered child care centres were established at workplaces. About 17,400 People with Disabilities (PWDs) benefitted through 409 community-based rehabilitation centres. A total of 963 programmes were conducted to promote culture and arts, attracting an audience of 1.5 million. Melaka and Georgetown were recognized as World Heritage Towns by United Nations Educational, Scientific and Cultural Organization (UNESCO). Programmes were implemented to equip the youth with the necessary skills and values such as the Skills, Leadership and Entrepreneur Programme, which provided training for 124,880 participants. The Sports for All Master Plan was formulated to encourage participation in sports, and in recreational and fitness activities, thereby promoting a healthy lifestyle. The recruitment of 19,270 police personnel from 2006 to 2009 improved public security and ensured a safe environment.

Thrust 5 Strengthening Institutional and Implementation Capacity	Malaysia's position in the IMD World Competitiveness ranking rose sharply from 24th in 2006 to 10th position in 2010. The Government established the NKRAs and Ministerial Key Performance Indicators (KPIs) to move towards an outcome-based approach for planning, monitoring and evaluating public sector programmes.
GDP and Productivity	The GDP registered an average growth of 4.2% in spite of a fall of minus 1.7% in 2009. The contribution of total factor productivity (TFP) to GDP growth increased to 34.7% compared to 29.0% during the Eighth Malaysia Plan, 2001-2005. The higher contribution of TFP to GDP was attributed to higher value-added activities through innovation, high technology and human capital development.

	Ninth Plan Period (plan)		Ninth Plan Period (achievement)	
	Average annual growth rate (%)	Share (%)	Average annual growth rate (%)	Share (%)
GDP growth	6.0	100.0	4.2	100.0
Contribution of labor	1.8	29.9	1.3	30.8
Contribution of capital	2.0	34.3	1.4	34.5
Contribution of TFP	2.2	35.8	1.5	34.7

Industrial Sectors	All sectors except mining and quarrying recorded positive growth. The services sector expanded most rapidly by 6.8% per annum resulting in the share to GDP of 58.0% in 2010. Growth in services was attributed to strong performance in the finance, insurance, real estate and business services, the wholesale and retail trade, accommodation and restaurants as well as the transport and communications subsectors. The manufacturing sector's growth declined to 1.3% per annum compared to 6.1% during the Eighth Plan period due to the global recession, resulting in the share to GDP of 26.7% in 2010, the lowest since the early 1990s. The agriculture sector is estimated to grow at a slower rate of 3.0% per annum due to a reduction in rubber hectarage and controlled logging for sustainable forest management. The output of palm oil, livestock and fisheries increased. The construction sector is expected to grow by 4.4% per annum, due to the construction-related activities under the two fiscal stimulus packages. They are expansion in civil engineering, residential and non-residential, as well as the special trade works subsectors. The mining sector is estimated to decline by 0.5% per annum due to lower output of crude oil and natural gas under the National Depletion Policy.

Aggregate Demand

Growth was led by private consumption, which expanded at 6.5% per annum.

Private investment growth is estimated to moderate to 2.0% per annum due to the slowdown in domestic and global demand.

Approximately 72% of the private investment was domestic investment and 28% was foreign direct investment (FDI). FDI in the services sector has risen, particularly in financial services, shared services and outsourcing, as well as communications.

The public investment expanded at 6.2% per annum with the two stimulus packages in 2009 and 2010 amounting to RM67 billion.

Public consumption increased by 4.8% due to higher expenditure on supplies and services as well as salary adjustments for civil servants.

Growth Rates of Aggregate Demand Categories (in 2000 constant price)

		Ninth Plan Period (plan)	Ninth Plan Period (achievement)
Consumption		6.5	
	Private	6.9	6.5
	Public	5.3	4.8
Investment		7.9	
	Private	11.2	2.0
	Public	5.0	6.2
Exports (goods & services)		7.1	1.8
Imports (goods & services)		7.9	2.8
GDP		6.0	4.2

Saving and Investment

The share of national savings was 36.3% of GNI and that of the total investment was 19.7% of GNI resulting in the resource balance of 16.6% of GNI, indicating that more investment can be made by mobilizing the domestic savings.

Resource Balance (% to GNI)

	Ninth Plan Period (plan)	Ninth Plan Period (achievement)
Savings	36.2	36.3
Investments	21.3	19.7
Resource Balance	14.9	16.6

Trade	The recession in major export destinations severely affected Malaysia's external performance. Exports grew by 1.8% (or 3.2%) per annum. The export of electrical and electronics (E&E) products declined by 0.1% per annum. Imports expanded at 2.8% per annum primarily due to lower imports of intermediate and capital goods, which accounted for about 85% of total imports. Manufacturing, especially E&E, continued to dominate exports while imports mainly comprised intermediate goods. In terms of trade direction, emerging Asian economies, especially China, have grown in importance as export destinations in addition to the traditional destinations.
Balance of Payments	The balance of payments remained strong supported by the trade surplus and higher tourism receipts. The current account recorded a surplus of 14.6% of GNI in 2010. The income account improved due to higher inflows of profits and dividends by Malaysian investments abroad.
Price Development	The average consumer price index during the plan period was 2.8% per annum, due to monetary and administrative measures against inflation.
Public Sector Account	Fiscal consolidation since 2000 improved the fiscal position of the Federal Government. However, the deficit widened to 4.8% in 2008 and 7.0% in 2009 due to the need to support economic recovery. The overall deficit in 2010 is targeted to be 5.3% of GDP and the total debt of the Federal Government will be 52.9% of GDP. About 96% of the debt will be financed through domestic sources.

Remarks
The service account turned to be surplus and the deficit of the income account has been reduced. They are signs of advancement of Malaysia's economic activities. There are more than 700,000 Malaysians currently working and living abroad and many of them are highly skilled professionals. This indicates various challenges and potential. The third item of the Fifth Thrust of Ninth Malaysia Plan is "Promoting Development through International Cooperation". It includes (1) technical collaboration with South countries through the Malaysian Technical Cooperation Programme, particularly assistance for less developed members of the Organisation of the Islamic Conference (OIC), (2) facilitating greater private sector participation in technical and economic cooperation, and (3) further international cooperation through international groups such as ASEAN, East Asian Summit, Asia-Pacific Economic Cooperation, United Nations, OIC, Non-Aligned Movement, and Commonwealth. On the other hand during the plan period, the net direct investment abroad by resident companies expanded, totalling 3.5% of GDP during the period 2000-2009. It included new markets, especially in the Asian, African and Middle East regions. The scope of investment has also broadened from the oil and gas sector and plantations to the construction and services sectors, particularly financial services, telecommunications, utilities and business services. This indicates one way to Malaysia's further growth in the coming years.

4.3 Industrial Master Plans

The Malaysian government has announced three industrial master plans since 1886. The target period and basic themes of each master plan are shown below.

First Industrial Master Plan (1986-1995)	: Outward Industrialization
Second Industrial Master Plan (1996-2005)	: Manufacturing Plus-plus Strategy and Cluster-based Industrial Development
Third Industrial Master Plan (2006-2020)	: Toward Global Competition

4.3.1 First Industrial Master Plan (IMP1: 1986-1995)

(1) Objects

The First Industrial Master Plan (IMP1) formulated the direction of the development of the manufacturing sector in Malaysia between 1986 and 1995. The IMP1 provided a framework with the subject of "Outward Industrialization" for diversifying and accelerating sustainable growth of the manufacturing sector.

The main objectives of IMP1 were to show a direction of government activities for industrialization toward private investors, and to coordinate the functions among various government departments, agencies and ministries for supporting industrial development.

(2) Industrialization

In order to promote private investment, the Malaysian government enacted the Promotion of Investment Act in 1968. In the 1970s, the government introduced foreign direct investment for the sake of promotion of the export-oriented industries. In 1986, the government enacted Malaysia Investment Promotion Act in order to attract FDI more positively. On the other hand, investments of Japanese companies in Malaysia increased extremely due to the high exchange rate of the yen after the Plaza Accord in 1985. The foreign direct investment in Malaysia was expanded explosively. Thereby, the fundamentals of industrialization of Malaysia based on the export-orientated industry were established.

The IMP1 targeted particularly at twelve industrial sub-sectors for development, comprising seven resource-based industries and five non resource-based industries during the plan period as shown below.

Industrial Sub-Sectors in the, IMP 1986-1995

Resource-based Industries	Non Resource-based Industries
Rubber Products Industry*	Electrical and Electronics Industry
Palm Oil Products Industry*	Transport Equipment Industry*
Food Processing Industry*	Machinery and Engineering Industry
Wood-based Industry*	Iron & Steel Industry
Chemical and Petrochemical Industry	Textiles/Apparel Industry*
Non-ferrous Metal Products Industry	
Non-metallic Mineral Products Industry	

* Indentified as being more export-oriented industries

(3) Achievement of Manufacturing Sector

The actual growth rate of GDP during the IMP1 period was 7.8% exceeding the target growth rate of 6.4%, because the production of manufacturing sector expanded significantly. Especially, export of manufacturing goods expanded to 28.6% exceeding the target of 9.4%. Manufacturing value-added recorded an actual growth rate of 13.5% higher than the target rate of 8.8%. Although the target share of manufacturing value-added to GDP was 23.9%, the actual share was 33.1%. It is said that the industrialization has attained by rapid growth of manufacturing sector.

Table 4-3-1 Growth of the Manufacturing Sector During IMP1, 1986-1995 (%)

	Target	Actual
GDP	6.4	7.8
Manufacturing Value-added	8.8	13.5
Share of Manufacturing Value-added to GDP (1995)	23.9	33.1
Manufacturing Export	9.4	28.6
Manufacturing Employment	6.8	8.9
Manufacturing Employment (000 workers) (1995)	1,464	2,051

Source: The second Industrial Master Plan

4.3.2 Second Industrial Master Plan (IMP2: 1996-2005)

(1) Outline of IMP2

The Malaysian government announced "The Second Industrial Master Plan, IMP2" in 1996. IMP2 has set forth the following two points; Manufacturing Plus-plus Strategy and Cluster-based Industrial Development as strategies in order to promote the domestic manufacturing industries with international competitiveness.

(i) Manufacturing Plus-plus Strategy

a. Moving along the value chain from assembly-based and low value-added activities towards higher value-added activities, such as:

- R&D and Product Design
- Distribution and Marketing

b. Shifting the whole value chain to a higher level through productivity-driven growth

- Utilization of High Technology (Automation / Robotisation)
- Increasing Total Factor Productivity (TFP) with emphasis on knowledge and capital intensive manufacturing, application of new technology, innovation, best management practices and a more efficient utilization of resources

(ii) Cluster-based Industrial Development with emphasis on:

c. development of competitive industrial clusters through integration of key industries, suppliers, supporting industries, critical supporting business services, requisite infrastructure and institutions

d. generating backward and forward linkages, domestic spin-offs and value added, and development of domestic SMIs

It has been a subject that Malaysian manufacturers are mainly engaged in the assembly-based industry which is low value-added. In order to develop high value-added industry such as R&D and Product Design, Distribution and Marketing which belong to the upstream or lower stream of value chain, it is indispensable to shift the industrial structure toward an advanced industry with high productivity. As the second strategy, the cluster-based industry should be developed in order to support mature and globally competitive industries. Three potential clusters are:

(i) Internationally-linked clusters
The products of these clusters are mainly for the international markets through primarily multinational corporations such as electrical and electronics industry and textile and apparel industry.

(ii) Resource-based clusters
These clusters can utilize natural resources such as wood, rubber, palm oil and petrochemical.

(iii) Policy-driven clusters
These strategic clusters are fundamentally technology-driven through government policy initiatives such as automotive and aerospace industries.

(2) Strategic Thrusts
The Five Strategic Thrusts of the IMP2 are:

- global orientation - adapt and respond to the changing global environment;
- enhancing competitiveness - focus on cluster development through the deepening and broadening of industrial linkages and productivity enhancement;
- improving requisite economic foundation - focus on the development and management of human resources, technology acquisition and enhancing absorptive capacity, physical infrastructure and business support services;
- nurturing Malaysian own brand manufacturers - increased participation of Malaysian owned companies in the broad range of manufacturing and related activities specifically in the clusters that have been identified to be of strategic importance; and
- information-intensive and knowledge-driven processes - in manufacturing and related activities such as in R&D, product design, marketing, distribution and procurement.

(3) Priority Groups
Eight Industry Groups identified in the IMP2 are:

- Electrical and Electronics

- Chemicals Industry Group: Petrochemicals and Pharmaceuticals

- Textiles and Apparel

- Transportation: Automotive, Motorcycles, Marine and Aerospace

- Materials: Polymers, Metals, Composites and Ceramics

- Machinery and Equipment

- Resource-Based Industry Group: Wood-Based Products, Rubber-Based Products, Palm Oil-Based Products (Food), Oil Palm-Based Products (Non-Food) and Cocoa-Based Products

- Agro-Based and Food Products: Fish & Fish Products, Livestock & Livestock Products, Fruits and Vegetable and Floriculture

(4) Achievement of Manufacturing Sector during the IMP2 period

The target and actual growth rate by sector during the IMP2 period are shown in Table 4-3-2. The manufacturing sector continued to expand by about 18% of averaged annual growth rate for the first half period and by 6.2% for the whole period. In spite of the Asian Financial Crisis in 1998 and the global economic slowdown due to a downturn of IT industry from 2000, Malaysian manufacturing sector has expanded steadily. The share of the sector to GDP showed 31.4% in 1995 (Table4-3-3).

Table 4-3-2 Growth by Sector during IMP2 Period

Sector	INP2 Target[1]	Actual			
	1996-2005	1996	2000	2005	1996-2005
	Average Annual Growth (%)	Growth (%)	Growth (%)	Growth (%)	Average Annual Growth (%)
Manufacturing	9.5	18.2	18.3	4.9	6.2
Service	8.8	8.9	6.7	6.5	6.0
Non-Government	-	10.1	7.4	6.2	6.1
Government	-	1.7	2.0	8.8	5.3
Agriculture、Forestry and Fishery	2.6	4.5	6.1	2.1	2.3
Mining[2] and quarrying	1.9	2.9	0.3	0.8	2.5
Construction	8.5	16.2	0.6	-1.6	-0.4
(-) Imputed bank and service charge	-	23.2	6.3	2.9	10.4
(+) Import duties	-	7.8	-11.2	1.8	-2.9
Real Gross Domestic Product[3]	7.9	10.1	8.9	5.3	4.6

Note: 1 Recalculated, based on targets for two phases under IMP2, 1996-2000 and 2001-2005

2 Comparison mainly crude oil and natural gas

3 1987 real prices

Sources: Third Industrial Master Plan

Table 4-3-3 Contribution to GDP by Sector during IMP2 Period

Sector	INP2 Target (%)	Actual (%)		
	2005	1996	2000	2005
Manufacturing	38.4	29.1	31.9	31.4
Service	48.4	50.7	53.9	58.2
Non-Government service	-	44.2	47.1	50.5
Government	-	6.5	6.8	7.6
Agriculture、Forestry and Fishery	8.2	9.8	8.9	8.2
Mining[1] and quarrying	4.2	7.7	7.3	6.7
Construction	4.7	4.7	3.3	2.7
(-) Imputed bank and service charge	-	6.0	7.5	9.1
(+) Import duties	-	4.0	2.2	1.9
Real Gross Domestic Product[2]	-	100.0	100.0	100.0

Note: 1 Mainly comprising crude oil and natural gas
2 1987 Real prices
Sources: Third Industrial Master Plan

4.3.3 Third Industrial Master Plan (IMP3: 2006-2020)

(1) Outline of IMP3

The government formulated IMP3 in 2006 which was a 15-year blueprint for industrial development in Malaysia with the main theme of "Towards Global Competitiveness**.**" According to the IMP3, IMP1 established the fundamentals to develop manufacturing as the leading sector of the national economy during 1986-1995. Furthermore, the IMP2 contributed to develop the manufacturing sector by strengthening industrial cluster, increasing vale-added activities and enhancing productivity during 1996-2005. Based on this economic progress, IMP3 with its focus on further industrial development, strives to realize Malaysia as a developed country by 2020.

(2) Strategic thrust

The IMP3 formulates ten strategic thrusts which have been categorized into (i) development initiative, (ii) promotion of growth areas, and (iii) enhancing the enabling environment as mentioned below.

(i) Development initiative
- enhancing Malaysia 's position as a major trading nation
- generating investments in targeted growth areas
- integrating Malaysian companies into the regional and global networks
- ensuring industrial growth contributes toward equitable distribution and more balanced regional development

(ii) Promotion of growth areas
- sustaining the manufacturing sector's contribution to growth
- positioning the services sector as a major source of growth

(iii) Enhancing the enabling environment
- facilitating the development and application of knowledge-intensive technologies
- developing innovative and creative human capital
- strengthening the role of private sector institutions

- creating a more competitive business operating environment

In addition to the strategic thrusts, IMP3 contains specific areas for promotion such as (1) external trade, (2) investments in the manufacturing and services sector, (3) development of SME, (4) branding, and (5) growth areas in the manufacturing sector.

(3) Target Industry

IMP3 specifies twelve industries for further development categorized into non-resource based and resource-based manufacturing and service sub-sector as mentioned below.

Manufacturing industries	Service sub-sectors
Non resource based:	Business and professional service
Electrical and electronics	Logistics
Medical devices	ICT services
Textile and apparel	Distributive trade
Machinery and equipment	Construction
Metals	Education and training
Transport equipment	Healthcare services
Resource based:	Tourism
Petrochemicals	
Pharmaceuticals	
Wood-based	
Rubber-based	
Oil palm-based	
Food processing	

(4) Targets growth rate of IMP3

IMP3 has targeted at an annual growth rate of GDP of 6.3% during the plan period (refer to Table 4-3-3). The target rate of the past IMP2 was 7.9%, and the actual rate was 4.6%. The target rates of the manufacturing industry and the non-government services are 5.6% and 7.5% respectively. They are still expected as pillars for economic development. As for agriculture, forest and fishery, IMP3 has put the target growth of 5.2 % in spite of 2.6 % in IMP2.

On the other hand, IMP3 indicates, in the contribution to GDP by sector, the non-government service and the manufacturing sectors account for 59.7% and 28.5% respectively. Thus, IMP3 places emphasis on the development of the service sector rather than the manufacturing sector, unlike in IMP2.

Table 4-3-4 Growth by Sector during IMP3 Period

Sector	Actual			INP3 Target
	2006	2009^P	2006-2009	2006-2020
	Growth (%)	Growth (%)	Average Annual Growth (%)	Average Annual Growth (%)
Manufacturing	7.1	-12.1	-0.2	5.6
Service	7.3	2.1	6.6	7.3
Non-Government services	6.9	2.0	6.5	7.5
Government	10.0	2.6	7.1	5.6
Agriculture、Forestry and Fishery	5.4	2.5	2.7	5.2
Mining[2] and quarrying	-2.7	-2.9	-0.6	3.4
Construction	-0.3	3.5	2.5	5.7
(-) Imputed bank and service charge	3.6	6.0	5.6	-
(+) Import duties	-12.1	-7.1	2.3	-
Real Gross Domestic Product	5.8	-2.7	3.5	6.3

Note: P Preliminary

Source: Key Economic Indicators, Economic Planning Unit

Table 4-3-5 Contribution to GDP by Sector during IMP3 Period

Sector	Actual (%)			INP3 Target
	2006	2008	2009^P	
Manufacturing	31.1	29.2	26.3	28.5
Service	52.0	55.1	57.8	66.5
Non-Government services	44.9	47.7	50.0	59.7
Government	7.0	7.4	7.8	6.8
Agriculture、Forestry and Fishery	7.9	7.4	7.8	7
Mining[1] and quarrying	8.7	8.1	8.1	4.4
Construction	3.1	3.0	3.2	2.5
(-) Imputed bank and service charge	3.9	3.9	4.3	10
(+) Import duties	1.1	1.3	1.2	1.1
Real Gross Domestic Product[2]	100.0	100.0	100.0	100.0

Note: P Preliminary

Source: Key Economic Indicators, Economic Planning Unit

4.4 Regional Growth Corridors

Development of the following regional growth corridors is on-going. These concepts provide large scale development frameworks. Currently, it is important to elaborate the plans and take measures and actions for the achievement.

Table 4-4-1 Regional Growth Corridors

(Excerpt from P66 of Mid-term Review of the Ninth Malaysia Plan 2006 – 2010)

	Iskandar Malaysia	Northern Corridor Economic Region	East Coast Economic Region	Sabah Development Corridor	Sarawak Corridor of Renewable Energy
Development Period	2006-2025	2007-2025	2007-2020	2008-2025	2008-2030
Vision	A Strong and Sustainable Metropolis of International Standing	World-Class Economic Region by 2025	A Developed Region - Distinctive, Dynamic and Competitive	Harnessing Unity in Diversity for Wealth Creation and Social Well Being	Developed and Industrialised State
Area of Coverage	2,216 km^2 (District of Johor Bahru and partial district of Pontian - *Mukim* Jeram Batu, *Mukim* Sungai Karang, *Mukim* Serkat and Pulau Kukup)	17,816 km^2 (Penang, Kedah, Perlis and Northern Perak - Districts of Hulu Perak, Kerian, Kuala Kangsar and Larut Matang-Selama)	66,736 km^2 (Pahang, Kelantan, Terengganu and district of Mersing, Johor)	73,997 km^2 (Whole of Sabah)	70,708 km^2 (Tanjung Manis-Similajau and hinterland)
Focus Sector/ Industry	1. Education 2. Financial 3. Health Care 4. ICT and Creative Industries 5. Logistics 6. Tourism	1. Agriculture 2. Human Capital 3. Infrastructure 4. Manufacturing 5. Tourism	1. Agriculture 2. Education 3. Manufacturing 4. Oil, Gas & Petrochemical 5. Tourism	1. Agriculture 2. Environment 3. Human Capital 4. Infrastructure 5. Manufacturing 6. Tourism	1. Aluminium 2. Glass 3. Marine Engineering 4. Metal-Based 5. Petroleum-Based 6. Timber-Based 7. Aquaculture 8. Livestock 9. Palm Oil 10. Tourism
Corridor Authority	Iskandar Region Development Authority (IRDA)	Northern Corridor Implementation Authority (NCIA)	East Coast Economic Region Development Council (ECERDC)	Sabah Economic Development and Investment Authority (SEDIA)	Regional Corridor Development Authority (RECODA)
Expected Employment1 (million)	1.4	3.1	1.9	2.1	3.0
Expected Investment1 (RM billion)	382	178	112	113	334

Chapter 5　Economic Cooperation

A series of “Geographic Distribution of Financial Flows to Aid Recipients” issued by the Organisation for Economic Co-operation and Development (OECD) indicates the following features of the trends of the official development assistance (ODA) for Malaysia since 1980.

(1) The amount of ODA did not show a simple decreasing trend.
(2) The net total ODA amount was negative in 1996 and 1997. Then it turned to be positive but the amount was smaller than the previous peak. The net total ODA amount in 2007 was approximately US$ 200 million.
(3) In the cumulative total ODA amount from 1980 to 2007, Japan’s bilateral ODA excluding assistance through international organizations accounted for a majority of 58.7%.

Components of Japan’s ODA for Malaysia showed the following trends.
(1) Typical loan projects were for development of economic infrastructure such as power generation and transmission. In recent years, education projects dominated. Since 2006, no new loans were provided.
(2) A majority of the grant projects were for human resource development. In recent years, grass-roots grant aids, grants for human security, cultural grant assistance, and grants for maritime security were implemented.
(3) Typical technical cooperation projects were human resource development in industrial sectors. During the initial period of ODA, basic subjects in the agriculture, livestock, forestry and fishing sector and the manufacturing sector dominated. But in recent years, the subject fields and target skills were diversified, and more projects on institutional subjects were implemented rather than those limited to technical skill development.

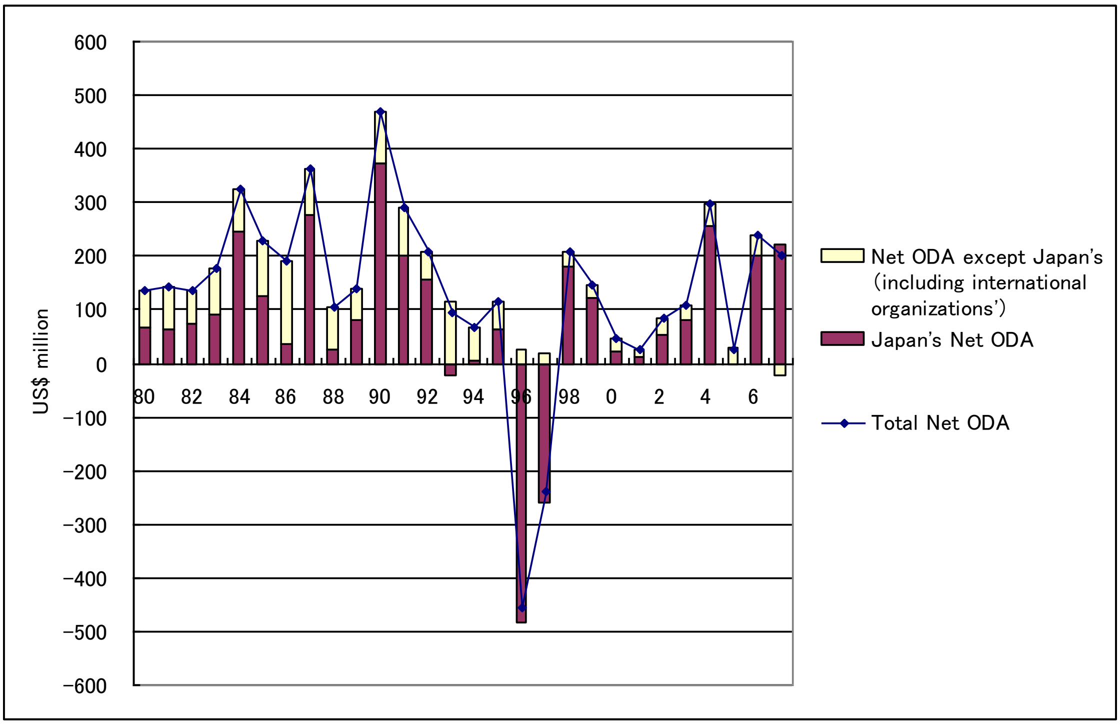


Figure 5-1-1　Net Official Development Assistance (ODA) Amount for Malaysia
Source: OECD “Geographic Distribution of Financial Flows to Aid Recipients”

Year	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10	11	12
Loans																																															
Factories, plants	X															X				X	X																										
Communications	X					X							X						X																												
Broadcasting	X					X																																									
Public works	X																																														
Power (generation, transmission, transforming)						X			X			X	X	X	X	X		X			X							X					X	X													
Ships						X			X																																						
Shipyards						X			X																																						
Bridges						X			X																																						
Port facilities						X			X					X							X																										
Roads									X							X			X		X																										
Railways																X			X		X			X																							
Gas networks																		X	X				X																								
ASEAN-Japan Development Fund																							X																								
Rural development (Poverty eradication)																								X																							
Small and medium enterprise development																											X						X														
Hospitals																												X																			
Airport																													X																		
Dams																																	X														
University development																																	X														
Look East Policy																																	X														
Water transmission																																		X			X										
Sewage treatment																																		X													
Higher education loan fund																																		X						X							
Grants																																															
Equipment for research centres											X																																				
Education and research equipment													X	X	X	X	X	X	X	X	X	X		X	X						X	X			X			X									
Training ships																X																															
Vocational training centres																	X	X						X																						
University buildings																	X						X																								
Broadcasting equipment																			X					X																							
Research centres																				X	X	X																								
Cultural equipment																							X								X		X	X		X											
Grass-roots and human security grant assistance																								X	X						X	X	X	X	X	X	X	X	X	X	X	X	X			
Audio-visial equipment for libraries																									X							X															
Flood countermeasures																												X			X																
Emergency grant to support studying in Japan																																X															
Encephalitis countermeasures																																		X													
Grant assistance for Japanese NGOs																																						X				X					
Grass-roots and cultural grant assistance																																									X		X				
Equipment for maritime security																																										X	X			
Capacity building against maritime smuggling																																											X				
Technical Cooperation Projects																																															
Medical Consultation Team	X	X	X																																											
Agricultural Mechanization Project					X	X	X	X	X	X																																					
MARA Vocational Training Institute								X	X	X	X	X	X	X	X	X																															
Marine Engineering Training Project at Ungku Omar Polytechnic								X	X	X	X	X	X	X	X	X	X																													
Water Management Training Program												X	X	X	X	X	X	X	X	X	X																										
Metal Industry Technology Centre													X	X	X	X	X	X	X																												
National Metrology Laboratory																X	X	X	X	X																											
Centre for Instructor and Advanced Skill Training																	X	X	X	X	X	X	X	X	X	X																					
Faculty of Fisheries & Marine Science, Univ. of Pertanian Malaysia																			X	X	X	X	X	X																							
Forest Products Research Projects																				X	X	X	X	X	X																						
National Computer Institute																				X	X	X	X	X	X																						
ASEAN Poultry Desease Research and Training Project																					X	X	X	X	X	X	X	X																		
Sabah Re-afforestation Technical Development and Training Project																						X	X	X	X	X	X	X	X						X	X	X									
ASEAN Project on Characterization of Fine Ceramics																						X	X	X	X	X	X						X	X	X											
Foundry Technology Unit																							X	X	X	X	X	X																		
Radiation Application Project																								X	X	X	X	X	X																		
Development of Biotechnology at Faculty of Food Science and Biotechnology																									X	X	X	X	X	X																	
Upgrading Accident & Emergency Care Service at Sarawak																											X	X	X	X	X	X														
Research and Development on Diagnosis of Selected Tropical Diseases																												X	X	X																	
Effective Wood Utilization Research Project in Sarawak																												X	X	X	X	X	X													
Evaluation and Analysis of Hazardous Chemical Substances																												X	X	X	X	X														
Malaysia External Trade Development Corporation																													X	X	X	X	X	X													
Malaysian AI System Development Laboratory																														X	X	X	X	X	X												
Measurement Centre of SIRIM																															X	X	X	X	X												
Processing of Feed based on Agro-industrial By-products of Oil Palm Production																																X	X	X	X	X	X									
Japan-Malaysia Technical Institute																																	X	X	X	X	X	X								
Risk Management of Hazardous Chemical Substances																																	X	X	X	X	X									
Aquatic Resource and Environmental Studies of Straits of Malacca in UPM																																	X	X	X	X	X	X								
Faculty of Biotechnology of UPM																																		X	X	X											
Capacity Building of National Institute of Occupational Safety and Health																																			X	X	X	X	X	X							
Strengthening of Food Safety Program																																				X	X	X	X	X		X					
Networked Multimedia Education System																																				X	X	X	X	X							
Epidemiology, Pathogeneses and Molecular Characterization of Nipah Virus																																				X	X	X	X								
Bornean Biodiversity and Ecosystems Conservation in Sabah																																					X	X	X	X	X	X	X	X	X	X	X
Human Resources Development and Improvement in Tax Administration																																						X	X	X	X	X	X	X	X		
Institutional Capacity Building on Infrastructure Finance																																							X	X							
Improving Economic Indicators of Malaysia																																							X	X	X						
Maritime Guard and Rescue																																								X	X	X	X	X			
Capacity Building for Social Welfare Services																																								X	X	X	X			
Capacity Building for SMIDEC (SME Corp)																																									X	X	X	X			
Bird Flu Countermeasures (Workshop)																																									X	X				
Bird Flu Diagnosis Training																																									X	X	X	X			
Improvement of Custom System: Risk Management System Development																																									X	X	X			
Establishment of National Certification System for Wood Industry																																									X	X	X			
Post-conflict Peace Keeping																																										X					
Administration for Occupational Safety and Health																																										X	X	X	X	X	X
MyIPO Capacity Building in Intellectual Property Right																																										X	X	X	X		
Capacity Building for Third Country Training Programmes																																										X	X			
Strengthening Automotive Parts Inspection																																										X	X	X	X	X	
Custom System Risk Management																																											X	X	X		
Vocational Training System Responsive to Industrial Needs																																											X	X	X	X	
Criminal Investivation Methodology																																												X	X		
Year	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10	11	12

Figure 5-1-2 Japan's ODA for Malaysia
(loans, grants, and technical cooperation projects excluding development studies)
(Sources: Japan's Ministry of Foreign Affairs, JICA)

Chapter 6 Review of Major Socio-economic Policies

This chapter comprises summaries of collected documents on themes that characterize socio-economic policies of Malaysia. The references are listed in Annex 3.

6.1 Public Sector Actors for Economic Development

6.1.1 Procedure of National Development Planning

In Malaysia, national development planning is a comprehensive effort carried out by the government. Through the development plans, the Government sets the broad policy thrusts and direction for the economy and puts in place measures to ensure the achievement of socio-economic goals, as well as decides on resource allocation. The private sector is given the appropriate policy and institutional support to participate freely in the economy and drive economic growth.

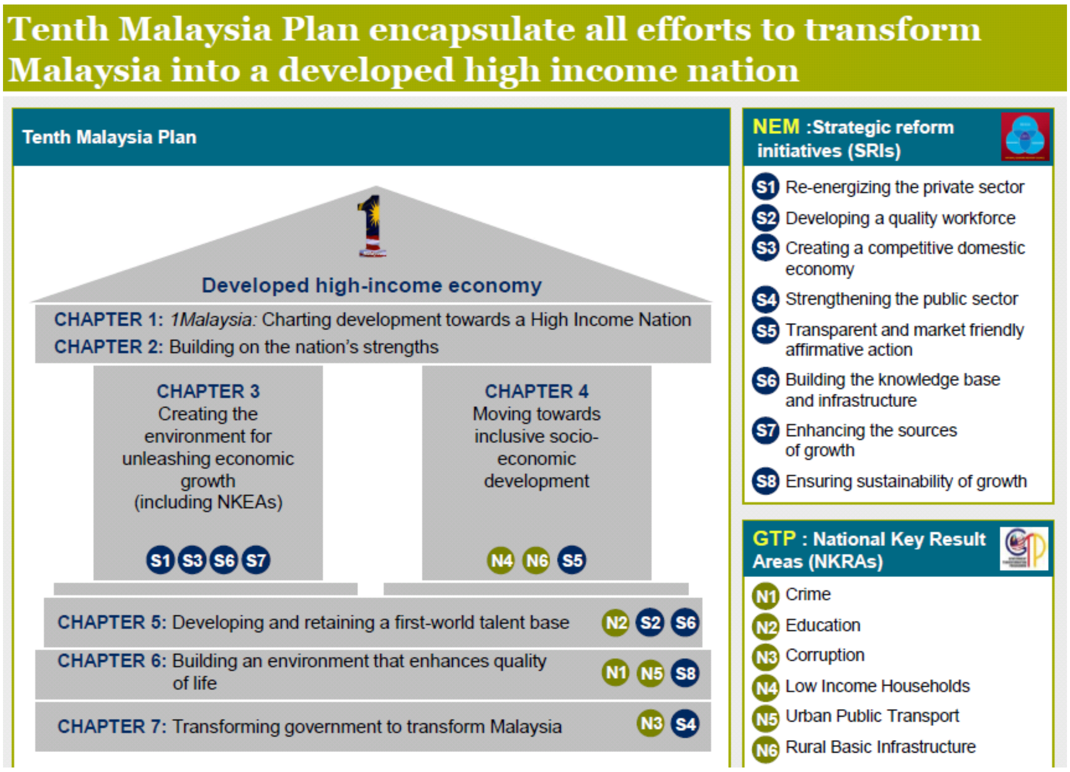
In the Mahathir administration, a system was established to make and coordinate development plans. Economic Planning Unit (EPU) and Implementation and Coordination Unit (ICU) were established to concentrate the authority of National Plans. Budget for development plan has been controlled by two authorities: EPU and Ministry of Finance (MOF). EPU has responsibility for formulating five year plans including the development budget. MOF is responsible for budget of the development at a fiscal year level.

There are four types (layers) of development plans in terms of planning period in Malaysia. First, the top layer plan is the long-term perspective plan (Outline Perspective Plan) for a period spanning more than five years. Second layer is the five year plan. Third layer is Mid-term Review (MTR) of the five year plan. The fourth layer is a single year budget plan. EPU plays a central role in process of formulating the five-year plan and mid-term review.

The five-year planning process is as follows:

1. The high level officials of EPU, MOF and the central bank forecast the five year revenue of the plan period. They allocate the forecasted revenue to all government ministries and agencies as the ceiling of budget.
2. EPU informs agencies of the federal government and state governments that proposals of development expenditure should be submitted. Agencies submit the proposals of budget request to EPU through the ministries. For example, for industrial development, Malaysian Industrial Development Authority (MIDA) submits the proposal to Ministry of International Trade and Industry (MITI). Then, MITI reports to EPU.
3. These proposals are sent to Inter Agency Planning Group (IAPG).
4. The framework decided by IAPG is sent to EPU. EPU sends the framework as the first draft to the National Development Plan Committee (NDPC).
5. The draft created by NDPC is sent to National Planning Committee (NPC).
6. The draft decided by NPC is submitted to the Planning Committee of the Cabinet. After the final approval is made at a cabinet meeting, the draft plan is submitted to the congress.

“1Malaysia”, “1Malaysia Government Transformation Programme (GTP)”, “New Economic Model (NEM)” and the Tenth Malaysia Plan (10MP) are related to each other as shown below.



Tenth Malaysia Plan encapsulate all efforts to transform Malaysia into a developed high income nation

Tenth Malaysia Plan

Developed high-income economy

CHAPTER 1: *1Malaysia:* Charting development towards a High Income Nation

CHAPTER 2: Building on the nation's strengths

CHAPTER 3 Creating the environment for unleashing economic growth (including NKEAs) S1 S3 S6 S7

CHAPTER 4 Moving towards inclusive socio-economic development N4 N6 S5

CHAPTER 5: Developing and retaining a first-world talent base N2 S2 S6

CHAPTER 6: Building an environment that enhances quality of life N1 N5 S8

CHAPTER 7: Transforming government to transform Malaysia N3 S4

NEM :Strategic reform initiatives (SRIs)

- S1 Re-energizing the private sector
- S2 Developing a quality workforce
- S3 Creating a competitive domestic economy
- S4 Strengthening the public sector
- S5 Transparent and market friendly affirmative action
- S6 Building the knowledge base and infrastructure
- S7 Enhancing the sources of growth
- S8 Ensuring sustainability of growth

GTP : National Key Result Areas (NKRAs)

- N1 Crime
- N2 Education
- N3 Corruption
- N4 Low Income Households
- N5 Urban Public Transport
- N6 Rural Basic Infrastructure

Figure 6-1-1 Relationship among Tenth Malaysia Plan, NEM and GTP

Source: EPU "Malaysia Economic Development & Current Status"

6.1.2 Economic Planning Unit (EPU)

EPU is the principal government agency responsible for the preparation of development plans for the nation. EPU started as Economic Secretariat to Economic Committee of Federal Executive Council in 1956.

In 1961, EPU evolved from the Economic Secretariat of the Economic Committee of the Executive Council. EPU focused on development planning, on high problems in plan execution and on all forms of foreign aid. In the year, the government also established the National Development Planning Committee (NDPC) with EPU as its secretariat. While the Cabinet continued to retain the ultimate responsibility for planning in the country, NDPC was assigned the responsibility for the formulation, implementation, progress evaluation and revision of development plans.

In April 2009, Privatization Section and PFI Section of UPU were separated from EPU and founded as the Public Private Partnership Unit (3PU) towards 2010-2012.

6.1.3 Malaysian Industrial Development Authority: MIDA

MIDA is the government's principal agency for the promotion of the manufacturing and service sectors in Malaysia. MIDA assists companies which intend to invest in the manufacturing and its related services sectors, as well as facilitates the implementation of their projects. The wide range of services provided by MIDA include providing information on the opportunities for investments, as well as facilitating companies which are looking for joint venture partners. MIDA also assists companies interested in venturing abroad for business opportunities.

Main services in Malaysian Industrial Development Authority are as follows:

- Promotion of foreign investment and domestic investment in manufacturing and service

industries.
- Industrial development planning in Malaysia.
- Recommendations of industrial promotion policies and strategies for industrial development to Minister for International Trade and Industry.
- Examination of various license applications
- Supporting companies together with relevant government agencies.
- Promotion of information exchange and coordination between agencies involved in industrial development.
- To further enhance the role of the MIDA, principal officers of the agencies related to foreign investment work at the MIDA headquarters for advice on policies and procedures. Resident officers are from Ministry of Finance, Ministry of Human Resources, Immigration Department, Customs Department, Environment Department, Occupational Safety and Health Department, Tenaga Nasional (National Power Corporation), Telekom Malaysia (Telegraph and Telephone Corporation).

MIDA will be converted to a one-stop center with the authority to approve all investments except the public service and the financial sector. The restructuring intends to strengthen the authority. MIDA will be renamed to Malaysian Investment Development Authority in 2011.

6.1.4 Employees Provident Fund: EPF

History:

By the 1990s, social security funds especially pension funds played an important role in mobilizing household savings to finance to government stably together with the banking sector. EPF was a major funding source for the government. EPF invested more than 90% of the fund in government securities in 1970s, according to Employees Provident Fund Act 1951, which stipulated that 70% of the fund was to be invested in government securities. The EPF Act was amended in 1991 and the role of the EPF was significantly changed. The restriction on EPF to invest in government securities was loosened for EPF to be able to invest more in private securities.

EPF has the following missions.

- For members: to provide severance pay to operate efficiently in a reliable way of member savings.
- For employers: to provide an efficient and convenient system to ensure that they meet their responsibility and moral obligations of contributing to the EPF for their employees.
- For the nation: to develop socio-economy through prudent investments.
- For the employees: to provide motivating, participating and challenging working environment which can propel them to peak performance.

Members of EPF are employees of private sector and non-pensionable public sector. EPF has 12.07 million members, 5.7 million active members, and 441,820 employers as in December 2008. A contribution constitutes the amount of money credited to members' individual accounts in the EPF. The amount is calculated based on the monthly wages of an employee. The current rate of contribution is 23% of the employee's wages of which 11% is from the employee's monthly wage while 12% is contributed by the employer.

6.1.5 Federal Land Development Authority（FELDA）

(1) History of FELDA

FELDA was established on 1 July 1956 under the Land Development Ordinance 1956. FELDA’s mission has been in improving the living standards of poor persons, through the promotion of productive agriculture. FELDA has developed farms through jungle clearing for landless peasants Malay, and has been active as a new institution to manage the farm villages. The World Bank evaluated FELDA as "one of the most successful land development agency in the world in 1980's".

Settlers borrowed land from FELDA to produce oil palm plants, with technical assistance from FELDA. After repaying all the debt, settlers could own the land. Settlements (schemes) have been present in rural communities, including shopping centers, schools, hospitals, mosque and etc. FELDA has social responsibility to provide hospital equipment and donate scholarships for children as well as to manage the scheme.

Beginning 1 January 1990, the Federal Government has decided to stop the intake of new settlers for all land schemes throughout the country. The decision was made due to limited financial resources to fund development and infrastructure projects on land schemes. Schemes without settlers are managed by FELDA and profits derived are used for funding management costs and all infrastructure projects on land schemes.

The agricultural business by an FELDA companies was originally developed in order to promote cash crop (rubber / oil palm / sugar cane) cultivation in the settlements. And FELDA contributed to increase of rubber and oil palm production, with expansion of a cleaning area in Malaysia. However, since FELDA Plantations Sdn was established in 1991, development of plantation (mainly, oil palm) was pushed forward rapidly separately from the settlements.
In plantations, houses for foreign laborer were prepared, but village development was not performed.
New settlement development was finished, but development business of plantations has been continued, and the cleaning will be going on. Therefore the main force of oil palm cultivation will be FELDA plantations Sdn. in the future. The status of settlements in oil palm business may decrease.

In April 2004, FELDA was placed under the Prime Minister's Department and is administered by the board, which is accountable to the Deputy Prime Minister.

At present GROUP FELDA is composed of "FELDA" to manage the settlements and settlers and "FELDA Holdings" to oversee the companies.

(2) Activities of FELDA

Activities by FELDA are as follows:

* Land Development
    - Area Developed
    - Productivity Performance
    - Production and Revenue
    - Replanting
* Settler's Development
    - Settler Emplacement
    - Settler's Ownership
    - Settler's Institution
* Settler's Facilities
    - Education
    - Educational Aids/Loans
    - Skill Training
    - Settler's Loans/Aids
    - Perumahan Warga Felda

  - FELDA Investment Co-operative
- Entrepreneurship
  - SAWARI Programme
  - Agro-Based Industries
  - Edible Garden
  - Tunas Mekar
  - Business, Services & Other Ventures
  - Infra & Funds
  - Latihan Keusahawanan
- Finance
  - Funds
  - Infrastructural Projects
  - Recreation and tourism
- Downstream Activities
  - Holdings Company
  - Subsidiary Companies
  - Joint-Venture Companies
  - Associate Companies

(3) Finance

FELDA obtains the financial sources to finance its project from the Federal Government, World Bank, Asian Development Bank, Kuwait Funds, Saudi Fund for Development and others in order to finance agricultural works, mill construction and settlers houses.

Settlers are not charged for the management cost of the scheme. The management cost is financed through the allocation obtained from the Federal Government.

FELDA will only recommend to the state governments to issue the land titles after the settlers have repaid the cost of the development to FELDA including consolidated Annual Charges to the state governments.

(4) Area Developed by FELDA

FELDA has developed 853,313 hectares including 811,140 hectares of agricultural area, of which oil palm plantation covers 722,946 hectares or 84.7 %, rubber plantation covers 84,496 hectares or 9.9 %, and sugar canes cover 879 hectares or 0.1 %. The settlers' settlement area covers 42,173 hectares or 4.9 percent.

Table 6.1.1 Developed Area by FELDA

State	No. Of Schemes	Planted Area (Hectares)						
		Crop						
		Oil Palm	Rubber	Sugar Cane	Others	Total	Village Area	Grand total
Pahang	169	293,529	9,117	-	1,960	304,606	14,539	319,145
Johor	89	136,678	8,729	-	41	145,448	9,391	154,839
Sabah	64	119,560	-	-	205	119,765	2,269	122,034
N.Sembilan	53	52,669	31,722	-	40	84,431	5,885	90,316
Terengganu	30	42,771	2,090	-	-	44,861	3,492	48,353
Kelantan	25	40,587	432	-	-	41,019	2,396	43,415
Perak	22	24,527	10,815	-	40	35,772	2,487	38,259
Kedah	12	560	12,955	879	-	14,004	858	14,862
Sarawak	5	7,680	-	-	-	7,680	0	7,680
Melaka	4	1,847	3,619	-	-	5,466	320	5,786
Perlis	3	22	4,821	-	533	5,376	445	5,821
Selangor	4	2,516	196	-	-	2,712	91	2,803
Total	**480**	**722,946**	**84,496**	**879**	**2,819**	**811,140**	**42,173**	**853,313**

Source: FELDA Homepage

Table 6.1.2 Number of Settlers By States

States	Number of Schemes	Oil Palm	Rubber	Total	Share
Pahang	115	40,500	2,623	43,123	38.3%
Johor	73	24,248	3,158	27,641	24.5%
Negeri Sembilan	49	6,846	9,583	16,429	14.6%
Terengganu	21	7,133	330	7,463	6.6%
Perak	17	4,154	1,760	5,914	5.3%
Kedah	10	108	3,077	3,185	2.8%
Kelantan	11	3,115	0	3,115	2.8%
Selangor	4	1,722	207	1,929	1.7%
Sabah	9	1,649	0	1,649	1.5%
Melaka	5	801	529	1,330	1.2%
Perlis	3	0	857	857	0.8%
Total	317	90,511	22,124	112,635	100.0%
		80.4%	19.6%	100.0%	

Source: FELDA Homepage

(5) FELDA Holdings Bhd (Felda Holdings)

Formed under the Land Ordinance Act 1956 but incorporated on 6 September 1995, Felda Holdings became a public company on 3 October, 2003. Today, total capitalisation exceeds RM 5 billion with RM 220 million in paid up capital. Share Holders consist of Koperasi Permodalan FELDA 51% and FELDA 49%.

Felda Holdings Bhd (Felda Holdings) is one of Malaysia's largest, and most diversified agro-based enterprises which run the commercial business related to the Federal Land and Development Authority (FELDA), and the vast 880,000-hectare plantation landbank associated with it.

Felda Holdings enjoys a sizeable business amounting to some RM 15.3 billion in revenue and reported profit before tax of RM 819.2 million for the financial year ended 31 December 2008.

Felda Holdings employs a dedicated workforce of almost 19,000 employees, complemented by a labour force of 46,795 workers at some 300 estates, 70 palm oil mills, seven refineries, four kernel crushing plants, 13 rubber factories, manufacturing plants and several logistic and bulking installations spread throughout Malaysia and several locations overseas.

On the international front, Felda Holdings is among the world leaders, producing almost 8% of world palm oil in 2008. Felda Holdings has long-standing joint-venture partnerships with large multinationals such as Procter & Gamble and Iffco. Felda Holdings also has growing interests in businesses in the United States, Canada, Australia, China, Pakistan, Sri Lanka and South Africa.

Through more than 50 active subsidiaries, associated companies and joint venture companies, Felda Holdings provides technical advice and support to the Felda Group. Felda Holdings develops and manages a major portion of its plantation landbank and undertake oil-palm based downstream activities. Felda Holdings also processes rubber and cocoa products, manufacture fertilisers as well as operate several successful auxiliary businesses. Among these are IT, engineering, security, storage and logistic services.

6.1.6 Petroliam Nasional Berhad (PETRONAS)

PETRONAS was incorporated on 17 August 1974 as the national oil company of Malaysia, vested with the entire ownership and control of the petroleum resources in the country. It has grown from merely being the manager and regulator of Malaysia’s upstream sector into a fully integrated oil and gas corporation, ranked among the FORTUNE Global 500 largest corporations in the world.

Much of PETRONAS’ success can be attributed to ability to strike a balance between being a state-owned entity and a full-fledged commercial organisation. As a state-owned entity, PETRONAS is responsible for the effective management of Malaysia’s oil and gas resources, to add value to this national asset and to ensure the orderly and sustainable development of the nation’s petroleum industry. As a business entity, PETRONAS conducts operations in a prudent and commercially oriented manner to compete effectively in the increasingly challenging global business environment, while maximising returns to shareholders.

The range of PETRONAS downstream activities includes:
- Oil refining
- Marketing and distribution of petroleum products
- Trading
- Gas processing and liquefaction
- Gas transmission pipeline operations
- Marketing of liquefied natural gas
- Petrochemical manufacturing and marketing
- Shipping
- Property investment

Financial Highlights in2009
- Group revenue increased by 18.4% to RM264.2 billion, driven by higher prices and sales volume.
- Revenue from international operations increased by 23.7% to RM111.3 billion, making it the biggest contributor to group revenue.
- Profit before tax and net profit declined by 6.7% and 13.9% to RM89.1 billion and RM52.5 billion respectively, due to the low-price and high-cost environment which persisted during the second half of the financial year.
- Stronger balance sheet with total assets increasing to RM388.1 billion.
- Return on Revenue remained amongst the highest in the industry at 33.7%, compared to the global industry average of 17.7%.

Table 6.1.3 Five Year Financial Highlights (Unit RM billion)

	FY2005	FY2006	FY2007	FY2008	FY2009	+/−
Revenue	137.0	167.4	184.1	223.1	264.2	18.4%
Profit Before Tax	58.0	69.4	76.3	95.5	89.1	−6.7%
EBITDA	68.1	80.9	88.7	109.9	105.5	−4.0%
Net Profit	35.6	43.1	46.4	61.0	52.5	−13.9%
Total Assets	239.1	273.0	294.6	339.3	388.1	14.4%
Shareholder’s Funds	119.7	147.0	171.7	201.7	232.1	15.1%

	FY2005	FY2006	FY2007	FY2008	FY2009
Return on Revenue	42.3%	41.5%	41.4%	42.8%	33.7%
Return on Total Assets	24.3%	25.4%	25.9%	28.1%	23.0%
Return on Average Capital Employe	38.5%	41.6%	40.8%	45.4%	37.1%
Total Debt/Total Assets Ratio	0.22X	0.16X	0.12X	0.11X	0.11X
Reserves Replacement Ratio	0.7X	1.7X	1.8X	0.9X	1.8X

Source: Petronas Annual Report 2009

6.2 Ethnic-based Socio-economic Policies

6.2.1 Background

Bumiputera includes Malays, indigenous inhabitants of the Peninsula (called Oran Asri), Buddhist and indigenous peoples in Sabah and Sarawak, such as Kadazan, Iban and others. Bumiputera share of the population 56% in 1970 increased to 65% in 2000. Chinese declined from 34 % in 1970 to 26% in 2000. Indian share was stable at 8%.

Geographical distribution of population by ethnic group has historical background. Chinese and Indians have been concentrated in the developed states (Johor Bahru, Malacca, Penang, Selangor and Kuala Lumpur). Bumiputera's majority was farmers and they have inhabited in the economically backward states (Kedah, Kelantan, Pahang, Perlis, Sabah and Sarawak).

At independence in 1957, Malaysia was a multi-ethnic country, consisting of Bumiputera 49% Chinese 37%, Indians 11% and others. Malaysia had taken over dual economic structure consisting of traditional sector and modern sector. Malays had kept political leadership since independence. However in economic aspects, Malays had significant income gap with Chinese, because Malays involved in many of the traditional primary industries, and Chinese worked in modern commercial and industrial sectors. After the riot in 1969, the New Economic Policy (NEP) was formulated in the condition of the subsequent "emergency". The NEP has been implemented since 1971 to aim at improving socio-economic status of Bumiputera.

6.2.2 Legal basis for Ethnic-based Socio-economic Policies

The affirmative policies are essentially based on "Malay special status" in Article 153 of the Constitution. Article 153 stipulates that the Malays and other Bumiputera have priority for civil servants employment, provision of government scholarships, and provision of licensed business.

6.2.3 Ethnic-based Socio-economic Policies and National Development Plan

Although the NEP's remit ended in 1990, its underlying principle of growth with distribution was carried along through its successors, the National Development Policy (NDP) and the National Vision Policy (NVS). The NEP achieved outstanding progress towards addressing its original goals. Overall poverty has been significantly reduced from 49.3% in 1970 to 3.8% in 2009, whilst general living standards amongst the majority of Malaysians have also been raised. Similarly, inter-ethnic economic imbalances have been substantially reduced as evidenced by improved distribution of corporate ownership between 1970 and 2008.

6.2.4 Ethnic-based Policy Measures

The New Economic Policy (NEP) was introduced in 1971 to address extreme economic imbalances present at the time. In 1970, 49.3% of Malaysians were living below the poverty line, which included 64.8% of the Bumiputera population, 39.2% of the Indians and 26.0% of the Chinese. Furthermore, there were significant socio-economic inequalities, with Bumiputera holding only 2.4% of the corporate equity, earning an average household income of 65.0% of the national mean and were primarily employed in the traditional rural sector (Bumiputera represented 74.0% of employment in the sector). Since these imbalances could not be corrected purely through market forces, the NEP was launched with the ultimate goal of national unity and two objectives: eradication of poverty regardless of ethnicity and restructuring of society to eliminate the identification of ethnicity from economic function.

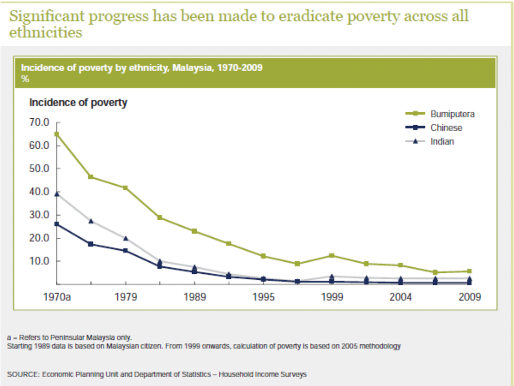
The policies and programmes intended for social restructuring focused primarily on income parity, employment and the creation of a Bumiputera Commercial and Industrial Community (BCIC). Among them were supply-side measures aimed at elevating capabilities through education and training, scholarships and establishment of elite schools; and demand-side measures such as allocation of corporate equity to Bumiputera through the Foreign Investment Committee (FIC) Guidelines, Industrial Coordination Act (ICA), privatisation and PNB Unit Trust schemes. Developmental organisations such as Majlis Amanah Rakyat (MARA), Perbadanan Usahawan Nasional Berhad (PUNB) and Perbadanan Nasional Berhad (PNS) were also tasked to provide support facilities and special assistance programmes to boost Bumiputera participation in entrepreneurial activities.

6.2.5 Poverty Eradication

(1) Trend of poverty incidence

The household poverty ratio dropped from nearly 50% in 1970 to 17.1% in 1990, the target year of the NEP. Based on the achievement of NEP, NDP 1991-2000 focused on reducing absolute poverty in households.

In the 1990s, financial assistance was started to reduce the absolute poor households. The Federal Land Development Authority (FELDA) and NGO Amanah Ikhtiar Malaysia (AIM) provided financial assistance services. While it is not easy to identify the effectiveness of these policy measures, the poverty ratio declined to 3.6% in 2007, and absolute poverty ratio has declined from 1.9 % in 1999 to 0.7% in 2007.



Significant progress has been made to eradicate poverty across all ethnicities

Incidence of poverty by ethnicity, Malaysia, 1970-2009

%

a – Refers to Peninsular Malaysia only.
Starting 1989 data is based on Malaysian citizen. From 1999 onwards, calculation of poverty is based on 2005 methodology

SOURCE: Economic Planning Unit and Department of Statistics – Household Income Surveys

Figure 6-2-1 Incidence of poverty by ethnic group (1970-2009)
Source: Tenth Malaysia Plan

(2) Regional Disparities in Poverty

The rural poverty ratio declined from 14.8%in 1999 to 11.9% in 2004. Although the poverty ratio has decreased and the number of poor households reduced, poverty is still the biggest problem in rural areas, as 70.6 % of poor households residing in rural areas.

Although poverty ratio in urban areas decreased from 3.3% in 1999 to 2.5% in 2004, the number of poor households has increased. This is mainly due to increase in poor households in urban areas of Sabah. Specific measures have been implemented in 60 urban centers to provide low-income households in poor urban areas.

Table 6.2.1 INCIDENCE OF POVERTY AND HARDCORE POVERTY

1999 AND 2004

		1999			2004		
		Malaysia	Urban	Rural	Malaysia	Urban	Rural
Hardcore Poverty							
Incidence of Hardcore Poverty*1	(%)	1.9	0.5	3.6	1.2	0.4	2.9
Number of Hardcore Poor Households	(‘000)	91.7	11.9	79.8	67.3	14.1	53.2
Poverty Gap*2	(%)	0.4	0.1	0.8	0.2	0.1	0.6
Overall Poverty							
Incidence of Poverty*3	(%)	8.5	3.3	14.8	5.7	2.5	11.9
Number of Poor Households	(‘000)	409.3	86.1	323.2	311.3	91.6	219.7
Poverty Gap	(%)	2.3	0.8	4.0	1.4	0.6	3.0
Total Households	(‘000)	4,800.00	2,612.50	2,187.50	5,459.40	3,605.90	1,853.50

Source: Economic Planning Unit and Department of Statistics – Household Income Surveys, 1999 and 2004
Notes: 1 Refers to households with monthly gross income of less than the food PLI.
2 Refers to the total income shortfall (expressed in proportion to the poverty line) of poor households.
3 Refers to households with monthly gross income below PLI.

(Note) Poverty Gap Ratio is an indicator of the extent of poverty. In other words, the poverty gap measures how serious situation of the poor.

Poverty Ratio could measure how many people living below the Poverty Line but could not measure how poor they are. Poverty gap is an indicator measuring the extent of poverty, focusing on the difference between their income and poverty line. If this indicator applied, it is possible to estimate the budget for complete poverty reduction. Therefore, at the policy formulation level (for social protection policy and income distribution policy in particular) poverty gap is often applied to the rough estimation. In short, poverty gap ratio is equal to shortfall of people below the poverty line (income and expenditure). By multiplying the ration by the total population, the approximate minimum amount required to reduce poverty can be calculated.

(3) The poverty gap among ethnic groups

Reducing the poverty ratio was achieved for all people. Bumiputera, however, had the highest poverty ratio among ethnic groups with 12.4% in 1999 and 8.3% in 2004. The Chinese ratio was 1.2% in 1999 and 0.6% in 2004. The Indian ratio was 3.5% in 1999 and 2.9% in 2004. Regarding poverty gap ratio, Bumiputera also had the highest ration of 3.3% in 1999 and 2.1% in 2004. The Chinese ratio was 0.2% in 1999 and 0.1% in 2004. The Indian ratio was 0.7% in 1999 and 0.6% in 2004. There ware a number of factors behind this indicator such as low level of education and unskilled technology.

Table 6.2.2 INCIDENCE OF POVERTY AND HARDCORE POVERTY
BY ETHNIC GROUP, 1999 AND 2004

(%)

	1999			2004		
	Bumiputera	Chinese	Indians	Bumiputera	Chinese	Indians
Hardcore Poverty	2.9	0.2	0.3	1.9	0.1	0.3
Urban	0.7	0.1	0.2	0.7	neg.1	0.2
Rural	4.4	0.4	0.5	3.3	0.3	0.5
Overall Poverty	12.4	1.2	3.5	8.3	0.6	2.9
Urban	5.1	0.8	2.4	4.1	0.4	2.4
Rural	17.5	2.7	5.8	13.4	2.3	5.4
Poverty Gap	3.3	0.2	0.7	2.1	0.1	0.6

Source: Economic Planning Unit and Department of Statistics – Household Income Surveys, 1999 and 2004
Notes: 1 Less than 0.05 per cent.

6.2.6 Restructuring of Wealth Ownership

(1) Changes in shareholding ratio

Bumiputera's shareholding ratio increased steadily from 1.9% in 1970 to 19.3% in 1990. The trend was in response to the foreign shareholding ratio decreased during the same period. The NEP showed remarkable results in mutual fund schemes. But Bumiputera's equity ownership has remained stagnant at less than 20%.

Table 6-2-3 Ownership by Ethnic Group 1970 – 2006

(Unit:RM million (%))

Ownership Group	1970	%	1990	%	2000	%	2002	%	2004	%	2006	%
Bumiputera	103	1.9	20,876	19.3	62,976	18.9	73,162	18.7	100,037	18.9	120,387.60	19.4
-Individual	Na		15,322	14.1	47,344	14.2	55,112	14.1	79,450	15	93,982.20	15.1
-Institution	Na		Na		9,830	3.0	11,634	3.0	11,891	2.2	16,039.60	2.6
-Trust Agencies	Na		5,556	5.1	5,802	1.7	6,416	1.6	8,697	1.7	10,365.80	1.7
Chinese	1,192	22.5	49,297	45.5	129,318	38.9	159,807	40.9	206,683	39	263,637.80	42.4
Indian	52	1.0	1,068	1.0	5,137	1.5	5,951	1.5	6,393	1.2	6,967.80	1.1
Foreigners	3,208	60.7	27,526	25.4	103,909	31.3	112,728	28.8	172,280	32.5	187,045.80	30.1
Nomines	734	13.9	9,222	8.5	28,119	8.5	35,969	9.2	42,479	8	41,185.70	6.6
総 計	5,289	100	108,357	100	332,418	100	390,822	100	529,769	100	621,833.50	100

Notes: The estimation takes into account about 680,000 active companies from Companies Commission of Malaysia (CCM). In estimating the equity ownership, par value was used as it covers all companies, listed and non-listed, registered with CCM as compared to the market value which is available only for listed companies in Bursa Malaysia. The Government shares in companies, including Governmentlinked companies (GLCs), were excluded in the estimation

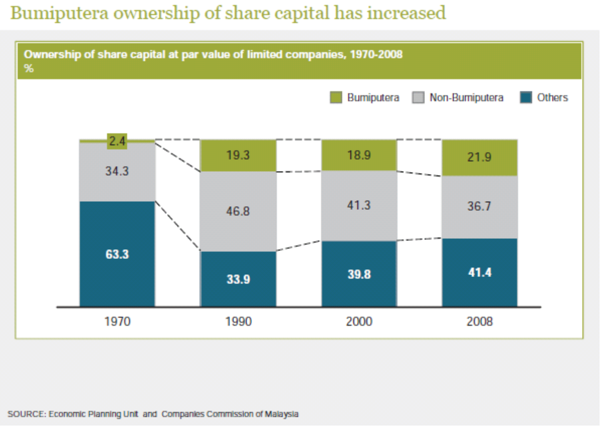


Figure 6-2-2 Ownership of share capital by ethnic group (1970-2008)
Source: Tenth Malaysia Plan

(2) Bumiputera share by Industry (2004)

Bumiputera ownership ratio is relatively low in any industry. The share in construction industry is the highest at 35.2%, the next is transportation at 26.7%, and wholesale and retail trade at 20.4%. Privatization is an effective means of improving the Bumiputera's capital ratio. With privatization projects amounting to RM14.9 billion in 2005, Bumiputera's capital increased by RM5.5 billion.

Table 6-2-4 Ownership of Share Capital (at per value) of Limited Companies by Ethnic Group and Sector, 2004 (%)

Ownership Group	Agriculture	Mining	Ianufacturin	Utility	Construction	Wholesale & Retail Trade	ransportatio	Finance	Services	Others	Total
Bumiputera	**16.4**	**12.3**	**8.1**	**6.3**	**35.2**	**20.4**	**26.7**	**12.5**	**18.7**	**24.3**	**18.9**
Non-Bumiputera	**54.0**	**39.8**	**25.3**	**9.2**	**44.0**	**53.3**	**30.6**	**10.5**	**40.9**	**48.6**	**40.6**
Chinese	52.9	39.5	24.5	8.9	42.6	50.7	27.7	10.2	39.5	45.7	39.0
Indians	0.8	0.2	0.6	0.2	1.1	2.0	2.5	0.3	1.1	1.8	1.2
Others	0.2	0.1	0.1	0.1	0.3	0.6	0.4	0.0	0.2	1.1	0.4
Nominee Companies	**6.6**	**25.4**	**1.9**	**17.2**	**5.9**	**0.7**	**11.4**	**17.5**	**10.9**	**3.9**	**8.0**
Foreigners	**23.0**	**22.5**	**64.7**	**67.3**	**14.9**	**25.6**	**31.3**	**59.5**	**29.5**	**23.2**	**32.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Companies Commission of Malaysia
Notes: 1 Excludes shares held by Federal and State Governments.

(3) The share of buildings owned by Bumiputera (2005, 2007)

There are also ethnic differences for non-financial assets owned. According to investigation of the owner of commercial buildings in central cities across the country (2005), the share of Bumiputera is low at 11.7% compared to non-Bumiputera. The share in industrial assets is 4.8%, and that in office building is also 11.7%. Comparing 2005 and 2007, the ratio of Bumiputera's ownership is generally increasing.

Table 6-2-5 Ownership of Commercial Buildings and Premises by Ethnic Group, 2005, 2007 (% of Total)

Type of Building/Premise	2005					2007				
	Bumiputera	Chinese	Indians	Others	Total	Bumiputera	Chinese	Indians	Others	Total
Building	12.7	72.6	5.4	9.3	100.0	15.7	75.7	4.3	4.3	100.0
One Floor	29.8	57.6	6.3	6.3	100.0	24.9	69.0	3.8	2.3	100.0
Two Floors	10.0	76.7	5.0	8.3	100.0	13.8	78.5	4.2	3.5	100.0
Three Floors	6.3	76.4	4.5	12.8	100.0	14.3	75.8	3.6	6.3	100.0
More Than Three Floors	8.9	73.3	6.6	11.2	100.0	8.6	79.2	5.7	6.5	100.0
Business Complex	11.7	69.4	2.1	16.9	100.0	29.2	61.9	2.9	6.0	100.0
Industrial Premise	4.8	70.4	1.5	23.3	100.0	3.5	87.2	1.5	7.8	100.0
Hotel	14.3	69.3	3.2	13.2	100.0	20.8	54.0	2.7	22.5	100.0
Total	**11.7**	**71.9**	**4.6**	**11.8**	**100.0**	**15.0**	**76.1**	**3.8**	**5.1**	**100.0**

Source: Economic Planning Unit

Notes: Based on 87 per cent responses from local authorities.

6.2.7 Restructuring of the employment structure

(1) Achievement of the restructuring policy

Structural reorganization of employment is regarded as one of the measures to improve the economic status of Bumiputera. To do this, in addition to the improvement of agricultural productivity, non-farm sectors have been promoted for Bumiputera participation in particular business management professionals.

The proportion of workers of Bumiputera in business professionals rose from 4.8 % in 1970 to 20 % in 2000. The total percentage of Bumiputera professionals and managers was 42.8 % in 1970, that was lower than the population ratio of 52.7% at the time. It rose to nearly 60 % in 2000. This is the results of the restructuring policy implemented in areas such as teachers, university education, particularly pharmacy, chemistry, and engineering.

(2) Changes in employment structure since 2000

The total percentage of Bumiputera professionals and managers shows a steady increase in 2007. But as the mid-term report of the Eighth Malaysia Plan (2003) pointed out, "professionals" include elementary education, nursing, and accounting profession, which are less expertise relative.

Table 6-2-6 Registered Professionals by Ethnic Group 2000, 2005 and 2007

	2000			2005			2007		
	Bumiputera	Chinese	Indians	**Bumiputera**	Chinese	Indians	**Bumiputera**	Chinese	Indians
Accountants	**17.1**	76.2	5.6	**21.5**	73.0	4.9	**23.5**	71.4	4.9
Architects	**42.1**	56.2	1.5	**45.3**	53.1	1.4	**46.2**	52.1	1.5
Doctors	**36.8**	31.0	29.7	**38.1**	31.2	27.4	**43.8**	28.2	20.2
Dentists	**35.2**	42.4	20.5	**44.4**	35.3	18.4	**46.5**	34.5	16.9
Engineer	**42.6**	51.1	5.2	**46.0**	47.6	5.4	**46.2**	46.0	5.3
Lawyers	**32.3**	40.1	26.8	**38.0**	37.1	24.1	**39.0**	36.5	23.5
Surveyors	**45.1**	49.6	3.4	**48.2**	47.0	3.2	**50.5**	44.7	3.2
Veterinary Surgeons	**41.7**	27.7	27.4	**39.0**	32.2	24.8	**43.3**	34.1	22.5

Source: Department of statistics

Table 6-2-7 Employment by Occupation and Ethnic Group, 2000 and 2005

(thousand)

Occupation	2000					2005				
	Bumiputera	Chinese	Indians	Others	Total	**Bumiputera**	Chinese	Indians	Others	Total
Senior Officials & Managers	**230.8**	351.8	41.9	5.6	630.1	**278.2**	413.6	53.4	5.4	750.6
Professionals	**298.1**	174.5	41.1	6.8	520.5	**314.2**	171.3	44.1	7.1	536.7
Lecturers, Pre-Univ. school Teachers	**158.6**	38.8	12.4	3.4	213.2	**164.8**	38.4	13.6	3.3	220.1
Technicians & Associate Professionals	**649.0**	329.7	103.2	8.0	1,089.9	**752.1**	375.2	126.3	9.7	1,263.3
Primary School Teachers and Nurses	**230.8**	69.3	20.9	3.4	324.4	**252.4**	76.8	24.6	3.8	357.6
Clerical Workers	**495.2**	310.3	65.2	4.8	875.5	**546.0**	330.8	81.4	5.1	963.3
Service Workers and Shop & Market Sales Workers	**610.5**	484.8	86.9	10.6	1,192.8	**721.2**	555.3	112.8	12.3	1,401.6
Skilled Agricultural & Fishery Workers	**908.6**	163.4	64.4	42.1	1,178.5	**783.0**	109.3	41.5	35.8	969.6
Craft & Related Trade Workers	**379.8**	398.9	58.2	10.1	847.0	**448.2**	434.2	79.7	11.3	973.4
Plant & Machine Operators & Assemblers	**774.0**	324.1	161.3	26.4	1,285.8	**798.4**	327.9	170.4	24.9	1,321.6
Elementary Occupations	**461.5**	232.7	153.6	56.1	903.9	**510.0**	236.3	138.2	52.5	937.0
Total	**4,807.3**	2,770.2	775.6	170.5	8,523.6	**5,151.2**	2,954.0	847.9	164.1	9,117.2
Labour Force	**5,036.6**	2,813.8	793.8	176.4	8,820.6	**5,441.4**	3,025.0	875.2	171.2	9,512.8
Unemployment	**229.3**	43.6	18.2	5.9	297.0	**290.2**	71.1	27.3	7.1	395.7
Unemployment Rate (%)	**4.6%**	1.5%	2.3%	3.3%	3.4%	**5.3%**	2.4%	3.1%	4.1%	4.2%

(%)

Occupation	2000					2005				
	Bumiputera	Chinese	Indians	Others	Total	**Bumiputera**	Chinese	Indians	Others	Total
Senior Officials & Managers	**36.6%**	55.8%	6.6%	0.9%	100.0%	**37.1%**	55.1%	7.1%	0.7%	100.0%
Professionals	**57.3%**	33.5%	7.9%	1.3%	100.0%	**58.5%**	31.9%	8.2%	1.3%	100.0%
Lecturers, Pre-Univ. school Teachers	**74.4%**	18.2%	5.8%	1.6%	100.0%	**74.9%**	17.4%	6.2%	1.5%	100.0%
Technicians & Associate Professionals	**59.5%**	30.3%	9.5%	0.7%	100.0%	**59.5%**	29.7%	10.0%	0.8%	100.0%
Primary School Teachers	**71.1%**	21.4%	6.4%	1.0%	100.0%	**70.6%**	21.5%	6.9%	1.1%	100.0%
Clerical Workers	**56.6%**	35.4%	7.4%	0.5%	100.0%	**56.7%**	34.3%	8.5%	0.5%	100.0%
Service Workers and Shop & Market Sales Workers	**51.2%**	40.6%	7.3%	0.9%	100.0%	**51.5%**	39.6%	8.0%	0.9%	100.0%
Skilled Agricultural & Fishery Workers	**77.1%**	13.9%	5.5%	3.6%	100.0%	**80.8%**	11.3%	4.3%	3.7%	100.0%
Craft & Related Trade Workers	**44.8%**	47.1%	6.9%	1.2%	100.0%	**46.0%**	44.6%	8.2%	1.2%	100.0%
Plant & Machine Operators & Assemblers	**60.2%**	25.2%	12.5%	2.1%	100.0%	**60.4%**	24.8%	12.9%	1.9%	100.0%
Elementary Occupations	**51.1%**	25.7%	17.0%	6.2%	100.0%	**54.4%**	25.2%	14.7%	5.6%	100.0%
Total	**56.4%**	32.5%	9.1%	2.0%	100.0%	**56.5%**	32.4%	9.3%	1.8%	100.0%
Labour Force	**57.1%**	31.9%	9.0%	2.0%	100.0%	**57.2%**	31.8%	9.2%	1.8%	100.0%
Unemployment	**77.2%**	14.7%	6.1%	2.0%	100.0%	**73.3%**	18.0%	6.9%	1.8%	100.0%

(%)

Occupation	2000					2005				
	Bumiputera	Chinese	Indians	Others	Total	**Bumiputera**	Chinese	Indians	Others	Total
Senior Officials & Managers	**4.8%**	12.7%	5.4%	3.3%	7.4%	**5.4%**	14.0%	6.3%	3.3%	8.2%
Professionals	**6.2%**	6.3%	5.3%	4.0%	6.1%	**6.1%**	5.8%	5.2%	4.3%	5.9%
Lecturers, Pre-Univ. school Teachers	**3.3%**	1.4%	1.6%	2.0%	2.5%	**3.2%**	1.3%	1.6%	2.0%	2.4%
Technicians & Associate Professionals	**13.5%**	11.9%	13.3%	4.7%	12.8%	**14.6%**	12.7%	14.9%	5.9%	13.9%
Primary School Teachers	**4.8%**	2.5%	2.7%	2.0%	3.8%	**4.9%**	2.6%	2.9%	2.3%	3.9%
Clerical Workers	**10.3%**	11.2%	8.4%	2.8%	10.3%	**10.6%**	11.2%	9.6%	3.1%	10.6%
Service Workers and Shop & Market Sales Workers	**12.7%**	17.5%	11.2%	6.2%	14.0%	**14.0%**	18.8%	13.3%	7.5%	15.4%
Skilled Agricultural & Fishery Workers	**18.9%**	5.9%	8.3%	24.7%	13.8%	**15.2%**	3.7%	4.9%	21.8%	10.6%
Craft & Related Trade Workers	**7.9%**	14.4%	7.5%	5.9%	9.9%	**8.7%**	14.7%	9.4%	6.9%	10.7%
Plant & Machine Operators & Assemblers	**16.1%**	11.7%	20.8%	15.5%	15.1%	**15.5%**	11.1%	20.1%	15.2%	14.5%
Elementary Occupations	**9.6%**	8.4%	19.8%	32.9%	10.6%	**9.9%**	8.0%	16.3%	32.0%	10.3%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	**100.0%**	100.0%	100.0%	100.0%	100.0%

Source: Department of Statistics – Labour Force Surveys, 2000 and 2005

Notes: 1 Excludes non-citizen

6.2.8 Income Distribution

(1) Trend of household income by ethnic group

Althogh Bumiputera's income has increased, the income disparity still exists between Bumiputera and Chinese. Setting the average household income of Bumiputera as 1.00, Chinese income was 2.29 in 1970. The gap narrowed to 1.74 in 1990. Although the situation has remained unimproved since the 1990s, recently the gap narrowed from 1.64 in 2004 to 1.54 in 2007. Ninth Malaysia Plan (2006-2010) set a clear target that the income gap between Bumiputera and Chinese is reduced to 1.50 by 2010.

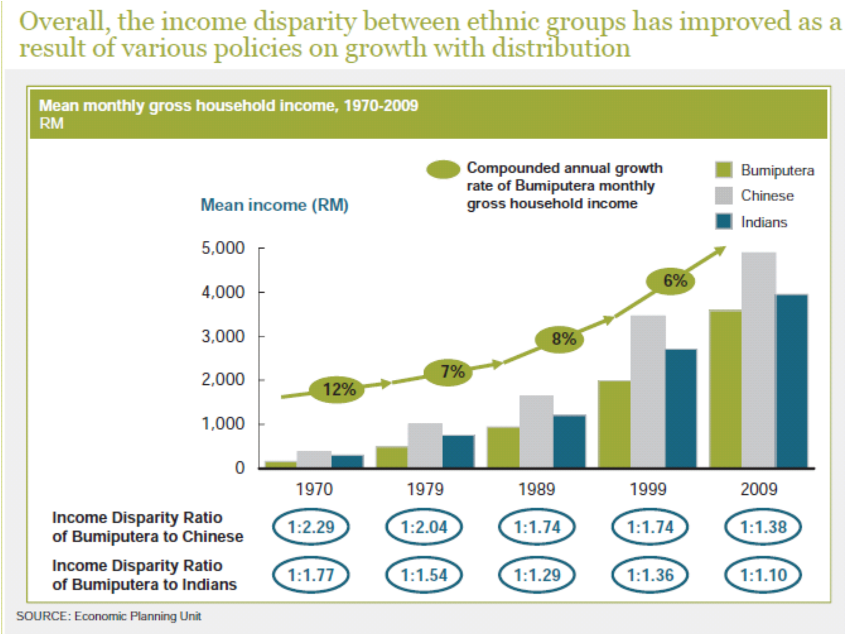


Figure 6-2-3 Household income by ethnic group (1970-2009)
Source: Tenth Malaysia Plan

(2) Income gap in Sabah and Sarawak

Income gap between Malay and other Bumiputera exists in Sabah and Sarawak but it is narrowing with the effect of various policies.

Table 6-2-8 Monthly Income by Ethnic Group Sabah/Sarawak

Saba/ Ethnic Group	Mean Income (RM)		Growth Rate (%p.a.)
	2004	**2007**	
Malay	2,779	3,089	3.6
Kadazandusun	2,037	2,401	5.6
Bajau	1,824	2,250	7.2
Murut	1,638	2,063	8.0
Other Bumiputera	1,707	2,259	9.8
Chinese	4,248	4,745	3.8
Others	3,665	3,133	-5.1

Sarawak/ Ethnic Group	Mean Income (RM)		Growth Rate (%p.a.)
	2004	**2007**	
Malay	2,717	3,503	8.8
Iban	1,725	2,243	9.2
Bidayuh	1,769	2,723	15.5
Melanau	2,341	2,858	6.9
Other Bumiputera	2,146	2,564	6.1
Chinese	4,254	4,768	3.9
Others	2,819	4,996	21.0

Source: Department of Statistics

(3) Trends in Gini coefficient

Gini coefficient indicates the degree of inequality in income distribution. It has tended to decline until the 1980s. The trend has been less clear since 1990, the target year of the NEP.

Table 6.2.9 Gini coefficient

Malaysia	1970	1976	1979	1984	1987	1990	1995	1999	2002	2004	2007
GINI	0.513	0.529	0.508	0.480	0.456	0.446	0.456	0.443	0.461	0.462	0.441

Source: Malaysia Plan
Note: Before 1987, only Peninsula

6.2.9 Development of BCIC

(1) "Development of BCIC" in Mahathir regime

During the Mahathir regime, under the Proton scheme, "Japanese-style" supporting industry was sought to nurture Bumiputera entrepreneurs. In early 1990s, MITI also applied this style to other industries other than the automotive industry. Prime Minister's Office adopted policies that nurture entrepreneurs through franchise system. These tasks were transferred to the Ministry of Entrepreneur Development that was reorganized from the Ministry of public enterprises in 1995.

(2) Policy measures for BCIC development in 8 MP (2001-2005)

- Vendor Development Programme
- Franchise Development Program
- Venture Capital Scheme
- Projek Usahawan Bumiputera Dalam Bidang Peruncitan (PROSPER).

(3) Policy measures for BCIC development in 9 MP (2006-2010)

- Business cooperation, promote the integration measures
- Measures to improve corporate productivity and competitiveness of Bumiputera firms
- Support measures for Bumiputera entrepreneurs
- New measures to promote Bumiputera firms in new growth areas
- Measures to develop Bumiputera SMEs through MARA and SEDC
- Venture capital by PUNB
- Bumiputera entrepreneurship education program by INSKEN

6.2.10 Development budgets for Ethnic-based Policy Measures

Total budget for ethnic-based policy measures in 9th Malaysia Plan (2006-2010) is 11.5 RM billion. The poverty alleviation accounted for 38.7% and the restructuring of society for 61.3%.

Table 6.2.10 Development budgets for Ethnic-based Policy Measures

(RM million)

Programme	Allocation	%
Poverty Alleviation	4,465.3	38.7%
Skim Pembangunan Kesejahteraan Rakyat	340.8	3.0%
Program Pembasamian Kemiskinan Bandar	50.0	0.4%
Rubber and Oil Palm Replanting Scheme	1,047.8	9.1%
Land Consolidation and Rehabilitation	1,004.3	8.7%
Regional Development	510.9	4.4%
Redevelopment of Traditional and New Villages	235.0	2.0%
Development of Orang Asli	361.8	3.1%
Agriculture Entrepreneurial Development	414.7	3.6%
Development of Customary and Native Land	100.0	0.9%
Other Programmes	400.0	3.5%
Restructuring of Society	**7,058.8**	**61.3%**
Development of BCIC	1,371.9	11.9%
Financing Facilities	1,220.0	10.6%
Education and Training	2,216.9	19.2%
Yayasan Amanah Hartanah Bumiputera	2,000.0	17.4%
Development of Wakat/Baitulmal Land	250.0	2.2%
Total	11,524.1	100.0%

Source: Ninth Malaysia Plan

6.2.11 Ethnic-based Socio-economic Policies in the future

The NEP achieved considerable success in overcoming past obstacles and driving the nation forward economically and socially. However, in light of the new socio-economic context, the Government recognizes that today’s challenges require a different approach. Past instruments based purely on quotas are no longer relevant and sustainable and will be phased out to make room for market-friendly policies and instruments that are compatible with national competitiveness. At the same time, the original NEP goal of national unity and social inclusion remains highly relevant albeit with a slightly different emphasis. The focus now will be to build on the new Bumiputera middle class and move the nation towards higher income, whilst at the same time improving social mobility within all parts of society and ensuring that the income gap does not widen.

The government is reviewing the ethnic-based policies.

- In April 2009, deregulation of 30% investment obligations for Bumiputera capital in the service industry.
- In June 2010, Bumiputera equity condition for an IPO was abolished.
- Government scholarships for next year (2010) will be granted based on the meritocracy.

6.3 Privatization Policy

6.3.1 Background of privatization policy

In 1970’s, the government established a number of public enterprises. The public company can be classified into three statutory: 1) Malaysia's state-owned enterprises, 2) government enterprises 3) government linked companies.

In 1980s global economic downturn gave negative impact on the Malaysian economy such as plunging prices of exports. Public enterprises had expanded in various economic sectors.

Malaysia suffered a balance of payments and fiscal deficits. Government intended to introduce foreign investment through "The Investment Promotion Act," and a series of deregulatory measures for currency. To reduce government expenditure by streamlining the public sector, privatization policy was announced in 1983. In 1983, "Malaysia Inc concept" was released. Then "Privatization Guidelines" were released in 1985. These two documents were the guidelines for privatization, taken over by "Masterplan of privatization 1991".

Table 6.3.1 Chronology of Privatization Policy (1980-2004)

Period	Year/month	Contents
trial period: 1980's	1983.2	Malaysia Incorporated
	1983.8	First Privatization Project: System Televisyen Malaysia Bhd. Established
	1985.1	Guidelines on Privatisation announced
		The purposes of privatization are 1) to improve public sector efficiency, 2) to reduce the budget deficit by introducing private investment. 37 privatization projects achieved.
Full-scale privatization: 1990's	1991	Privatization Master Plan
		Emphasis on the privatization of this period to foster a corporate group. 210-250 privatization project achieved.
Economic Crisis / Re-nationalization	1998	Major privatization projects were in trouble with the Asian currency crisis in 1997and re-nationalized as relief from economic crisis. Chinese two groups were sustained management while Bumiptra five groups fell into debt crisis.
	2000	Proton Group owned by DRB-HICOM was nationalized
	2000	Lennon group was disoolved
	2000	Malaysia Airline System Bhd.(MAS) re-nationalization
State enterprise reform	2003.11	Abdullah started Government-Linked Companies (GLCs) reform
	2004.5	Abdullah declared no intention to re-privatize in the seminar.

Source: JICA study team

6.3.2 Privatization Master Plan

Privatization Master Plan (PMP) was announced in 1991.

(1) Definition of Privatization

In PMP, the privatization is defined as "to transfer social activities or social functions previously dominated by the public sector from to the private sector", in other word, transfer of "management responsibility", "property" and "personnel" to the private sector.

The purpose of privatization are listed as follows.

1) Reduce financial and administrative burden to the government
2) Improve efficiency and productivity in the economy
3) Promote national economic growth
4) Reduce public sector involvement in the economy
5)Contribute to national economic policy goals

(2) Privatization Action Plan: PAP

In order to achieve the privatization, the privatization policy must be consistent with national development plans and other macroeconomic policies. The guidelines should be more specific and systematic. PMP therefore declared Privatization Action Plan (PAP) to be formulated.

PAP says that project feasibility analysis should be done for privatization of candidate projects. The evaluation of proposed projects are classified as " to be privatized," "to be incorporated as the prerequisite for privatization," "to be reviewed for privatization".

(3) Agency for privatization

EPU is in charge of PAP. All of proposed projects should be reviewed in Privatization Committee (ICP). This centralized planning stage and the diversity in the implementation are features of privatization in Malaysia.

PAP candidate project is called as the "government-driven". The general principle is competitive bidding. The winning bidder will implement the project.

6.3.3 Re-nationalization after the financial crisis

Major Bumiputera companies nurtured through the privatization process suffered from the Asian financial crisis and the government had to relief a number of them with public funds to promote re-nationalization.

6.3.4 Government companies (GLCs) Management Reform

Khazanah Nasional Berhad is a sovereign fund in Malaysia. It was established as public limited company on September 3, 1993. All company's capital is held by the finance minister. The board consists of representatives from the private and public sectors.
National state-owned investment company Kazana had equity investment portfolio of 922 million ringgit (about 2.5 trillion yen) at the end of 2009 that increased 34% from the end of 2008. The net asset value rose 63.5 percent, 541 million ringgit (about 1.5 trillion yen) reached. Profit ratio of the portfolio is 43.9 percent.

Kazana has led reforming government-linked companies (GLC). Some GLCs have improved management but they are still required to further reform efforts in the future.

6.3.5 Re-direction of strengthening the private sector

In March 2010, the Prime Minister announced the new economic model (NEM) with the following policy measures.

1) The employee pension fund reserves (EPF) expand overseas investment.
2) Malaysian Industrial Development Authority (MIDA) will be renamed as Malaysian Investment Development Authority (MIDA) to improve efficiency as an investment promotion agency.
3) EPF and the government establish a joint venture to develop 1,200 hectares of land at Sungaibuloh, Selangor as the hub of a new metropolitan area.
4) Lands beside Stoner street, Ampang street, Ridokoru street in Kuala Lumpur will be developed by the private sector to reduce the cost of government administration.
5) A total of RM 50 billion is expected for investment in new land development in Kuala Lumpur and Sungaibuloh.
6) Ministry of Finance will consider privatization of the holding companies, such as National Treasury Perusetakan, CTRM Aero Composites, Bio-Nine and Inobaio.
7) Petronas will list two subsidiaries in Stock Exchange (Bursa Malaysia) later this year, in order to reduce the influence of government and to strengthen the private sector
8) State-owned investment company Kazana will sell its share of 32% of the total of Malaysia's post Poss in two phases.

6.4 Education Policy

6.4.1 Historical background

In the period of Malaysia’s independence, some reports proposed the establishment of a unified system of public education aimed at overcoming the cultural and historical differences between peoples such as Burns Report (1951), Razak Report (1956) and Rahman Talib Report (1960). These reports recommended to integrate the national education with the principle that Malay schools are the core public education system. The fruit was "Education Act 1961". The Act was to form the backbone of Malaysia's education system. The Act was reviewed in 1995, and "the 1996 Education Act" was enacted, which was a base of the current education system.

6.4.2 Overview of school education

Malaysia's national education system consists of pre-school, primary school, junior secondary school, senior secondary school, college prep-courses, and university, that is a so-called "6-3-2-2-3 system".

The federal government (Ministry of Education) has established a hierarchy of educational administration. In other words, it has a strong vertically divided structure: federal government > state board of education > local education offices > schools. Administration of education (for organization, management, development, etc.) is under the supervision of the Ministry of Education. The education planning and decision making are done by the Planning Commission of Education.

6.4.3 Higher Education Development

Malaysia's higher education enrollment increased from 230,000 in 1990 to 385,000 in 2000. The total higher education enrollment rate of the standard age population from 19 years to 24 years increased from 2.9% in 1990 to 8.2 % in 2000. The number of private higher education institutions increased fourfold in this period from 156 schools in 1992 to 707 schools in 2002. Number of Private universities increased to 14 in 2002. Number of students enrolled in these institutions increased from 35,600 in 1990 to 203,000 in 2000, that was 53 % of the population of tertiary education in Malaysia to occupy.

Malaysia’s ratio of education spending to GNP is relatively high among Asian countries.

Table 6.4.1 GNP ratio of education spending (%)

	1970	1980	1990	2000
Malaysia	4.2	6.0	5.5	6.8
Japan	3.9	5.8	n.a.	3.5
Korea	3.4	3.7	3.5	3.8
Hong Kong	2.6	2.5	2.8	4.0
Singapore	3.1	2.8	3.0	3.5
Indonesia	2.6	1.7	1.0	1.6
Thailand	3.2	3.4	3.6	5.5
Average	3.3	3.7	4.1	5.6

Source: Department of Statistics

Table 6.4.2 Educational Expenditure/Total Budget

Education／Total Expense	Ordinary (%)	Development (%)		Higher Edu.／Education	Ordinary (%)	Development (%)
1971	22.1	6.1		1971	10.3	36.8
2002	24.7	34.6		2003	36.5	39.8

Source: Department of Statistics

6.4.4 Ethnic-based Policy Measures in Education

In order to nurture the future elite, there are 40 boarding secondary schools in Malaysia. The entrants are selected by the Ministry of Education based on the nationwide test results at the sixth grade. As of January 2000, the total number of pupils enrolled in 40 schools was 23,377, accounting for only 1.17% of a total of 2 million students who attend secondary schools.

For Bumiputera children, there have been generous incentives in entering higher education, admission to college and promotion for scholarship.

6.4.5 Elimination of "quota system" and Introduction of "meritocracy"

In 2001, Prime Minister Mahathir proposed the elimination of "quota system" and a shift to "meritocracy" in order to motivate Bumiptra students to learn through competition with non-Bumuptra. In 2002, "quota system" was abolished and a new system based on "meritocracy" was started.

6.4.6 Teaching Language

Since 1970, it had been promoted to teach in Malay language instead of teaching in English in public schools. As the result, in the mid 1980s, with the exception of the Tamil and Chinese primary schools, all public institutions from primary schools to higher education institutions adopted Malay language. Education in Malay contributed to skill up of Malay language in young generation including non-Malays. On the contrary, English language skills of younger people especially university graduates significantly deteriorated.

In 1991, replacing he Malay language teaching policy for all public institutions including universities, English became a teaching language.

6.4.7 Private sector development in higher education

In 1996, Education Act 1996 and Private Higher Educational Institutions Act 1996 were enacted so that private higher education schools were allowed to establish.

The number of private higher education institutions, including universities, university colleges, branch of foreign universities, colleges, etc. was 156 in 1992, and jumped to 546 in 2004. Between 1996 and 2004, a total of 11 private universities and 6 private university colleges were established.

Expansion of private universities and colleges led to problems in the quality and level of education. Therefore, the government established a committee called National Accreditation Board (LAN) to address the problem of private universities and colleges in 1997. The committee was based on the Law of LAN (Act556). Its key roles are (1) approval of the higher education establishment, (2) checking the minimum standards, and (3) the certification criteria. Overseas institutions are also required to receive the Commission approval in advance.

6.4.8 Incorporation of National Universities

In 1996, "Law of University and College of the University" was amended and the direction was decided to incorporation of national universities. Government allowed national universities to have larger discretion for budget and personnel, while the government subsidies are reduced. The universities are also allowed to establish profitable organizations, to decide the number of enrolled students, tuition and staff salaries scales.

6.5 Look East Policy

6.5.1 Definition

Look East Policy was proposed by the then Prime Minister Mahathir in 1981 in order for Malaysians to learn the work ethics, moral as well as managerial skills from the success and growth in Japan and Korea. The policy attempted to contribute to establishment of the base for socio-economic development.

6.5.2 Look East Programs

The East Policy program is divided into two programs.

(1) Dispatching students to universities and technical colleges

(2) Dispatching professionals for industrial technology research and on-the-job management training

During 27 years from 1982 to 2008, a total of 4,621 undergraduate students, college students, graduate students, and teachers of Japanese studied and a total of 7,468 participated in the program for professionals.

6.5.3 Evaluation on Look East Programs

(1) Dr. Mahathir’s Speech in 2002

Malaysia identified what we believed to be the factors which contributed towards Japan's success. They are the patriotism, discipline, good work ethics, competent management system and above all the close cooperation between the Government and the private sector. And so we tried to adopt these practices and instill these cultures in our people. And everyone now acknowledges that Malaysia has made better progress than most other developing countries. The fastest pace of Malaysia's progress and development took place in the last two decades coinciding with Malaysia's Look East policy.

(Source: Prime Minister Dr. Mahathir, “Look East Policy-The Challenges for Japan in a Globalized World”, December 2002 in Tokyo)

(2) Prime Minister’s Speech in 2010: Time to reassess the Look East Policy

The Prime Minister Najib Tun Razak said on the occasion of his first official visit to Japan, May 2010. “While more than 15,000 Malaysians have benefited from the Look East Policy introduced some 28 years ago, it is now perhaps timely to undertake reassessment of the policy and introduce new and innovative fields or areas. Japan’s cutting-edge technology in the fields of environment and green technology should fit well into this initiative in order to carve out new areas of cooperation. Broader cooperation between institutions of higher learning of both countries could also form the outcome from this reassessment.”

(3) Other Views

Look East Policy programs played an important role as a bridge between Japan and Malaysia. Many of these students and trainees are working for Japanese companies after returning home. On the other hand, some shortfalls are pointed out such as 1) students and trainees are limited to Bumiputera, 2) college and university students are limited in science and engineering, and 3) study subjects are not necessarily associated with jobs after graduation.

6.6 Science, Technology and Innovation Policy

6.6.1 National Science Technology Policy (STP2)

Basic policies for science and technology in Malaysia are described in two documents: The Second National Science and Technology Policy (STP 2: 2002 - 2010), and the Ninth Malaysia Plan. STP 2 intended to provide a framework for long-term growth and improvement of economic structure in Malaysia. STP 2 has focused on the establishment of an integrated approach to science and technology development in partnership between industry and public sector.

STP 2 sets the following targets:
- R&D expenditure in GDP increases to at least 1.5% by 2010.
- Number of researchers, scientists and engineers (RSEs) per 10,000 workforce rises to least 60 people by 2010. (9MP later revised the figure to 50.)

6.6.2 Science and technology policy in Ninth Malaysia Plan (9MP)

The government focused on capacity building for National Innovation System (NIS) to build advanced technology and know-how. Toward this goal, the following strategies will be taken.

- strengthening the NIS to contribute more effectively towards the development and diffusion of new technologies to enhance productivity, competitiveness and growth;
- enhancing S&T human capital as a principal source of innovation and competitive advantage;
- promoting technopreneurship to enhance national innovative capacity and increasing the number of S&T-based companies;
- enhancing technological capability and capacity of SMEs to meet the challenges of globalisation and increasing competition;
- prioritising and consolidating R&D and commercialisation initiatives to ensure more effective resource allocation and increase the rate of commercialisation of R&D and returns to investment;
- focusing on targeted R&D to generate new sources of growth;
- promoting standardisation and quality assurance for competitiveness and consumer well-being;
- increasing STI awareness to contribute towards nurturing a culture of creativity and innovation; and
- improving international linkages in STI development to tap global knowledge.

6.6.3 Administration of science and technology innovation

The Ministry of Science, Technology and Innovation (MOSTI) is responsible for the policies of science, technology and innovation. MOSTI is creating five clusters such as National Biotechnology and ICT. During 9MP period, the government planned to invest RM 5.3 billion in science, technology and innovation, and to distribute strategic subsidies to government agencies concerned.

Table 6-6-1 Development Expenditure and Allocation for Technology and Innovation, 2001-2010 (RM million)

Programme	8MP Expenditure	9MP Expenditure
Reserch and Development (R&D)	926.6	1,581.6
R&D Grant*	926.6	
Science Fund / Fundamental Research		1,581.6
Technology Acquisition Fund (TAF)	70.7	142.5
Commercialisatio of Technology	267.5	1,843.3
Industry R&D Grant Scheme (IGS)	197.0	
Commercialisationof R&D Fund (CRDF)	30.5	115.0
Technology Development and Incubator Programme**	40.0	228.3
TechnoFund		1,500.0
S&T Human Resource Development and Awareness	123.1	650.6
S&T Infurastructure	1,950.0	1,035.1
Total	3,337.9	5,253.1

Source: EPU

Note: * include IRPA, SAGA, Biotecnology R&D, Malaysia-MIT Partnership Programme and Oceanography

** include MTDC and MDC programms

6.6.4 ICT Policy

Multimedia Super Corridor (MSC) is to promote the development of information and technology appointed by the government. Giving incentives to foreign companies and institutions, government aims to form industrial clusters, to transfer technology, to develop human capital and to foster new industries and job creation.

Table 6-6-2 Indicator of MSC 2001-2010

Category	2001	2005	2010***
Number of MSC Status*	621	1,421	4,000社
（Local capital）	410	1,033	ー
（Foreign capital）	198	349	ー
（Joint Venture）	13	39	ー
Number of employee created	14,438	27,288**	100,000
(Inteligent worker)	12,169	24,252**	
(Others)	2,269	3,036**	
Investment（ Billion Ringgit）	3.16	5.11**	12
Revenue (Billion Ringgit)		7.21**	69
Export（ Billion Ringgit)）		1.57**	2.5
R&D Expense (Million Ringgit)		670**	1,000
Registered Intelectual Property		119**	1,400

Source: Multimedia Development Corporation, EPU.

Note: *Accumulated

** in December 2004

*** Estimation

Table 6-6-3 Development Budget for ICT programs

（Unit: Million RM）

Program	8MP		9MP	
IT for Government	2,125.0	26.9%	5,734.2	44.5%
Measures for Degital Divide	2,433.1	30.9%	3,710.2	28.8%
School	2,145.1	27.2%	3,279.2	25.4%
Information Infrastructure	254.0	3.2%	150.0	1.2%
Tele Center	18.1	0.2%	101.0	0.8%
ICT Training/ Service	15.9	0.2%	180.0	1.4%
ICTFund	1,125.6	14.3%	1,493.0	11.6%
MSC Multimedia apprication	1,153.1	14.6%	1,100.5	8.5%
E-government	537.7	6.8%	572.7	4.4%
Smart school	363.9	4.6%	169.8	1.3%
TeleHealth	91.8	1.2%	60.0	0.5%
Multi-purpose card	159.7	2.0%	298.0	2.3%
MSCDevelopment	320.8	4.1%	377.0	2.9%
ICTR&D	727.5	9.2%	474.0	3.7%
Total	7,885.1	100.0%	12,888.9	100.0%

Source: EPU

6.6.5 National Biotechnology Policy

Along with ICT, the government is promoting the biotechnology sector in 9MP by introducing "Bio nexus" status for research institutions and biotechnology companies, giving incentives such as corporate tax exemptions and facilitation for hiring foreign researchers. Malaysian Biotechnology Corporation was established for comprehensive management of policies pertaining to biotechnology.

To support the development of the biotechnology industry, to increase the synergy between core workers, three laboratories were established: 1) Malaysia Agricultural Research and Development Institute (MARDI) of Biotechnology, 2) University Kebangsaan Malaysia (UKM) of genomic and molecular biology, 3) University Putra Malaysia (UPM) of dietary supplement and pharmaceutical laboratories. These activities became more active in the launch of National Biotechnology Policy in April 2005.

National biotechnology policy is drawing pictures what biotechnology will be a new economic driving force and contribute a deeper happiness and future prosperity to the people in Malaysia. Leveraging existing resources, the National Biotechnology policy aims to build an environment for R&D and industrial development. National Biotechnology policy outlines nine key policies as follows:

- Agricultural Biotechnology Development
- Healthcare Biotechnology Development
- Industrial Biotechnology Development
- R&D and technology acquisition Development
- Human capital Development
- Financial Infrastructure Development
- Legislative and regulatory framework Development
- Strategic Development
- Government Support and Commitment

Implementation plan:

(i) First Phase (2005-2010): Capacity development

- Establishment of Advisory Committee on Implementation
- Establishment of Malaysian Biotechnology Corporation (GLC)
- Education and training of knowledge workers
- Development of legal framework for intellectual property
- Business development through the promotion plan
- Development of Brand Malaysia
- Creation of biotechnology and bioinformatics industry in Agriculture and healthcare

(ii) Second Phase (2011-2015): From Science to Business

- Development of new drug discovery and development expertise on natural resources
- New Product Development
- Technology acquisition
- Strengthen measures to promote investment
- Strengthen corporate ripple effect
- Strengthen the brand
- Technical assistance for capacity building
- Creation of knowledge-intensive work

(iii) Third Phase (2016-2020): To establish a global presence

- Establishment of the strengths and capabilities in technology development
- Further development of expertise and strengths in drug discovery and development
- Strengthening innovation and technology transfer
- Malaysian companies global promotion: global players in the field of biotechnology, to produce at least 20 companies worldwide by 2020.

Table 6-6-4 Indicators of Bio Industry in Malaysia 2005-2010

Indicator	Unit	First Phase (2005-2010)	Second Phase (2011-2015)	Third Phase (2016-2020)	Total
Investment by Private and Public	RM billion	6	9	15	30
Employment	Thousand	40	80	160	280
Number of Company	company	25	25	50	100
Total Revenue	RM billion	20	80	170	270
Contribution to GDP	%	2.50%	4%	5%	5%

Source: Malaysia Biotechnology Corporation

Table 6-6-5 Development Budget for Biotechnology in 8MP and 9MP

(Unit:Million RM)

Program	8MP(2001-2005)		9MP(2006-2010)	
R&D	190	33.1%	463	22.9%
Biotechnology R&D Initiative	190	33.1%	363	18.0%
Biotechnology Commercialization Fund	-	-	100	4.9%
Acquisition Biotechnology Program	-	-	100	4.9%
Biotechnology Business Development	216.8	37.7%	529.8	26.2%
Technology & Intelectual Property Management	69.9	12.2%	100	4.9%
Entrepreneur Development	-	-	50	2.5%
Agri-biotechnology project	46.9	8.2%	79.8	3.9%
Supporting GLCs stock	100	17.4%	300	14.8%
Biotechnology Infrastrucure	167.6	29.2%	928.5	45.9%
Total	574.4	100.0%	2,021.3	100.0%

Source: EPU

6.6.6 Palm Oil Industry

(1) Expansion of oil palm cultivation area

Increase of cultivated area in the Peninsula has become slow, but Sabah and Sarawak are still experiencing the rapid increase. The palm oil industry is expanding and is expected to rank first in the world vegetable oil.

(2) Palm Oil Production

Malaysia produces about 17 million tons of palm oil each year, making itself the second largest producer next to Indonesia. With high demand from overseas, 14.9 million tons was exported in 2008 as a major export commodity of Malaysia.

(3) Palm Oil Research

In May 2000, Malaysia Palm Oil Bureau (MPOB) was established to integrate the functionality of the three organizations: PORIM, PORDB, PORLA. MPOB is responsible for management and coordination of all activities related to palm oil industry. Collaboration with Japan has been active.

6.6.7 Brain Gain Malaysia (BGM)

BGM was launched in December 2006. The program introduced incentives for Malaysians and foreign researchers, scientists, engineers, technology entrepreneur (RSET) residing abroad. BGM provides incentives to leverage the power of these people for economic innovation.

BGM has the following six programs under MOSTI.

- R&D Cooperation Program
- Eminent scientists invitation
- Support International & Postdoctoral Fellowships

- Back to Lab Program
- Support industrial clusters
- Innovation Partnerships for Expatriates

6.7 Islamic Finance Policy

6.7.1 Definition of Islamic Finance

Islamic finance is defined as financial activities to comply with Islamic law (Shariah), including banking, securities and insurance transactions. It is also possible for non-Muslims to use Islamic finance.

6.7.2 History of Islamic Finance

Table 6-7-1 History of Islamic Finance Policy

Year/Month	Contents
1983	Islamic Banking Act 1983 Bank Islam Malaysia Berhad :BIMB established
1984	Takaful Act 1984 Sharikat Takaful Malaysia Berhad established by BIMB
1993	Interest-free Banking Scheme introduced Conventional banks could enter Islamic banking to open Islamic Windows.
1997	National Shariah Advisory Council established.
1998	Interest-free Banking Schemechangedthe name as Islamic Banking Scheme
2001	The Financial Sector Masterplan announced
2002	Islamic Financial Services Board(IFSB） allocated in Malaysia
2004	Admission of Islamic banking started to issue for foreign banks
2006.8	Bank Nagara Malaysia, Malaysia International Islamic Finance Centre(MIFC)
2006.9	Bank Nagara Malaysia,Guideline for establishment International Islamic Bank
2006.9	Bank Nagara Malaysia, Guideline for establishment International Takaful company
2007.7	Islamic Banking (Amendment) Bill 2007
2007.7	Takaful (Amendment) Bill 2007

Source: JICA Study Team

6.7.3 Islamic Banking in the Financial Sector Master Plan

In the financial sector master plan, prospects of Islamic finance business in 2010 were shown to achieve the following:

- Constitute 20% of the banking and insurance market share with an effective contribution to the financial sector of the Malaysian economy;
- Represented by a number of strong and highly capitalised IBIs and takaful operators offering a comprehensive and complete range of Islamic financial products and services;
- Underpinned by a comprehensive and conducive Syariah and regulatory framework;
- Supported by a dedicated institution (Syariah commercial court) in the judiciary system that addresses legal issues related to Islamic banking and takaful;
- Supported by a sufficient number of well-trained, high calibre individuals and management teams with the required expertise; and
- Epitomise Malaysia as a regional Islamic financial centre.

The Malaysian Islamic financial assets including the insurance amounted to RM 1,928 billion accounting for 15.2% of the total financial assets as of late 2008.

6.7.4 Malaysia International Islamic Finance Centre (MIFC)

In August 2006, the Malaysia International Islamic Financial Centre (MIFC) initiative was launched to promote Malaysia as a major hub for international Islamic finance. The MIFC initiative comprises a network of financial and market regulatory bodies, Government ministries and agencies, financial institutions, human capital development institutions and professional services companies that are participating in the field of Islamic finance.

The MIFC initiative aims to position Malaysia as the Islamic finance hub through the following focus areas:

- Sukuk Origination
- Islamic Fund and Wealth Management
- International Islamic Banking
- International Takaful
- Human Capital Development

6.7.5 Background of Islamic Finance Development in Malaysia

The reasons why Islamic finance industry in Malaysia has been developing include the following:

- Malaysia is an Islamic country.
- Malaysia has developed financial markets, especially bond market which is larger than that in Hong Kong and Singapore.
- Malaysia government provides tax incentives to encourage the development of Islamic finance.

6.7.6 Challenges of Islamic Finance

There are some challenges for financial services providers. For example, deflection of investment objectives, risk hedging problem, the distortion of Islamic bond pricing mechanism, security price fluctuation risk problems, and concerns about the Islamic bond market. The government has made efforts to modify the system not to distort the market mechanism. It is necessary to watch whether fundamental solution of the problem will come or not.

6.8 Halal Industry Policy

6.8.1 Halal hub concept

In 2006, the Halal Industry Development Corporation (HDC) was established to carry out various initiatives. In April 2008, Halal food accreditation authority was delegated to HDC for quick examination.

6.8.2 Halal Industry Development Corporation: HDC

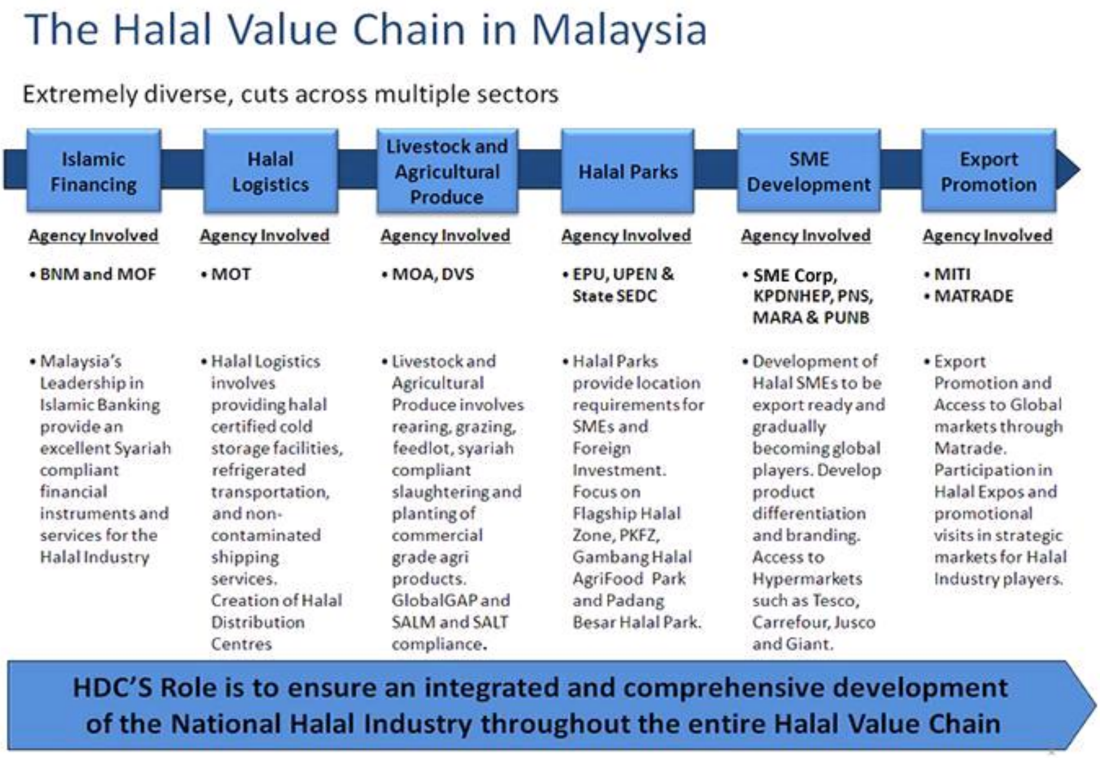
HDC coordinates the overall development of the Halal industry in Malaysia. Focusing on development of Halal standards, audit and certification, plus capacity building for Halal products and services, HDC promotes participation and facilitates growth of Malaysian companies in the global Halal market.

The roles and responsibilities of HDC are thus:

- To lead the development of Halal standards, audit and certification procedures in order to protect the integrity of Halal
- To direct and coordinate the development of Malaysia's Halal industry amongst all stake holders – both public and private
- To manage capacity building for Halal producers and related service providers
- To support investment into Malaysia’s Halal industry

- To facilitate the growth and participation of Malaysian companies in the global Halal market
- To develop, promote and market a Malaysian Halal brand
- To promote the concept of Halal and related goods and services

HDC play a vital role in developing Malaysia's halal industry because it acts as a reference centre and is the first contact point for agencies and companies interested in entering the Halal industry. The complexity of the vast Halal value chain, from Islamic financing to export promotion – is simplified by HDC's services as a one-stop centre where businesses can seek advice on best practices and get the best value for their investments in the Halal market.



The Halal Value Chain in Malaysia

Extremely diverse, cuts across multiple sectors

Islamic Financing	Halal Logistics	Livestock and Agricultural Produce	Halal Parks	SME Development	Export Promotion
Agency Involved	Agency Involved	Agency Involved	Agency Involved	Agency Involved	Agency Involved
• BNM and MOF	• MOT	• MOA, DVS	• EPU, UPEN & State SEDC	• SME Corp, KPDNHEP, PNS, MARA & PUNB	• MITI • MATRADE
• Malaysia's Leadership in Islamic Banking provide an excellent Syariah compliant financial instruments and services for the Halal Industry	• Halal Logistics involves providing halal certified cold storage facilities, refrigerated transportation, and non-contaminated shipping services. Creation of Halal Distribution Centres	• Livestock and Agricultural Produce involves rearing, grazing, feedlot, syariah compliant slaughtering and planting of commercial grade agri products. GlobalGAP and SALM and SALT compliance.	• Halal Parks provide location requirements for SMEs and Foreign Investment. Focus on Flagship Halal Zone, PKFZ, Gambang Halal AgriFood Park and Padang Besar Halal Park.	• Development of Halal SMEs to be export ready and gradually becoming global players. Develop product differentiation and branding. Access to Hypermarkets such as Tesco, Carrefour, Jusco and Giant.	• Export Promotion and Access to Global markets through Matrade. Participation in Halal Expos and promotional visits in strategic markets for Halal Industry players.

HDC'S Role is to ensure an integrated and comprehensive development of the National Halal Industry throughout the entire Halal Value Chain

Figure 6-8-1 Halal Value Chain In Malaysia
Source: HDC homepage

6.8.3 Halal Industry Development Policy

(1) Introducing incentives for Halal industry

For foreign companies, 100 percent offoreign capital investment is permitted in industries HDC encouraged such as cosmetics and meat products and livestock. Currently, “Malaysia International Halal Park” is underconstruction in the Port Klang Free Trade Zone (FTZ).

(2) Distribution System for halal food

The Halal food ensures the safety through good management of transportation from production to sales. Malaysia International Halal Park Holdings exchanged MOU with the Dutch port of Rotterdam May 2007. That MOU was for “Halal Super Highway” in terms of Halal logistics flow of transportation and warehouse management package. In addition, Malaysia's largest shipping company MISC is operating the shipping for Halal products only called "Halal Express" between the Middle East and Malaysia.

(3) International Halal trade fair

"International Halal Trade Fair" is held annually in Kuala Lumpur since 2004 hosted by the Malaysian Trade Development Corporation under the MITI, Halal-related products since 2004.

6.8.4 Prospects of Halal Industry

Halal food exports have increased significantly. However, exports are dairy products, candy, and cereal, depending on imported raw materials in tight supply. The future challenge therefore will be securing a stable supply of raw materials.

Malaysia's Halal accreditation has high reputation as indicated by "the best example of international credibility" of Codex Alimentarius Commission. The Malaysian government is promoting it to be an international standard. In May 2008, the government announced to contribute RM15 million "International Halal Union" in the next three years. If Malaysian Halal accreditation is accepted as an international standard, its credibility would be strengthened to further promote Halal industry in Malaysia.

Chapter 7 Past Growth Factors

7.1 Overview of Socio-economic Transition in the Past Three Decades

According to "Malaysia's Development Planning from 1956 to Present: a Broad Overview" prepared by EPU, progress from 1981 through 2010 can be briefed as follows.

7.1.1 Period of Structural Adjustment (1981-1990)

(1) Increased FDI and Fast Growing Manufacturing Sector

Malaysia saw FDI increase from RM325 million in 1986 to RM6.2 billion in 1990. The manufacturing sector became the fastest growing sector with a growth rate of 10.4% per annum and in the latter half of the 1980s it surpassed the agricultural sector. With the help of the appreciation of Japanese Yen starting in 1985, Malaysia succeeded greatly in absorbing manufacturing FDI and turning itself into one of the world's major electronics exporter.

(2) Rapid Economic Growth

The structural adjustment and the improvement in external environment brought about the recovery of economy in 1987. GDP grew by 6% per annum during the Fifth Malaysia Plan period (1986-1990), compared to the Fifth Plan target of 5%. The economy continued to grow rapidly, culminating in a growth rate of 9.3% per annum from 1988 through 1990, the highest recorded since the independence.

The budget deficit was almost eliminated in 1990 and the balance of payments turned to a surplus position. By 1989, the contribution of the private sector to economic growth surpassed that of the public sector signaling the transformation of the Malaysian economy to that of a private-sector driven economy.

(3) Achievement in Poverty Reduction

The overall incidence of poverty declined from 29.2% of total households in 1980 to 17.1% in 1990. Overall, the continued provision of physical and social amenities had improved the quality of life of the poor.

(4) Limited Improvement in Restructuring Society

Progress in terms of restructuring the employment balance among the various ethnic groups was adversely affected during the early years of this period due to the global recession. However, following the economic recovery and rapid expansion of investment activities, further progress was achieved. Although the majority of Bumiputera employment was still in the lower paid jobs, their share in higher paid professional occupations increased from 22.2% to 29%.

In the restructuring of the corporate sector, Bumiputera (including trust agencies) : non-Bumiputera : foreign shares improved to 20.3 : 46.2 : 25.1. However, corporate ownership of Bumiputera as individuals was only 8.2%. Notwithstanding the various forms of assistance given by the government, Bumiputera still lacks control, financial resources and management expertise in the corporate sector.

7.1.2 Period of Prosperity and Adversity (1991-2000)

(1) Growth, Asian Financial Crisis and Recovery

From 1991 to 1997, Malaysia experienced rapid economic growth with an average GDP growth rate at 8.5% per annum. Then, due to the Asian Financial crisis, the growth rate in 1998 dropped to -7.4%. However, the crisis was short-lived. The economy rapidly recovered following implementation of monetary and fiscal measures by the government and favorable external conditions. In 2000, the economy recovered to the growth rate of the pre-crisis level with relative price stability and low unemployment rate.

(2) Progress in Poverty Reduction

Considerable progress was made in reducing poverty. The poverty ratio decreased from 8.7% in 1995 to 6.1% in 1997. The ratio was increased by the Asian Financial Crisis to 8.5% in 1998 but fell again to 7.5% in 1999. The absolute poverty also decreased from 2.1% in 1995 to 1.4% in 1999.

(3) Setback in Restructuring Corporate Ownership

Bumiputera's ownership of share capital increased by 12.6% per annum from RM370 billion in 1995 to RM59 billion in 1999. However, Bumiputera's proportion of corporate equity ownership declined from 20.6% in 1995 to 19.1% in 1999. Non-Bumiputera's equity ownership also increased from RM78 billion to RM125 billion, while their share of corporate equity decreased from 43.4% in 1995 to 40.3% in 1999. This is because of the deregulation for foreign capital, especially foreign manufacturers in order to vitalize the economy. As a result, foreign ownership of share capital in the corporate sector increased from RM50 billion to RM101 billion or from 27.7 to 32,7% during the period. (Note: Bumiputera + Non-Bumiputera + Foreign owners + Nominees = 100%)

7.1.3 Period toward Resilient and Competitive Economy (2001-2010)

(1) Negative Impact of the Global Financial Crisis

Malaysia was among the countries affected by the Global Financial Crisis. The decline of export worsened the economy especially the manufacturing. To cope with the recession, the government announced a total of RM67 billion stimulus packages in addition to ordinary budgets in 2008 and 2009. GDP growth recorded a negative figure at -1.7% but the economy is recovering in 2010 reflecting the effects of the packages.

7.2 Trend of Number of Employees and Labor Productivity by Sector

The leading sectors or the top sectors in respective years in terms of employment, gross product and labor productivity (simple gross product per employee) are shown below. Main players are rubber, wood, logs, palm oil, etc. in "Agriculture, forestry, livestock and fishery", petroleum , LNG, etc. in "Mining", and electrical and electronics in "Manufacturing". It should be noted that "Other services" below include electricity, gas and water, wholesale and retail trade, accommodation and restaurants.

In labor productivity, "Mining" continued to be the top and "Finance, insurance, real estate and business services" continued to the second.

Year	Employment	Gross product	Labor productivity
1980	Agriculture	Agriculture	Mining
1990	Other services & Agriculture	Manufacturing	Mining
2000	Manufacturing & Other services	Manufacturing	Mining
2009	Other services & Manufacturing	Manufacturing	Mining

Note: Agriculture includes forestry, livestock and fishery.

Table 7-2-1 Transition of Employment, Gross Product and Labor Productivity by Sector

Year	Category	Agriculture	Mining	Manufacturing	Construction	Finance	Transport, storage & communication	Government services	Other services
	Employment (%)	39.7	1.7	15.7	5.6	1.6	4.3	13.7	17.7
1980	Gross product (%)	22.9	10.1	19.6	4.6	5.3	5.7	10.3	18.8
	Labor productivity (Ratio to average)	0.6	6.1	1.3	0.8	3.3	1.3	0.8	1.1
	Employment (%)	26.0	0.6	19.9	6.3	3.9	4.5	12.7	26.1
1990	Gross product (%)	16.3	9.4	24.6	3.5	8.2	6.8	8.8	23.1
	Labor productivity (Ratio to average)	0.6	17.0	1.2	0.6	2.1	1.5	0.7	0.9
	Employment (%)	15.2	0.4	27.6	8.1	5.5	5.0	10.6	27.6
2000	Gross product (%)	8.6	10.6	30.9	3.9	13.5	7.0	6.3	22.4
	Labor productivity (Ratio to average)	0.6	23.8	1.1	0.5	2.5	1.4	0.6	0.8
	Employment (%)	12.0	0.4	28.4	6.6	7.0	5.8	11.0	28.8
2009	Gross product (%)	7.8	8.1	26.4	3.2	17.0	8.0	7.8	25.0
	Labor productivity (Ratio to average)	0.6	22.0	0.9	0.5	2.4	1.4	0.7	0.9

Source: Malaysian Economy in Figures 2009, JETRO

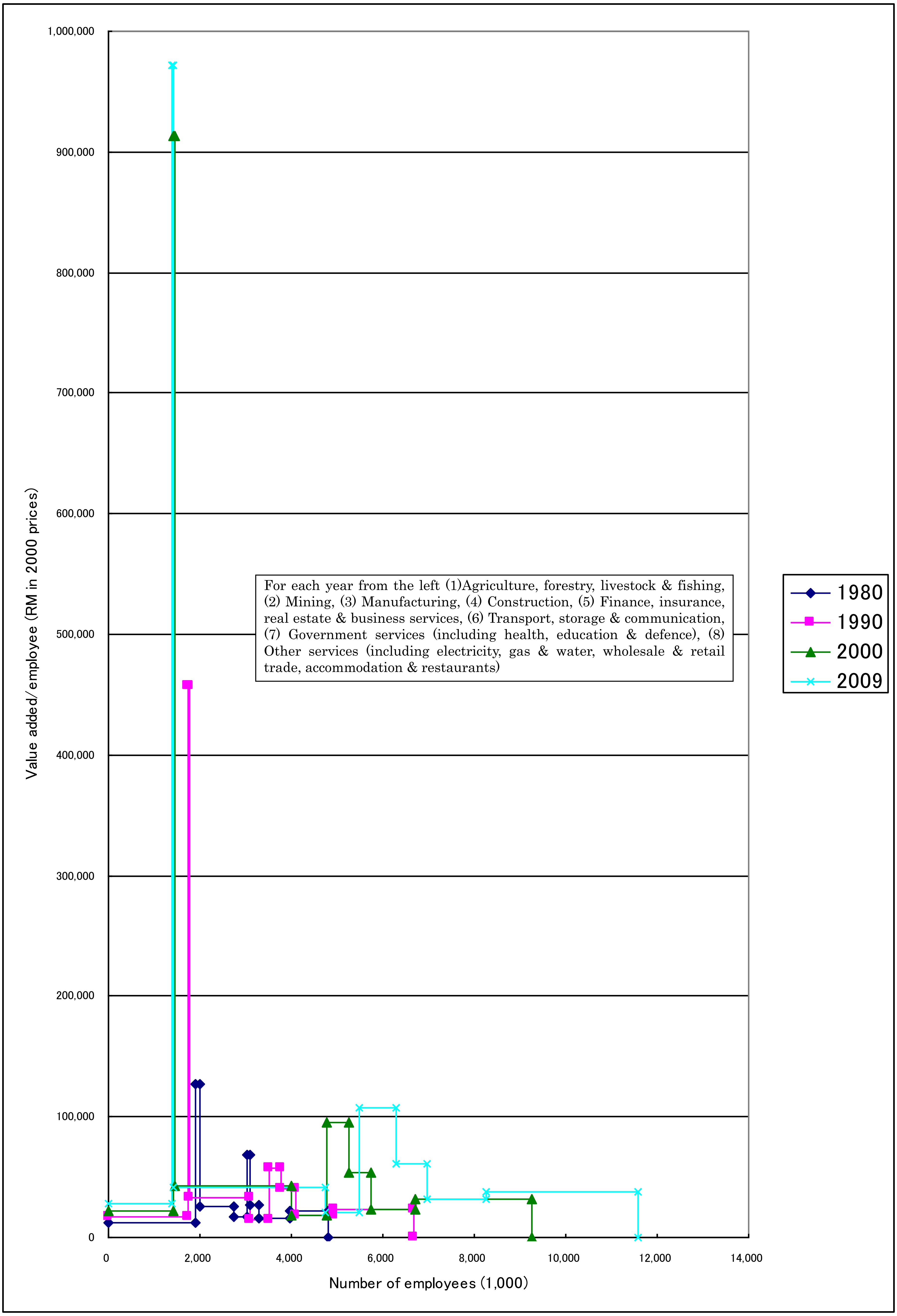


Figure 7-2-1 Transition of Employment and Labor productivity by Sector (Source: Malaysian Economy in Figures 2009, JETRO)

7.3 Notable Factors

7.3.1 Basic Factors

(1) Factors related to Natural Conditions

- Malaysia has been developing its rich mining resources and agricultural resources. Tin, rubber, timber, oil palm, oil, natural gas and so forth have been contributing to the country's industry, economy, and public finance.
- The diversified ecosystem is one of the tourist attractions.
- Yet in the past years, adequate consideration was not given to conservation of natural resources and environment.
- The location of Malaysia at the center of the vibrant region has contributed to the expansion of trade with surrounding countries and provides advantages to form supply chains.

(2) Factors related to Human and Social Conditions

- Ethnic diversity of a nation could be a negative factor for uniting the nationals. However, Malaysia's diversity of ethnicity and culture such as languages, religions, and cultural heritage has presented advantages. The cultural heritages can be tourist attractions, and historical linkages with Indonesia, China, India, and Islamic countries can be advantages in international activities. Development of Islamic finance and Halal industry is a good example.

7.3.2 GDP Factors

(1) Industrial Structure

- During the cold period, potential competitors of Malaysia such as China and Vietnam were closed to foreign investment. This was one of the factors for Malaysia to attract foreign capitals. Then the appreciation of Japanese Yen triggered by the Plaza Accord in 1985 accelerated Japanese investment in Southeast Asia including Malaysia.
- The openness to the world of the Malaysian economy enabled its economic growth and income rise. At the same time, it is vulnerable to external shocks due to the relatively small size of the economy. The recessions in 1985, 1998, 2001, and 2009 were mainly due to external factors.
- Expansion of the private sector has been led by foreign direct investments supported by the improvement of the operation environment. Therefore, the outflow of profits and dividends totals a considerable amount.
- Manufacturing industries of multi-national companies such as the electrical and electronic (E&E) industry have agglomerated. Such agglomerations have ripple effects on supply, logistics, service and other related industries.
- The economy is led by the external trade especially export. (In 2008, the trade amount to GDP was about 2.2, and the export amount to GDP was about 1.2.) Therefore, if the export competitiveness is weakened, domestic employment and income will be seriously affected.
- Export products are dominated by electrical and electronic products and primary commodities such as oil and palm oil.
- The share of import contents in the manufactured export products is generally high. Therefore, the value added of the final export products is lower than that in the case of local procurement of the medium and capital goods.
- The main export markets were USA, Europe and Japan and so the economy tended to depend heavily on their economic ups and downs. Recently, the market expanded to China and ASEAN countries.
- Preferential measures for specific industries and firms with incentives and financial support have had mixed effects of contribution to the industrial development and negative side effects.
- Price control systems and subsidy policies have side effects to distort resource allocation. In addition, low cost business models depending on the systems and policies tend to promote the

private sector to seek short-term profit.

- While the investment environment has been improved, it is still pointed out that many ineffective and time consuming bureaucratic procedures increase investment costs and decrease profit ratios.

(2) Productivity

- Main contributions to the economic development were initially the natural resources and low cost labor force, and then accumulation of the capital.
- Many companies depend on unskilled foreign workers and resources of which prices are kept low by the policy. The share of products and services of low value added is high. There are only few high income jobs. The share of highly skilled workers is declining.
- The labor productivity rose before the Asian Financial Crisis. After the crisis, however, the productivity grew slowly and the investment particularly the private investment declined. They are among the factors lowering the economic growth.
- One view point is that Malaysia is caught in a middle income trap. It is said that as Malaysia approaches developed nations, the scope to take advantages of backwardness is narrowed while it is not easy to develop new frontiers.
- The industry lacks creativity and innovation. It is said that contributions to the economic growth by the total factor productivity (TFP) and the education are limited. The private sector firms are not investing in products and services for future growth. They invest only limited amounts in research and development and are not much interested in innovation in products and production processes. They are also reluctant to pay more for improved productivity by developing technologies. In addition, lack of researchers and research budgets is also pointed out.

7.3.3 Factors of Poverty and Inequality

The New Economic Policy and the following national policies adopted two basic strategies, the strategy to raise income and eradicate poverty, and that to reduce inequality between ethnic groups. With this background, the following results have been achieved.

- As the national economy grew, incidence of poverty drastically decreased, although there are still a number of poor households.
  (Number of poor households (monthly household income < RM750) > 200,000 (3.6%), Number of absolute poverty households (monthly household income < RM440) > 40,000 (0.7%))
- Income gap between Bumiputera and non-Bumiputera has tended to reduce. A number of supporting measures to decrease the gap between ethnic groups have supported a majority of nationals. They are thought to have contributed to social stability.
- On the other hand, in recent years, side effects of such measures have been pointed out. They are: rent seeking, provision of vested interest, growing operation cost due to administrative procedures, widening corruption, emergence of the “two-speed economy” (coexistence of progressing sectors based on the market mechanism and stagnant sectors relying on the government protection), incidence of widening inequality, as well as discontent and brain drain with negative implications for the national unity. The income level of the top 20% group is rising steadily while that of the bottom 40% group is growing most slowly. Their average monthly income was less than RM1,500 in 2008.

7.3.4 Human Resources Factors

- Lack of human resources and inadequate development of local talents are pointed out. Problems faced by firms include lack of skills, creativity and English proficiency.
- Partly due to constraints on foreigners, foreign experts are decreasing. In addition, Malaysian talent is flowing out.

- The education system is not fostering human resources needed by firms. In 2007, 80% of the labor force was at the level of the Sijil Pelajaran Malaysia (SPM). It is pointed out that academic capabilities of pupils are deteriorating to be lower than those of Singapore, Hong Kong and Korea, and the capability gap among pupils is widening.

7.3.5 Factors of Urbanization and Regional Development

- With the regional development policy for the balanced development of national land, major networks of infrastructure have been developed. On the other hand, there are still a number of regions where rural basic infrastructure has not been fully developed. The rural population accounts for 35%. In Sabah and Sarawak, there are a lot of villages without access to road networks and over a quarter of households do not have power supply. In the two states, over 40% of households do not have access to clean or treated water, while in the Peninsular Malaysia, 12% of households do not have access to such water.
- In major cities, inefficiency caused by inadequate urban public transport is pointed out. For example, Klang Valley is suffering from congestion at peak hours, delays, cancellations, lack of inter-modal connection, and inadequate service areas of the public transportation systems, resulting in their lowering share and worsening road traffic congestion.
- Crimes are increasing especially in urban areas. The crime rate in 2008 was 767 cases to a population of 100,000. High crime areas are Kuala Lumpur, Johor, Selangor and Penang.

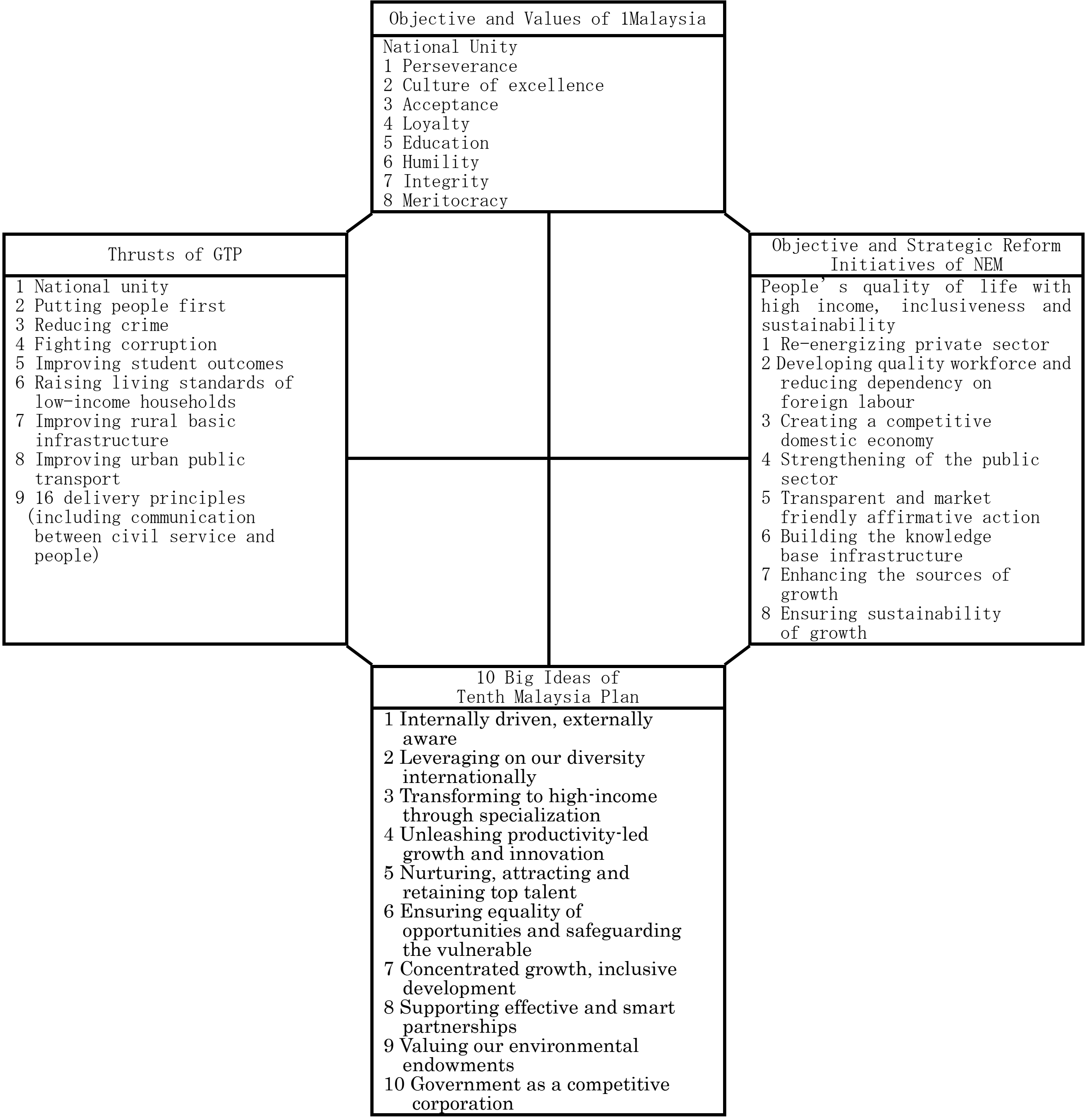
7.3.6 Factors of the Public Sector in the Economy

- The government has made large contributions to the national economy. A large amount of public investments have been made through Non-Financial Public Enterprises (NFPEs) and Government-Linked Companies (GLCs). The revenue from oil extraction and the Employees Provident Fund (EPF) contributed to the public finance. As a result, developed infrastructure is attracting investments.
- On the other hand in some industries, activities of private companies are discouraged by the government and the Government-Linked Companies (GLCs). Crowding-out effect by the public sector is pointed out in the private sector’s recruiting and retaining human resources.
- Widening corruption is pointed out as a major problem of the public administration, especially of the Police, Customs, Road Transport Department (JPJ), and Immigration.

Chapter 8 Furure Growth Factors and Prospects

8.1 Overview of Major Strategies and Recommendations

Four pillars to achieve the Vision 2020 are (1) 1Malaysia (a campaign for national unity), (2) 1Malaysia Government Transformation Programme (GTP) (public sector reform for national unity), (3) New Economic Model for Malaysia Part 1 (NEM) (for economic development), and Tenth Malaysia Plan (five-year plan referring to (1), (2) and (3)).



Objective and Values of 1Malaysia

National Unity
1 Perseverance
2 Culture of excellence
3 Acceptance
4 Loyalty
5 Education
6 Humility
7 Integrity
8 Meritocracy

Thrusts of GTP

1 National unity
2 Putting people first
3 Reducing crime
4 Fighting corruption
5 Improving student outcomes
6 Raising living standards of low-income households
7 Improving rural basic infrastructure
8 Improving urban public transport
9 16 delivery principles (including communication between civil service and people)

Objective and Strategic Reform Initiatives of NEM

People's quality of life with high income, inclusiveness and sustainability
1 Re-energizing private sector
2 Developing quality workforce and reducing dependency on foreign labour
3 Creating a competitive domestic economy
4 Strengthening of the public sector
5 Transparent and market friendly affirmative action
6 Building the knowledge base infrastructure
7 Enhancing the sources of growth
8 Ensuring sustainability of growth

10 Big Ideas of Tenth Malaysia Plan

1 Internally driven, externally aware
2 Leveraging on our diversity internationally
3 Transforming to high-income through specialization
4 Unleashing productivity-led growth and innovation
5 Nurturing, attracting and retaining top talent
6 Ensuring equality of opportunities and safeguarding the vulnerable
7 Concentrated growth, inclusive development
8 Supporting effective and smart partnerships
9 Valuing our environmental endowments
10 Government as a competitive corporation

Figure 8-1-1 Major Current Strategies

8.1.1 Vision 2020

In 1991, Then Prime Minister Dr. Mahathir announced a text titled "Malaysia: The Way Forward", which was later called "Vision 2020". It presented Malaysia's future as a fully developed country by 2020 and nine strategic challenges outstanding since independence.
(i) national unity
(ii) confidence as Malaysian nationals
(iii) democracy
(iv) moral and ethics
(v) liberty and tolerance
(vi) science and technology
(vii) caring society
(viii) economic justice
(iv) prosperous society

Since 1991, the above challenges have been considerably achieved.
- Annual average economic growth at 6.2%.
- Poverty reduction (Poverty ratio from 17.1% in 1990 to 3.6% in 2007)
- Lengthened life expectancy (from 68.8 years for male and 73.1 years for female in 1991 to 71.7 years for male and 76.5 years for female in 2007)
- Enhancement of primary education
- Expanded access to mobile phones, internet, broad band communication
- Enhancement of basic infrastructure
- Improvement of the Human Development Index of UNDP and the Quality of Life Index of EPU
- Resilience against crises (Asian Financial Crisis in 1997/98, the recession after September 2001, Incidence of SARS in 2003, and the global financial crisis in 2008/9)
- Improvement of government services (utilization of ICT, time reduction of the procedures, introduction of one-stop services, capacity building of civil servants, etc.)

On the other hand, the following issues are yet to be addressed.
Economic aspect: Economic development after Asian Financial Crisis has been slower than that of the pre-crisis period. Malaysia needs to get out of the low growth mode.
Social aspect: Malaysia still lags behind in such areas as crime, corruption, quality of education, and income distribution. Achieving Vision 2020 requires substantial improvement.
Fiscal aspect: With the fiscal deficit in an increasing trend and the outstanding debt amount, fiscal consolidation is required while promptly generating socio-economic impacts.

8.1.2 1Malaysia

(1) Overview

"1Malaysia" is a kind of campaign initiated by Prime Minister Najib Razak in September 2008. It called for harmony between ethnic groups, national unity and efficient governance to the cabinet, government organizations and civil servants. It is however more like a national campaign not limited to the public administration. Its catch phrase is "people first, performance now".

(2) Objective

1Malaysia aims to maintain and strengthen unity of various ethnic groups. It regards the unity of different groups as an advantage as well as the most important hope of Malaysia.

(3) 1Malaysia's Features Emphasized by Prime Minister on the Government's Website

- Open dialogues seeking for identity, goals and direction of Malaysia.
- Participation in discussions about the roles of the nationals to be played for what Malaysia should be in future.

- Sharing the better future regardless of the differences.
- The nationals' hope for opportunities, respect, friendship and understanding.

(4) Eight Values of 1Malaysia

(i) Perseverance
(ii) Culture of excellence
(iii) Acceptance
(iv) Loyalty
(v) Education
(vi) Humility
(vii) Integrity
(viii) Meritocracy

(5) Major Activities

- Communication through the website, facebook, twitter, etc.
- Courses and seminars by government officers or community leaders
- Public relations by radio, TV
- 1Malaysia clinics (subsidies to clinics)
- 1Malaysia Fund

(6) Preliminary Remarks

1Malaysia campaign indicates the significance of the national unity embracing various ethnic groups even half a century after the independence.

On the other hand, it also indicates that public services are not regarded to be efficient or effective.

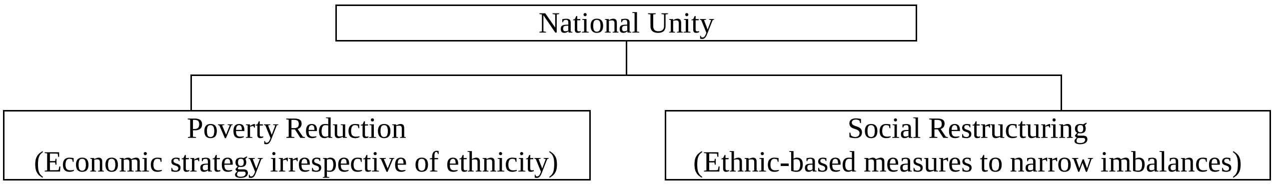
Some people point out side effects of the ethnic-based socio-economic measures and the ways in which the measures are taken. The situation may hamper the national unity. Against such a background, 1Malaysia campaign integrates two apparently different issues, the national unity and the government reform.

8.1.3 1Malaysia Government Transformation Programme: The Roadmap (GTP)

(1) Background

The new Economic Model (NEP) (1971-1990) aimed at the national unity through two strategies. It is thought that the model was based on an idea that narrowing the gap contributes to the national unity.

(1) eradicating poverty by raising the income levels and increasing employment opportunities for all Malaysians irrespective of ethnicity.
(2) restructuring society so as to reduce the economic imbalances that exist among the various ethnic groups in Malaysia, and to eventually eliminate the identification of ethnicity with economic functions.



Achievements so far in national unity, economic development including poverty reduction, and narrowing imbalances between ethnic groups can be briefed as follows.

a. National Unity

Based on discontent about ethnic groups and triggered by the election in 1969, a riot broke out on 13 May of the year. Then the NEP was formulated and various measures were taken to cope with the poverty and the gap between ethnic groups, which were regarded as major causes for tension between the groups and social instability. Since then, no large scale conflicts took place, maintaining national unity.

On the other hand, Signs of fragility of the unity are also seen. One example is the incidence of "two-speed economy", that is, coexistence of sectors advancing with the market mechanism and other sectors remain inactive depending on government protection. In this situation, affirmative measures or the way they are taken may generate discontent of those other than the target groups. Sometimes some segments in the target group may have discontent due to gaps in the group. Now a number of Malaysians especially those with expertise are leaving the county for such reasons. This phenomenon threatens not only the economic development but also the national unity.

b. Economic development and Poverty Reduction

In 1980, Malaysia's GNP per capita was US$1,563. In 2010, GNI per capita estimated by Tenth Malaysia Plan is US$8,256 or about five times the 1980 level. The average annual growth rate of 5.7% means that the figure doubles in 12years and a half. The growth rate in the past three decades has been remarkably high.

The poverty ration has been steadily reduced. Before 2010, there were about 200,000 households below the poverty line and 40,000 of them were categorized as hardcore poverty. The target in 2010 is to reduce the poverty ratio to 2.8% and eradicate hardcore poverty. The achievement for poverty reduction in the three decades can be highly evaluated.

Table 8-1-1 Trend of Poverty Ratio

Overall Poverty Ratio	
1970 (Peninsular Malaysia)	49.3%
1980 (Peninsular Malaysia)	29.2%
1985 (Nation)	20.7%
1990 (Nation)	17.1%
2004 (Nation)	5.7%
2007 (Nation)	3.6%

Source: Malaysia Plans

c. Narrowing Imbalances between Ethnic Groups

Since 1971, when NEP was announced, one of the two strategies or goals of the policy, namely the restructuring of participation in economic activities and the distribution of wealth, has shown considerable progress. However, in spite of the growth of stock capital owned by Bumiputera in absolute terms, the share in total remains low. In addition, NEP brought about unexpected results such as the "two-speed economy" or increase in imbalance, discontent and brain drain.

(2) Outline

Against the background and following "1Malaysia" mentioned above, "1Malaysia Government Transformation Programme: The Roadmap (GTP)" was formulated as a public sector program targeted at the people and their societies.

a. Inter-ethnic Collaboration and Unity

(i) Linking Malaysia's diverse languages, cultures, religions with markets in China, India and Islamic countries.

(ii) Promoting goods and services leveraging on the diversity such as Islamic finance, Halal products, herb supplements, and traditional health products.

(iii) Attracting talent of Malaysians abroad and foreigners who contribute to knowledge industry

by preparing a conducive environment.
(iv) Promoting investment in Malaysia and marketing abroad by Malaysians living abroad.
(v) Prohibiting discrimination based on ethnic attributes or linguistic capability in job recruitment advertisements.

The Global Peace Index and the Societal Stress Index will be used to monitor national unity and the social harmony. The former provides objective indices that can compare Malaysia with other countries. The latter will continue to be used for monitoring ethnic or religious conflicts and protests by JPNIN (National Unity and Integration Department).

According to the GTP, achieving national unity has been and will continue to be the most important mission for Malaysia and for all Malaysians and it is perhaps a never-ending mission.

b. National Key Result Areas

The GTP presents six areas with national priority. To complement them, ministerial key result areas will be identified.

(i) Reducing crime
(ii) Fighting corruption
(iii) Improving student outcomes
(iv) Raising living standards of low-income households
(v) Improving rural basic infrastructure
(vi) Improving urban public transport

c. 16 Delivery Principles of Public Services

The following 16 principles are presented for public service delivery.

People First	1. Highest priority on what people need most 2. Bold decisions to overcome political constraints 3. Encouraging people's participation and opinions 4. Proper communication
Prudent Use of Resources	5. Maximizing productivity from existing resources 6. Shifting the most important but scarcest resources such as leadership, talent and funding to highest priorities 7. First investment in the software and leadership talent, next investment in infrastructure and other hardware 8. Challenging legacy policies and procedures, while adhering to good governance
Collaboration with the Best in and out of Government	9. Enhancing leadership and partnership between Ministers and officers 10. Breaking boundaries and delivering as one Malaysian government 11. Building hybrid capabilities for delivery by attracting Malaysia's top talent and organizations from the public, corporate and social sectors 12. Inputting the voice of the people and cooperation with the people
Highest Standard Outcomes	13. Setting concrete and high aspirations 14. Rigorous planning and fact-based decisions for service delivery 15. Clear and single-point accountability and corresponding rewards 16. Monitoring and management of the delivery of outcomes

d. Organizational Setup

To promote and coordinate the progress of the GTP, Performance Management and Delivery Unit (PEMANDU) was set up in the Prime Minister's Department.

In order to formulate the GTP, groups called "labs" were organized for inputting information and opinions. They comprise civil servants (about 250), experts, practitioners, people (through surveys, group interviews, SMS, GTP website, open day events in Kuala Lumpur, Kuching and Kota Kinabalu)). The 1Malaysia Labs held in October and November 2009 invited representatives of the private sector, the public sector, academic fields and NGOs.

(3) Comparison between NEP-based Policies and GTP's Policies

a. Basic Scenario since NEP

(National unity through equality of results)

(Premise) Bumiputera are the original settlers and the majority of the population. But their income level is low and they are discontented with other groups.

(Measures) Allocation of resources to Bumiputera

(Results) Inequality is narrowed.

(Outcomes) Together with the achievement of the other strategy that is economic development, narrowing the gap contributes to the unity between ethic groups and the national unity.

b. Progress according to the Scenario and Side Effects pointed out in Recent Years

(Side effects caused by inequality of opportunities and inappropriateness of approaches on economic development and national unity)

(Premise) Bumiputera are the original settlers and the majority of the population. But their income level is low and they are discontented with other groups.

(Measures) Allocation of resources to Bumiputera

(Results) Inefficiency, corruption and stagnation take place, resulting in discontent and brain drain.

(Outcomes) Together with the inadequate achievement of the other strategy that is economic development, the gap is not narrowed, negatively contributing to the unity between ethic groups and the national unity.

c. Basic Scenario of GTP on Ethnicity

(Premise) Malaysia is at a crossroads to Vision 2020 in the global competition.

(Measures) Regardless of ethnicity, measures for national unity, social improvement and government reform are taken centering on NKRAs and MKRAs. (GTP does not mention that the focus is on the bottom 40%.) (As indicated by GTP, affirmative actions are not likely to be eliminated in reality in the framework of the constitution.)

(Results and Outcomes) Owing to the above measures, social transformation, government transformation, the unity between ethnic groups and the national unity is achieved.

8.1.4 New Economic Model for Malaysia, Part 1 (NEM)

(1) Background and Current Situation

Malaysia has achieved tremendous economic development. But the growth used to rely mainly on subsidized resources and low cost workers rather than high productivity. The poverty incidence was reduced while the gap remains. The natural environment and resources were not adequately protected. Now Malaysia is caught in a middle income trap with a number of challenges.

- Economic growth remains slow.
- Private investment is inactive with inadequate investment climate and crowing-out by GLCs.
- Value added of exports mainly of manufacturing is limited by large shares of imported inputs.
- Skilled labor is lacking and leaving, the economy relies on low cost unskilled foreign workers.
- Total factor productivity is low with limited R&D and innovation.
- The gap between rich and poor is widening.
- Ethnic-based policies worked but caused rent seeking, opaque measures and corruption.
- Market was distorted by controlled prices and subsidies mainly based on petroleum proceeds.
- Human resources of Malaysia are insufficient in quality and quantity in the global competition.

(2) Comparative Advantages of Malaysia

- Developed infrastructure
- Low poverty ratio
- Agglomerations of multi-national companies of manufacturing such as electrical and electronics
- Rich natural resources
- Location at the center of a vibrant region
- Diversity in various terms such as cultural, linguistic, religious, ethnic and ecological.

(3) Goals of NEM

- The goals of the NEM are high quality of life of the people by means of (1) high income (per capita income over US$15,000 in 2020), (2) inclusiveness (reduction of inequality among people), and (3) sustainability (preservation of the environment and the natural resources).
- Characteristics of Malaysia in 2020 are market-led economy, good governance, cross-border regional integration, entrepreneurship, and innovation.
- By expanding private investment (from 10% to 20% of GDP) and raising productivity, the average annual growth rate of 6.5% will realize GNP per capita of US$ 17,700 in 2020. The fiscal balance will be realized by reducing the government deficit.
- The gap will be reduced. The approach will be shifted from ethnic-based measures to market oriented measures. The target will be the bottom 40%. Emphasis will be placed on transparency of the measures, access to resources according needs and merit, monitoring the implementation, and human resource development.
- Expected beneficiaries are both the people and the businesses.

(4) Comparison between old Approach and NEM's Approach to Economic Development

	Old Approach	NEM's Approach	Preliminary Remarks
1	Growth primarily through capital accumulation	Growth through productivity	Growth through productivity has been emphasized for more than a decade.
2	Dominant state participation in the economy	Private sector-led growth	Private sector-led growth has also been emphasized for more than a decade.
3	Centralised strategic planning	Localised autonomy in decisionmaking	Compared to some near-by countries, Malaysia's local regions have their own distinctiveness.
4	Balanced regional growth	Cluster- and corridor-based economic activities	Besides MSC, the five corridors just started in 2006 – 2008. Prudence is needed to avoid excessive (public) investment beyond the demand.
5	Favour specific industries and firms	Favour technologically capable industries and firms	Both old and NEM's approaches include favoring specific industries.
6	Export dependence on G-3 (US, Europe and Japan) markets	Asian and Middle East orientation	The export destinations have been diversified. Islamic industries are expanding, although markets of USA. EU and Japan are still large in the world market.
7	Restrictions on foreign skilled workers	Retain and attract skilled professionals	This issue is related to the higher education system and the quality of life in Malaysia.

(5) Importance of Dissemination, Monitoring, Feedback and Policy Coordination
It is necessary to be responsive to potential resistance to the NEM.
(i) Protected businesses
(ii) Employers of foreign labour
(iii) License holders
(iv) Beneficiaries of subsidies
(v) Experts doing business the old way
(vi) People receiving subsidies
(vii) People employed by protected firms and enjoying stable life

(6) Strategic Reform Initiatives (SRIs)
(i) Re-energizing private sector
(ii) Developing quality workforce and reducing dependency on foreign labour
(iii) Creating a competitive domestic economy
(iv) Strengthening of the public sector
(v) Transparent and market friendly affirmative action
(vi) Building the knowledge base infrastructure
(vii) Enhancing the sources of growth
(viii) Ensuring sustainability of growth

Table 8-1-2 Strategic Reform Initiatives (SRIs) (Source: NEM)

SRI	Policy Purpose	Ref. No.	Possible Policy Measures
1 Re-energising the private sector	Target high value added product and services	1101	Align incentives to foster investment in high value added activities which generate spill-over effects
		1102	Tailor incentives to meet the needs of each firm
		1103	Facilitate FDI and DDI in emerging industries/sectors
	Remove barriers and cost to doing business	1201	Remove distortions in regulation and licensing, including replacement of Approved Permit system with a negative list of imports
		1202	Introduce a 'Single-Window' licensing process through e-Government portals to include local and state governments
	Create eco-system for entrepreneurship and innovation	1301	Reduce direct state participation in the economy
		1302	Divest GLCs in industries where the private sector is operating effectively
		1303	Economy-wide broadband roll-out
		1304	Ensure GLCs operate on a strict commercial basis free of government interference
	Encourage efficiency through healthy competition	1401	Implement efficient and transparent process for government procurement at all levels
		1402	Level the playing field for the private sector through transparent standard settings
		1403	Support a stronger competitive environment with competition law
	Promote SME growth	1501	Provide support for SMEs in innovative and technologically advanced areas
		1502	Facilitate timely access to funding for business activities
	Creating regional champions	1601	Encourage GLC par tnerships wi th pr ivate-sector companies
		1602	Pursue aggressive regional networking – ASEAN, China, India, Middle East
		1603	Improve leverage of FTAs
2 Developing a quality workforce and reducing dependency on foreign labour	Increase local talent over time	2101	Review the education system – shift educational approach from 'rote learning' to 'creative and critical thinking'
		2102	Increase emphasis on reintroducing technical and vocational training colleges
		2103	Identify and nurture talent through a demand-driven process
		2104	Improve autonomy and accountability of educational institutions
		2105	Encourage R&D collaboration between institutes of higher learning and industry
		2106	Enhance English language proficiency
		2107	Deliver high quality education, within reach of all localities
	Re-skill the existing the labour force	2201	Upgrade skills of the bottom segment of the Malaysian labour force through continuing education and training
		2202	Establish a labour safety-net for displaced workers
		2203	Industry to partner with government in encouraging 'Continuous Employment Training' (CET)
		2204	Formalise international quality standards and certification of skills
		2205	Allow wage levels to be reflective of the skill level
	Retain and Access global talent	2301	Review existing programmes to attract highly-skilled Malaysians overseas to return home
		2302	Offer permanent residence for ex-Malaysians and their families
		2303	Centralise oversight of foreign labour and expatriates to enable coherent practice
		2304	Build up critical mass of skilled professionals through simpler work permit and immigration procedures
		2305	Liberalise professional services through mutual recognition arrangement
	Remove labour market distortions constraining wage growth	2401	Protect workers, not jobs, through a stronger safety net, while encouraging labour market flexibility
		2402	Revise legal and institutional framework to facilitate hiring and firing
		2403	Raise pay through productivity gains, not regulation of wages
	Reduce reliance on foreign labour	2501	Enforce equal labour standards for local and foreign labour
		2502	Use a levy system to achieve targets for unskilled foreign labour in line with sectoral needs
3 Creating a competitive domestic economy	Improve economic efficiency through competition	3101	Strengthen the competitive environment by introducing fair trade legislation
		3102	Improve competition law to safeguard the interest of domestic firms before liberalisation of sectors to foreign firms
		3103	Set up an Equal Opportunity Commission to cover discriminatory and unfair practices
		3104	Review remaining entry restrictions in products and services sectors
		3105	Adoption of international best practices and standards for local industries to become highly competitive
	Build entrepreneurship	3201	Revamp the seed and venture capital funds to support budding enterpreneurs
		3202	Simplify bankruptcy laws pertaining to companies and individuals to promote vibrant entrepreneurship
		3203	Provide financial and technical support for SMEs and micro businesses, to move them up the value chain
	Remove market distortions leading to misallocation of resources	3301	Phase out price controls and subsidies that distort markets for goods and services
		3302	Apply government savings to a wider social safety net for the bottom 40% of households prior to subsidy removal
		3303	Create a Transformation Fund to assist distressed firms during the reform period
4 Strengthening the public sector	Improve decisionmaking processes	4101	Use 'whole-of-government' approach to provide integrated services
		4102	Empower state and local entities to perform their tasks locally
		4103	Encourage greater local input and authority in economic development to support regional differences and needs
		4104	Develop a process for effective implementation, monitoring and evaluation of policy measures
		4105	Empower MIDA to become an effective one-stop-agency to facilitate foreign investment
		4106	Revamp MPC to be more effective in driving productivity and efficiency improvements
	Improve service delivery	4201	Reform the government to be lean, consultative, and deliveryfocussed
		4202	Upgrade skills of staff to enable them to multitask
		4203	Modernise human resource management to match qualifications with jobs
	Reduce 'friction costs'	4301	Have zero tolerance for corruption
		4302	Address underlying weak governance structures
		4303	Codify best practices
		4304	Implement an open, efficient and transparent process of government procurement at all levels
	Provide a safety net to facilitate a smooth transition	4401	Retain a residual role for safety nets to stabilise and correct periods and instances of market failure
		4402	Apply government savings to a wider social safety net for the bottom 40% of households prior to subsidy removal
		4403	Create a Transformation Fund to assist distressed firms during the reform period
	Strengthen public finance management	4501	Widen the tax base (e.g. GST)
		4502	Lower personal and corporate income tax rates
		4503	Implement standardised criteria for state revenue receipts
		4504	Use results-based budgeting
		4505	Implement programme-based, medium-term budgeting
		4506	Adopt international standards for fiscal transparency
		4507	Use technology for efficient collection of duties and taxes
5 ransparent and market-friendly affirmative action	Reduce income disparity	5101	Continue support programmes for disadvantaged groups
		5102	Focus on the bottom 40% of households and business owners
		5103	Shift focus towards relative poverty
		5103.1	- Continue growth as a means of poverty reduction
		5103.2	"Growth Elasticity of Poverty" – inequality can reduce impact of growth on poverty
	Create marketfriendly affirmative action	5201	Use transparent procedures and criteria
		5202	Use affirmative action as a means to promote building of capacity and capability
		5203	Phase out approaches that contributed to rent seeking and patronage
	Narrow regional differences	5301	Leverage scale with effective development of economic clusters as a means of reducing regional iequalities, especially in Sabah and Sarawak
		5302	Enhance measures to raise income levels through better access and provision of quality social services in education and health, especially in Sabah and Sarawak
	Encourage reward on the basis of performance	5401	Encourage greater competition in the economy by removing excessive protection and accelerating sectoral liberalisation
		5402	Redesign affirmative action to take into account merit and needs
		5403	Phase out approaches that contributed to rent seeking and patronage
	Promote equal and fair access to opportunities	5501	Emphasise equitable and fair opportunities for employment, health and education and access to business opportunities
		5502	Apply government savings to wider social safety net for the bottom 40% of households prior to subsidy removal
		5503	Create a Transformation Fund to assist distressed firms during the reform period
		5504	Set up an Equal Opportunities Commission to deal with possible cases of unfair treatment and discrimination
6 Building the knowledge base and infrastructure	Create an ecosystem for entrepreneurship	6101	Easing entry and exit of firms as well as high skilled workers
		6102	Revamp the seed and venture capital funds to support budding entrepreneurs
		6103	Simplify bankruptcy laws pertaining to companies and individuals to promote vibrant entrepreneurship
		6104	Harness Web-based expertise and industry networks
	Promote an environment for innovation	6201	Improve access to specialised skills
		6202	Ensure protection of intellectual property rights
		6203	Incentivise firms to embrace technology and move up the value chain
		6204	Enforce strict adherence to global standards and benchmarks
		6205	Fostering R&D links between the institutions of higher learning and the private sector
		6206	Immediately roll out nationwide fast broadband connectivity
		6207	Review and consolidate all present government R&D funding
		6208	Align R&D to national growth objectives particularly in innovative and hi-tech fields
		6209	Open access to funding to competition among researchers
		6210	Ensure public procurement supports local innovation
		6211	Establish KPIs for universities based on commercialisation
	Establish stronger enabling institutions	6301	Set up a technology research powerhouse and centre of excellence run on a commercial basis e.g. ITRI Taiwan cluster model
		6302	Operationalise the National Innovation Model announced by the government in 2007
		6303	Balance the technology-driven innovation approach with market-led policies such as global procurement through technology intermediaries
7 Enhancing the sources of growth	Create value from first mover and other comparative advantages	7101	Identify E&E subsectors to build depth and foster new niche industries, and to capture a greater share as a distributional hub as intra-regional trade expands
		7102	Focus on palm oil-related downstream industries to develop indigenous technology and innovation or acquire technology to meet new market demands
		7103	Encourage upstream technology innovation to develop higher yielding fresh fruit bunches
		7104	Capture a greater share of the education, medical tourism and ecotourism markets through domestic and regional partnerships
		7105	Promote climate change mitigating products and services e.g. recyclables
		7106	Promote products and services that comply with Islamic tenets e.g. finance, pharmaceutical
	Develop greater integration between products	7201	Integrate education services with industrial development, for example a centre of engineering excellence in the E&E cluster
		7202	Further prioritise the logistics industry, leveraging on roads, ports and ICT infrastructure readily available in Malaysia
		7203	Improve seamless tourism services by ensuring quality services along the value chain e.g. the revamp of poor quality taxi services and improving personal safety for travellers
	Create new markets	7301	Capture greater share as a distributional hub as intraregional trade expands
		7302	Improve maritime and port services, leveraging on technology
		7303	Move into alternative energy generation as well as energy saving products and services
		7304	Expand service-oriented industries to regional markets based on Malaysia's inherent biodiversity
	Build scale of industries and production networks for specialisation	7401	Promote corridor-based development around spatially dense poles and adjacent hinterland, especially for electronics
		7402	Encourage competition between localities
		7403	Cluster industries to leverage on integration, scale and connectivity
		7404	Exploit economies of scale through networking of production and supply chains leveraging on location - 'Speed to market'
		7405	Establish global presence through international acquisitions of companies in the same field
	Harness innovation potential	7501	Adopt an open innovation system to acquire technology and expand networks
		7502	Support rapid transformation of SMEs with potential for innovation
		7503	Develop industries that support sustainable development such as use of traditional plants and herbs for modern applications
	Integrate real services	7601	Develop the commodities trading platforms and products for domestic producers to benefit from financial innovation and expansion
		7602	Offer Malaysia as a regional hub for both futures and spot markets for commodities
		7603	Develop Islamic-based financial products to support domestic production and risk management of prices and production
8 Ensuring sustainability of growth	Preserve natural resources	8101	Use appropriate pricing, regulatory and strategic policies to manage non-renewable resources sustainably
		8102	Encourage all sectors to embrace 'green technology' in production and processes
		8103	Develop a comprehensive energy policy
	Leverage on comparative advantages for high value added products and services	8201	Increase focus on downstream high value added production and services
		8202	Develop a comprehensive energy policy
	Meet international commitments	8301	Reduce carbon footprint in line with government commitment
		8302	Enforce clean air and water standards in utilising natural resource i.e. pollution mitigation
	Facilitate bank lending and financing for 'green investment'	8401	Develop banking capacity to assess credit approvals for green investment using non-collateral based criteria
		8402	Liberalise entry of foreign experts specialising in financial analysis of viability of green technology projects
		8403	Support green technology investment with greater emphasis on venture capital funds
	Ensure sound public finances	8501	Use appropriate pricing, regulatory and strategic policies to manage non-renewable resources sustainably
		8502	Reduce wastage and avoid cost overrun by better controlling expenditure
		8503	Establish open, efficient and transparent government procurement process
		8504	Adopt international best practices on fiscal transparency

8-1-5 Overview of Tenth Malaysia Plan (2011 – 2015)

(Source: ”Malaysia Economic Development & Current Status” EPU)

(1) Recognition of the Current Situation

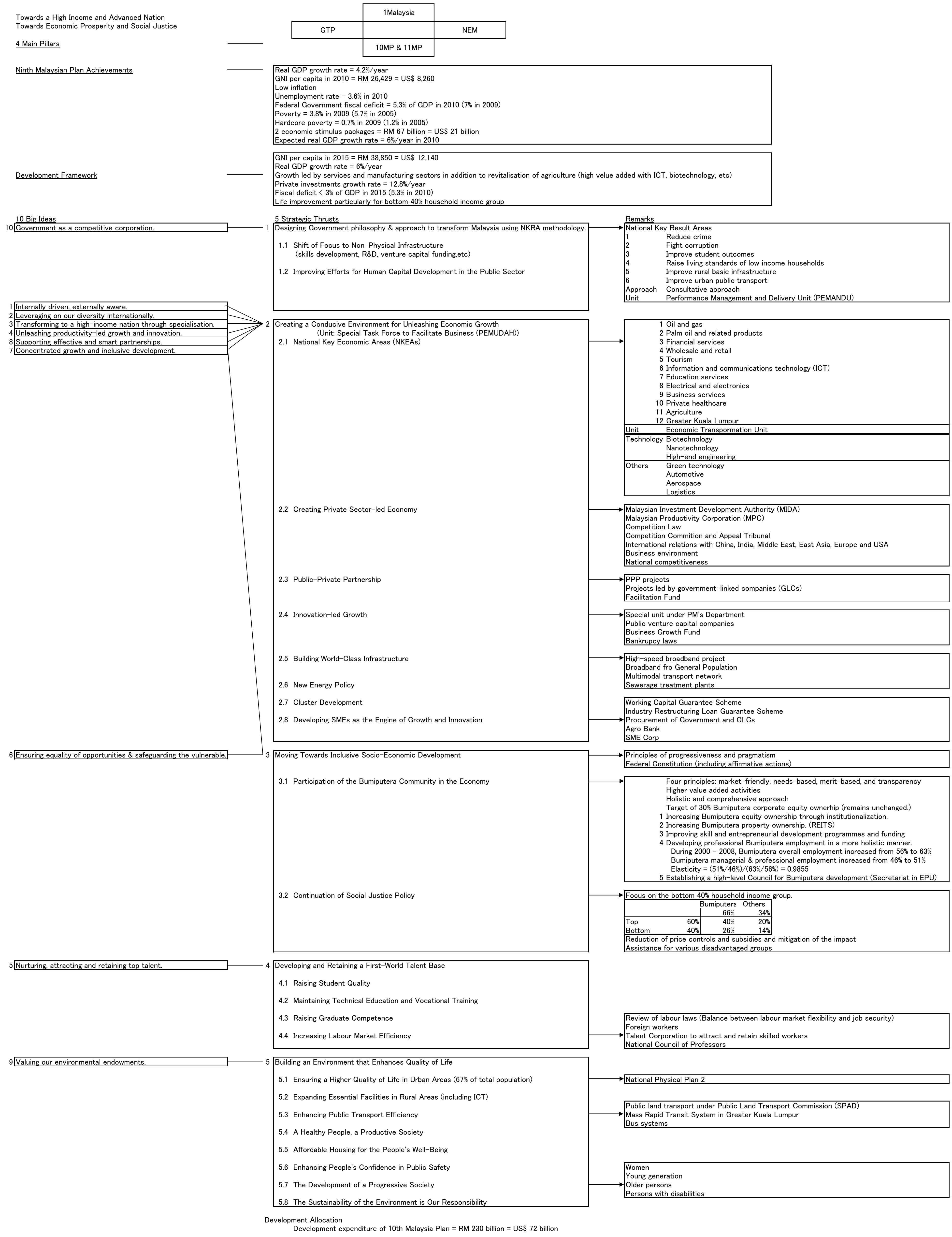
- Real GDP growth slowed down in the Ninth Malaysia Plan period (4.2% per annum) compared to that in the Eight Plan period (4.7% per annum).
- In 2010, real GDP falls short of the required level to achieve the 2020 target.
- DGP growth has been slower since the Asian Financial Crisis I 1997/98.
- Higher public investment compensated low private investment during stagnant periods.
- Growth during the Ninth Malaysia Plan Period has been led by the services sector. (Growth rate of services sector = 6.8% and Growth rate of manufacturing = 1.3%)
- Consolidation of fiscal account was affected by fiscal measures to fight the global financial crisis in 2008/09.
- Current Malaysian workforce is still relatively unskilled.

(2) Overview of the Plan

- Channels for public-private communication are dialogue, workshops, PEMUDAH, emails, etc.
- Macroeconomic objectives are private-led 6% growth and reduction of government deficit.
- GDP growth is led by private investment.
- New measures for competitiveness & private investment with business environment by MPC.
- Strong relation with countries with cultural linkage like Indonesia, China, India & Mideast.
- Strong engagement with Malaysians abroad such as investors, professionals & students.
- National Key Economic Areas impact growth, namely Oil & gas, Palm oil & related products, Financial services, Wholesale & retail, Tourism, ICT, Education, Electrical & electronics, Business services, Private healthcare, Agriculture, and Greater Kuala Lumpur.
- Be top 10 in terms of global tourism receipts from 16th in 2008.
- Attract 150,000 international students from 97,000 in 2009.
- Increase business & professional services contribution to 3.3% of GDP from 2.9% in 2009.
- Productivity-led growth & innovation by skills, agglomeration & quality of investment.
- Innovation & entrepreneurship by cost reduction & venture funding for SMEs.
- Integrated human capital & talent development.
- Nurturing, attracting & retaining top talent by forming Talent Corporation.
- Mainstreaming technical education & vocational training for dual pathway to employment.
- Ensuring equality of opportunities & safeguarding the vulnerable.
- Concentrated growth & inclusive development for quality of life.
- New approach to vibrant & livable cities by featuring communities & public transport.
- Transformation of government as a facilitator by empowerment & fiscal improvement.
- Progress monitoring by delivery-focused units.

(3) Human Resource Development

- Implementation of skills upgrading programmes such as the National Dual Training System, utilization of Human Resource Development Fund, and SME Corp’s skill upgrading programme.
- Regarding foreign workers, experts will be increased and others will be reduced.
  (31,400 experts + 1,834,700 semi/unskilled workers = 1,834,700 foreign workers in 2010) Positive roles of foreign workers are contribution to GDP, levy collection and source of labor, while negative roles are lower productivity, distorted wages, remittance and social problems.



Towards a High Income and Advanced Nation
Towards Economic Prosperity and Social Justice

4 Main Pillars

1Malaysia
GTP
NEM
10MP & 11MP

Ninth Malaysian Plan Achievements

Real GDP growth rate = 4.2%/year
GNI per capita in 2010 = RM 26,429 = US$ 8,260
Low inflation
Unemployment rate = 3.6% in 2010
Federal Government fiscal deficit = 5.3% of GDP in 2010 (7% in 2009)
Poverty = 3.8% in 2009 (5.7% in 2005)
Hardcore poverty = 0.7% in 2009 (1.2% in 2005)
2 economic stimulus packages = RM 67 billion = US$ 21 billion
Expected real GDP growth rate = 6%/year in 2010

Development Framework

GNI per capita in 2015 = RM 38,850 = US$ 12,140
Real GDP growth rate = 6%/year
Growth led by services and manufacturing sectors in addition to revitalisation of agriculture (high velue added with ICT, biotechnology, etc)
Private investments growth rate = 12.8%/year
Fiscal deficit < 3% of GDP in 2015 (5.3% in 2010)
Life improvement particularly for bottom 40% household income group

10 Big Ideas

10 Government as a competitive corporation.

1 Internally driven, externally aware.
2 Leveraging on our diversity internationally.
3 Transforming to a high-income nation through specialisation.
4 Unleashing productivity-led growth and innovation.
8 Supporting effective and smart partnerships.
7 Concentrated growth and inclusive development.

6 Ensuring equality of opportunities & safeguarding the vulnerable.

5 Nurturing, attracting and retaining top talent.

9 Valuing our environmental endowments.

5 Strategic Thrusts

1 Designing Government philosophy & approach to transform Malaysia using NKRA methodology.

1.1 Shift of Focus to Non-Physical Infrastructure
(skills development, R&D, venture capital funding,etc)

1.2 Improving Efforts for Human Capital Development in the Public Sector

2 Creating a Conducive Environment for Unleashing Economic Growth
(Unit: Special Task Force to Facilitate Business (PEMUDAH))

2.1 National Key Economic Areas (NKEAs)

2.2 Creating Private Sector-led Economy

2.3 Public-Private Partnership

2.4 Innovation-led Growth

2.5 Building World-Class Infrastructure

2.6 New Energy Policy

2.7 Cluster Development

2.8 Developing SMEs as the Engine of Growth and Innovation

3 Moving Towards Inclusive Socio-Economic Development

3.1 Participation of the Bumiputera Community in the Economy

3.2 Continuation of Social Justice Policy

4 Developing and Retaining a First-World Talent Base

4.1 Raising Student Quality

4.2 Maintaining Technical Education and Vocational Training

4.3 Raising Graduate Competence

4.4 Increasing Labour Market Efficiency

5 Building an Environment that Enhances Quality of Life

5.1 Ensuring a Higher Quality of Life in Urban Areas (67% of total population)

5.2 Expanding Essential Facilities in Rural Areas (including ICT)

5.3 Enhancing Public Transport Efficiency

5.4 A Healthy People, a Productive Society

5.5 Affordable Housing for the People's Well-Being

5.6 Enhancing People's Confidence in Public Safety

5.7 The Development of a Progressive Society

5.8 The Sustainability of the Environment is Our Responsibility

Development Allocation
Development expenditure of 10th Malaysia Plan = RM 230 billion = US$ 72 billion

Remarks

National Key Result Areas
1 Reduce crime
2 Fight corruption
3 Improve student outcomes
4 Raise living standards of low income households
5 Improve rural basic infrastructure
6 Improve urban public transport
Approach Consultative approach
Unit Performance Management and Delivery Unit (PEMANDU)

1 Oil and gas
2 Palm oil and related products
3 Financial services
4 Wholesale and retail
5 Tourism
6 Information and communications technology (ICT)
7 Education services
8 Electrical and electronics
9 Business services
10 Private healthcare
11 Agriculture
12 Greater Kuala Lumpur
Unit Economic Transpormation Unit
Technology Biotechnology
Nanotechnology
High-end engineering
Others Green technology
Automotive
Aerospace
Logistics

Malaysian Investment Development Authority (MIDA)
Malaysian Productivity Corporation (MPC)
Competition Law
Competition Commition and Appeal Tribunal
International relations with China, India, Middle East, East Asia, Europe and USA
Business environment
National competitiveness

PPP projects
Projects led by government-linked companies (GLCs)
Facilitation Fund

Special unit under PM's Department
Public venture capital companies
Business Growth Fund
Bankrupcy laws

High-speed broadband project
Broadband fro General Population
Multimodal transport network
Sewerage treatment plants

Working Capital Guarantee Scheme
Industry Restructuring Loan Guarantee Scheme
Procurement of Government and GLCs
Agro Bank
SME Corp

Principles of progressiveness and pragmatism
Federal Constitution (including affirmative actions)

Four principles: market-friendly, needs-based, merit-based, and transparency
Higher value added activities
Holistic and comprehensive approach
Target of 30% Bumiputera corporate equity ownerhip (remains unchanged.)
1 Increasing Bumiputera equity ownership through institutionalization.
2 Increasing Bumiputera property ownership. (REITS)
3 Improving skill and entrepreneurial development programmes and funding
4 Developing professional Bumiputera employment in a more holistic manner.
During 2000 - 2008, Bumiputera overall employment increased from 56% to 63%
Bumiputera managerial & professional employment increased from 46% to 51%
Elasticity = (51%/46%)/(63%/56%) = 0.9855
5 Establishing a high-level Council for Bumiputera development (Secretariat in EPU)

Focus on the bottom 40% household income group.

		Bumiputera	Others
		66%	34%
Top	60%	40%	20%
Bottom	40%	26%	14%

Reduction of price controls and subsidies and mitigation of the impact
Assistance for various disadvantaged groups

Review of labour laws (Balance between labour market flexibility and job security)
Foreign workers
Talent Corporation to attract and retain skilled workers
National Council of Professors

National Physical Plan 2

Public land transport under Public Land Transport Commission (SPAD)
Mass Rapid Transit System in Greater Kuala Lumpur
Bus systems

Women
Young generation
Older persons
Persons with disabilities

Figure 8-1-2 Overview of Tenth Malaysia Plan
Source: "Tenth Malaysia Plan" Speech by Prime Minister on 10 June 2010

8.2 Notable Factors Determining the Future

8.2.1 Basic Factors

(1) Factors related to Natural Conditions

- Rich natural resource endowments are potential for development of high value added industries. They are among the factors attracting direct and portfolio investments from China, India, East Asian countries, etc. Sustainable management of oil and other natural resources is necessary.
- The diversified ecosystem is a potential resource for development of pharmaceuticals and food products in addition to tourism.
- The location of Malaysia at the center of the vibrant area means potential to be a hub of international logistics.

(2) Factors related to Human and Social Conditions

- The diversity of ethnicity, culture including cultural heritage, languages and religions, and also ecosystem is a factor for tourism promotion, industrial collaboration with relevant countries, and development of pharmaceuticals and food products as well as Islamic finance and banking.
- On the other hand, the diversity might raise concern that the growth could be constrained by conflicts between different groups.

8.2.2 GDP Factors

Assuming that the average growth rate of GDP per capita is 8% per annum, the population growth rate is about 1% per annum, the GDP deflator is about 3%, and the exchange rate is unchanged, the Tenth Malaysia Plan targets at a 6% annual growth rate of real GDP. This is considerably higher than the average growth rate after the Asian Financial Crisis in 1997/98. Therefore, hitting the target requires transformation of the economic structure as well as the government reform.

(1) Demand Factors of GDP

Targets on the demand side in the Tenth Malaysia Plan are shown below.

Table 8-2-1 Gross National Income by Demand Category 2006 - 2015

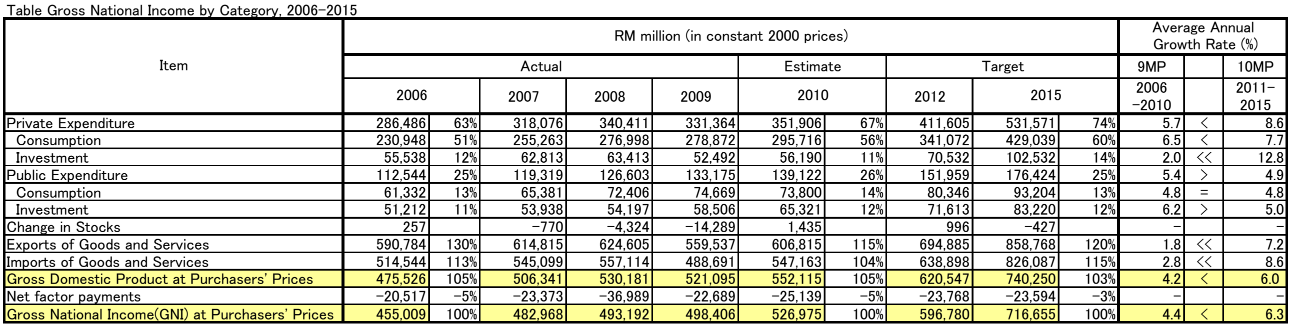


Table Gross National Income by Category, 2006–2015

Item	RM million (in constant 2000 prices)										Average Annual Growth Rate (%)		
	Actual					Estimate		Target			9MP		10MP
	2006		2007	2008	2009	2010		2012	2015		2006 –2010		2011–2015
Private Expenditure	286,486	63%	318,076	340,411	331,364	351,906	67%	411,605	531,571	74%	5.7	<	8.6
Consumption	230,948	51%	255,263	276,998	278,872	295,716	56%	341,072	429,039	60%	6.5	<	7.7
Investment	55,538	12%	62,813	63,413	52,492	56,190	11%	70,532	102,532	14%	2.0	<<	12.8
Public Expenditure	112,544	25%	119,319	126,603	133,175	139,122	26%	151,959	176,424	25%	5.4	>	4.9
Consumption	61,332	13%	65,381	72,406	74,669	73,800	14%	80,346	93,204	13%	4.8	=	4.8
Investment	51,212	11%	53,938	54,197	58,506	65,321	12%	71,613	83,220	12%	6.2	>	5.0
Change in Stocks	257		−770	−4,324	−14,289	1,435		996	−427		−		−
Exports of Goods and Services	590,784	130%	614,815	624,605	559,537	606,815	115%	694,885	858,768	120%	1.8	<<	7.2
Imports of Goods and Services	514,544	113%	545,099	557,114	488,691	547,163	104%	638,898	826,087	115%	2.8	<<	8.6
Gross Domestic Product at Purchasers' Prices	475,526	105%	506,341	530,181	521,095	552,115	105%	620,547	740,250	103%	4.2	<	6.0
Net factor payments	−20,517	−5%	−23,373	−36,989	−22,689	−25,139	−5%	−23,768	−23,594	−3%	−		−
Gross National Income(GNI) at Purchasers' Prices	455,009	100%	482,968	493,192	498,406	526,975	100%	596,780	716,655	100%	4.4	<	6.3

Source: Tenth Malaysia Plan

(i) Private Consumption

- Rising income and development of the safety networks will support the shift from saving to consumption leading to expansion of the private consumption.

(ii) Public Consumption

- The quality of the civil servants will be upgraded but quantitative expansion is not expected.

- Besides the GLCs, the employment of government service may be larger than the optimum. (Note: Employment share of “government service”=11.0% (2009 estimate)
Japan’s employment share of “Public service (not otherwise classified) ”=3.4% (2005))

(iii) Private Investment

- The private investment is expected to grow by 12.8% per annum. This figure is by far larger that the 2% annual growth achieved during the Ninth Malaysia Plan period. It is widely recognized that the achievement of the GDP target heavily depends on the private investment performance. It is therefore intended to liberalize investment and improve investment environment to increase both foreign and domestic investments. How to hit the target is an outstanding issue. Some people comment that the domestic market is small and it is difficult to identify investment opportunities.
- The domestic saving amount is larger than the investment amount and the domestic investment potential is large. However, the private-led economic development has been an unsolved issue in recent years.
- The government’s approach is to selectively promote foreign direct investment of high value added activities.
- Currently 128 subsectors of the services sector are in the liberalization process. A total of 27 subsectors including financial businesses have been already liberalized.
- Malaysia was ranked at the 10th position in the IMD World Competitive Ranking and is seeking at the 5th position in 2015.
- The government is working to improve the investment and operation environment by establishing PEMUDAH (Special Task Force to Facilitate Businesses).
- Malaysian Industrial Development Authority (MIDA) is being restructured for strengthening functions for the services sector and establishing more independent status. Its name will be changed to Malaysian Investment Development Authority.
- Preparation is on-going for the competition law, the bankruptcy law, and regulations on employment and firing.
- As competition is increasingly strong with near-by countries, the status of Malaysia as a destination of foreign direct investment has lowered.

In 1980, Malaysia received FDI amounting to US$ 934 million (12th in the world) (Singapore received US$ 1,236 million (11th) and Hong Kong received US$ 710 million (13th) in Asia.)

In 2008, Malaysia received FDI amounting to US$ 7,984 million (36th in the world) (In ASEAN, three countries received more FDI than Malaysia. Singapore received US$ 22,725 million, Thailand US$ 10,090 million and Indonesia US$ 8,340 million.)

- Lack of labor, constraints and levies on foreign laborers are among the constraints. In addition, the wage hike is a hot issue.
- Energy cost increase by reduction of subsidies is another issue.
- Ethnic-based constraints remain in some business practices.
- Some people comment that companies seeking abundant low cost labor would invest in Vietnam and those seeking large domestic market would invest in Indonesia.
- It is commonly recognized in and out of the government that low value added industries or companies have no choice other than relocation from Malaysia to low cost countries. On the other hand, some business people think it unrealistic that low value added labor intensive industries or companies can rapidly change to be high value added and further technology or knowledge intensive.

- It is noted that Malaysian companies are expanding investment abroad beside their domestic operation.

(iv) Public Investment

- The national energy resource conservation policy, the need to reduce the fiscal deficit, and the government consolidation efforts to seek higher efficiency will decelerate the public investment.
- Compared to the past, the focus is moving from building infrastructure to human resource development, organizational capacity building, and improvement in operation and management aspects.
- Participation of the private sector in public projects is promoted while the public sector acts as a facilitator. In the Tenth Malaysia Plan, the government intends to bear 10% of the cost of public development projects and the private sector is expected to bear 90% through privatization, PFI and other schemes. 52 high-impact projects worth RM 63 billion have already been identified. Some government-linked companies (GLCs) are also providing opportunities for the private sector to participate in. To promote participation of the private capital, the government plans to establish a fund of RM 20 billion, expecting that the fund will attract investment of RM 200 billion or more.

Table 8-2-2 Examples of Public-Private Partnership Projects and GLC-led Projects

Examples of Public-Private Partnership
- 7 highway projects (Estimated total cost is RM19 billion.) including West Coast Expressway Guthrie-Damansara Expressway Sungai Juru Expressway, and Paroi-Senawang-KLIA Expressway. - 2 Coal electricity generation plants (Estimated total cost is RM 10 billion.) - Development of the Malaysian Rubber Board’s land in Sungai Buloh, Selangor covering an area of 13km^2 (Estimated total cost is RM 10 billion.)
Examples of GLC Projects
- Kuala Lumpur Strategic Development by 1Malaysia Development Berhad covering theSungai Besi Airport area. - KL International Financial District in Kuala Lumpur - Construction of the liquid natural gas regasification plant by PETRONAS in Melaka (Estimated cost is RM 3 billion.) - 2 aluminium smelters in Sarawak Corridor of Renewable Energy (SCORE) (Estimated cost is RM 18 billion.)

Source: Tenth Malaysia Plan

(v) Goods and Services Trade

a. Goods Trade

- In 2009, goods exports amounted to RM 553.3 billion and goods imports amounted to RM 434.94 billion resulting in a surplus of RM 118.35 billion.
- In export, China’s share has been expanding in recent years. Now China is the second largest export destination next to Singapore. The commodities include parts like semiconductors, some of which are parts of export products from China to USA. MATRADE is promoting export to newly emerging export partners such as China and Islamic countries rather than the traditional major partners like USA, Japan and EU. According to MATRADE, competition with China in export to third countries is not a serious problem because Chinese products and Malaysian products have different targets. In other words, so-called volume zones or BOP are targets of China and Vietnam and are not the markets Malaysia seeks. However, international branding of Malaysian products is yet to be established, except Halal accreditation.
- In import, China is the top partner as the share of the traditional partners such as Singapore, Japan, EU, and USA has been reducing.
- Thus both export and import partners are diversifying. Now, China is the largest trade partner

and regarded as an opportunity rather than a threat as currently Malaysia registers a trade surplus with China.

- MATRADE identifies the following countries as priority markets.

FTA partners
BRIC (Brazil, Russia, India, and China)
The Gulf Cooperation Council (GCC) (UAE, Qatar, Kuwait, Bahrain, Oman, and Saudi Arabia)
Emerging markets (Egypt, Ghana, Libya, Nigeria, Uganda in Africa, Iran, Kazakhstan, Kyrgyzstan, Uzbekistan in Asia, Chile, Panama, Mexico in Latin America.

b. Services Trade

- In 2009, Malaysia's services trade registered a RM 3.2 billion surplus for three consecutive years. Expansion of services export is expected in the coming years.

Table 8-2-3 Service Trade Performance in Recent Years

	2009		2008	
	RM billion	%	RM billion	%
Export	99.10	100.0	101.10	100.0
Tourism	53.45	53.9	50.17	49.6
Transport	14.90	15.0	22.49	22.2
ICT	5.10	5.1	3.40	3.4
Construction	3.20	3.2	4.05	4.0
Education	0.73	0.7	0.77	0.8
Healthcare	0.22	0.2	0.18	0.2
Import	95.90	100.0	100.90	100.0
Tourism	31.96	33.3	37.89	37.6
Transport	16.74	17.5	16.75	16.6
ICT	5.80	6.0	5.62	5.6
Construction	4.20	4.4	2.99	3.0
Education	3.69	3.8	4.70	4.7
Healthcare	0.07	0.1	0.07	0.1
Services trade	195.00		202.00	
Surplus	3.20		0.16	

Source: MATRADE

(2) Factors of Input and Productivity

Targets of the contribution of factors of production in the Tenth Malaysia Plan are shown below.

Table 8-2-4 Contribution of Factors of Production, 2006 - 2015

Table Contribution of factors of production to GDP growth

Item	9MP (2006-2010)				10MP (2011-2015)	
	Target		Achievement		Target	
	%Contribution to GDP	%Share of GDP	%Contribution to GDP	%Share of GDP	%Contribution to GDP	%Share of GDP
Real GDP	6.0	100.0	4.2	100.0	6.0	100.0
Total Factor Productivity	2.2	36.2	1.5	34.7	2.3	38.5
Capital	2.1	35.7	1.4	34.5	2.3	37.5
Labour	1.7	28.1	1.3	30.8	1.4	24.0

Source: EPU, 10MP

(i) Capital and Labor

- As described above, required economic development necessitates rapid growth of private investment. That is why the government is implementing various investment promotion measures such as deregulation and liberalization of the services sector. On the other hand, serious challenges pointed out by some business people include lack of labor force, lack of credentials of unskilled workers, possibility of wage hike, constraints and levies on foreign workers. In addition, implementation of new policies without on-site detailed design may cause confusion and cost overruns.
- Regarding the labor, the government is trying to leverage on Malaysian and non-Malaysian talent abroad by the Talent Corporation. At the same time, there is a trend of brain drain of those who think themselves disfavored, while some inefficient business activities remain favored. In order to attract talent abroad and also to stop outflow of domestic talent, it is needed to improve overall environment for businesses and individuals encompassing both industrial conditions and quality of life. One of the issues is how to address the side effects of ethnic-based measures among various stakeholders.

(ii) Productivity

- Economic growth led by productivity or the total factor productivity is required rather than that relying on low cost labor or accumulation of capital. This is not a new challenge. To address it, Malaysia Productivity Corporation (MPCV) is currently restructured. However, productivity of a nation can not be raised by a corporation alone. Concepts like innovation, R&D, high value addition need to be disseminated nation-wide. Among the issues are Incentives for R&D (including status like MSC, BioNexus, etc.), vocational training at a firm level, attraction of talent and prevention of outflow of talent. Such measures need to take into consideration productivity of workers, wage levels, control of foreign workers, consistency and priority among different sectors/types, and time framework of implementation. Currently, Japanese electrical and electronics manufacturers have labor issues of unskilled workers such as difficulty in recruitment, high rates of absence and resignation.
- In general, simplified concepts may be useful to show a long-term direction of development. However it may cause problems if they are regarded as short-term instructions. A question is the time framework to realize the concept that Malaysia’s industry will become high value added, its labor force will be highly productive and highly paid, and unskilled foreign workers will be reduced.

(3) Factors of Industrial Sectors

(i) Growth Direction and Issues

- It is commonly agreed that the most expanding sector is the services sector. In contrast, the future status of electrical and electronics industry is not clearly positioned. In practice, the industry is among the national key economic areas while automotive and automotive part industries also have policy support.
- One possible development scenario is complementary coexistence of knowledge-intensive processes and assembly routines in the trend toward high value addition.
- It is necessary to study concrete contents of innovation, R&D and high value addition of individual subsectors. (product innovation, process innovation, global R&D, location-specific R&D, etc.)
- As the foreign direct investment has contributed a lot to manufacturing development, it can also contribute to development of the services sector.

Table 8-2-5 Gross Domestic Product by Kind of Economic Activity (Sector), 2006 - 2015

Table Gross Domestic Product by Kind of Econpmic Activity (Sector) 2006–2015

Item	RM million (in constant 2000 prices)										Average Annual Growth Rate (%)		
	Actual					Estimate		Target			9MP		10MP
	2006		2007	2008	2009	2010		2012	2015		2006 –2010		2011– 2015
Agriculture, Forestry, Livestock and Fishing	37,701	7.9%	38,177	39,828	39,992	41,497	7.5%	44,212	48,812	6.6%	3.0	<	3.3
Mining and Quarrying	42,030	8.8%	42,881	41,831	40,246	41,522	7.5%	42,093	43,875	5.9%	−0.5	<	1.1
Manufacturing	147,154	30.9%	151,257	153,171	138,809	147,406	26.7%	165,885	194,823	26.3%	1.3	<	5.7
Construction	14,640	3.1%	15,707	16,366	17,321	18,187	3.3%	19,775	21,818	2.9%	4.4	>	3.7
Services	247,099	52.0%	272,406	292,555	300,154	320,089	58.0%	366,704	452,221	61.1%	6.8	<	7.2
Electricity, Gas and Water	14,523	3.1%	15,106	15,430	15,488	16,142	2.9%	17,559	19,750	2.7%	3.1	<	4.0
Wholesale & Retail Trade, Accommodation and Restauran	65,492	13.8%	74,380	81,351	82,505	88,882	16.1%	103,857	132,367	17.9%	7.7	<	8.3
Transport, Storage and Communications	35,185	7.4%	38,191	40,743	41,379	44,330	8.0%	51,152	63,752	8.6%	6.2	<	7.5
Finance, Insurance, Real Estate and Business Services	71,253	15.0%	80,893	85,903	89,530	96,094	17.4%	112,659	143,295	19.4%	8.0	<	8.3
Government Services	33,412	7.0%	35,099	38,875	39,671	41,318	7.5%	44,143	48,873	6.6%	6.3	>	3.4
Other Services	27,234	5.7%	28,737	30,252	31,580	33,322	6.0%	37,333	44,184	6.0%	5.0	<	5.8
Less : Undistributed FISIM1	18,385	3.9%	19,607	20,410	21,872	23,436	4.2%	25,794	30,538	4.1%	5.7	>	5.4
Plus : Import Duties	5,287	1.1%	5,521	6,839	6,445	6,850	1.2%	7,673	9,238	1.2%	2.6	<	6.2
Gross Domestic Product at Purchasers' Prices	475,526	100.0%	506,341	530,181	521,095	552,115	100.0%	620,547	740,250	100.0%	4.2	<	6.0

Note: FISIM: Financial intermediation services indirectly measured
Source: EPU and Department of Statistics Malaysia

Source: Tenth Malaysia Plan

View on Wages

There are signs of wage hike including minimum wages. The wage levels of Malaysia are higher than those of the nearby countries except Singapore and the wage hike is a problem for companies. Yet levels education or qualifications of general workers are no so high. Some business people think it unrealistic that raising wages regardless of the productivity leads to increase of Malaysian workers and reduction of unskilled foreign workers. Wage hike without productivity improvement is a concern among Japanese manufacturers.

Major Issues of Manufacturers

From a view point of companies, major issues of manufacturers are as follows.

a. Difficulty in having employees

Regardless of skilled or unskilled, Malaysians or foreigners, it is difficult to recruit and retain workers especially in the 3D (dirty, dangerous and demanding or difficult) jobs. This problem becomes acute as economy becomes active.

b. Insufficient supply of natural gas

Domestic industries need a sufficient amount of natural gas at low prices.

c. Change of the foreign workers policy

There is a need for a shift from labor intensive industries relying on foreign workers to high income and high productivity industries based on technologies and innovation. However, while introducing levies on foreign workers to reduce them, the government is required to pre-announce the system and gradually implement it according to the schedule. The levy amount should be reasonable and the system should be accompanied with positive approval of foreign workers and removal of restrictions. It should also be a standard system across all sectors. The collected levies should contribute to automation or mechanization of manufacturers and setting up nursery rooms to promote female participation in work force.

d. Introduction of unrealistic systems

In 2009, the introduction of a permission system of steel importation caused confusion. It is recommended to have more information exchange between the government agencies and the companies at a working level in addition to design details of the system based on the daily practice.

Major Issues of Service Providers

According to MATRADE, major issues of service providers are as follows.

a. Liberalization

Most services sectors are not yet fully aware of the impact of services liberalization, especially commitment in ASEAN Framework Agreement on Services (AFAS), WTO, and FTAs.

b. Domestic Regulations

Many of the acts and regulations governing business and professional services require review to face competition due to liberalization in services sector. The Attorney General's Chambers (AG Chamber) is currently conducting review on all domestic regulations.

c. Unregulated Sectors

Consumerism Division of the Ministry of Domestic Trade, Cooperatives and Consumerism had been directed by the Cabinet to take responsibility of the unregulated sectors.

d. Coordination of Development in Service Sectors

Services are under purview of many ministries and agencies. Therefore there is a need for greater coordination in the development of the sector, especially in enhancing capacity to export and take advantage of opportunities overseas. The Cabinet decided that the Ministry of International Trade and Industry (MITI) to coordinate the development of the services sector.

e. Movement of foreign talent

The immigration procedures will be reviewed to facilitate the movement of expatriates and professionals.

f. Lack of comprehensive information

Data and statistics for service sector are lacking and it is necessary to enhance the mechanism of data collection for the services sector.

g. Transparency of rules and regulations

It is necessary to review the existing domestic rules and regulations to check the consistency with Malaysia ‘s commitments under WTO, AFAS and FTAs.

Major Issues of Small and Medium Enterprises

SME Corp points out major issues of SMEs as follows. The corporation's scope is expanding to cover services sector in addition to manufacturing. A special focus is on fostering SMEs with high potential such as ICT businesses.

a. Access to market

SMEs' access to market is weak. Therefore the corporation is implementing an SME ranking system called "SME Competitive Ranking for Enhancement" (SCORE) so that large companies can collaborate with high ranking SMEs.

b. Access to technologies

SMEs are weak in access to technologies, adoption of technologies and utilization of technologies. Therefore the corporation has set up technology database and is encouraging SMEs to utilize the internet system. Being also poor at R&D, SMEs are required to improve and innovate technologies.

c. Innovation in ability, management, output, creativity, etc.
The corporation rank SMEs. Out of 1,000 points, those marking over 700 pints are given green lane incentives.

d. Access to information
Now access to information is easy by using ICT.

e. Skills
Together with Ministry of Higher Education, the corporation grants “Innovation Awards” to highly skilled workers.

f. Access to finance
The corporation is facilitating SMEs access to finance by such means like recommending the SMEs with the green lane to banks. According to the ranking of the International Finance Corporation of the World Bankl, Malaysia is at the top in getting credit, however, it is important to let them know information of SME finance.

g. Automotive Part Manufacturing
In addition to the above general issues of SMEs, the automotive part industries have challenges. Malaysian Industrial Development Finance Berhad MIDF), SME Corp, etc. are supporting automotive part industries according to the National Automotive Policy (NAP). MIDF is studying to set a SME support fund for the automotive part manufacturers to enter into international markets with special emphasis on environmental and hybrid technologies. In SME Corp, Japanese experts are instructing the “Lean Production System” as the Automotive Production Technology Support component of the Malaysia Japan Automotive Industries Cooperation (MAJAICO) under Malaysia Japan Economic Partnership Agreement.

Opinions vary widely on the automotive industries and automotive part industries of Malaysia. The direction of development and the approach of cooperation are important subjects.

(ii) Direction and Issues of Research and Development and Industry-University Collaboration

- Importance of R&D is generally recognized toward high value added industries. Therefore collaboration between industries and universities will be enhanced.
- Japanese companies expect improvement in incentives for R&D as they keep adding value to their products. Some of the existing incentives are not user friendly by for example limiting the target areas. If the limit is removed or new tax incentives are introduced, some R&D activities may shift from Japan to Malaysia. It is likely that R&D in its broad sense will be implemented more extensively including R&D considering natural and social conditions, local specifications, or regional specifications.
- In the past, private companies did not have adequate knowledge about activities of Malaysian universities. Now cooperation has started between the two parties for research and development. With incentive schemes for research, patents and commercialization, university researches are changing their view on commercialization. They intend to apply their findings and results rather than being satisfied with publication of their research. Thus universities are recognizing the need to cooperate with industries. The Federation of Malaysian Manufacturers (FMM) together with the Ministry of Science, Technology and Innovation organized business matching events and invited researchers of universities and research institutions and relevant members of industries, in order to disseminate information on new innovations and latest research findings.
- SME Corp also cooperates with the Ministry of Science, Technology and Innovation and

registers 18,000 Malaysian university researchers in the database for SMEs.

- BiotechCorp is promoting biotechnologies in three broad areas, namely agriculture, health and industry. As part of its activities, the corporation is promoting entrepreneurship and commercialization by university researchers. A number of universities in Malaysia has biotechnology related faculties or courses such as biotechnology, life science, and environment.

- In contrast, there is concern about degradation of the quality of Malaysian universities accompanied with their rapid expansion. Therefore, discussions on the collaboration are linked to those on reinforcement of the universities.

(iii) Priority Industries (Source: Tenth Malaysia Plan)
According to the Tenth Malaysia Plan, the National Key Economic Areas except Greater Kuala Lumpur are briefed as follows.

a. **Oil and gas**

[Current Situation]

Outline of oil and gas industry
Malaysia’s national oil company, PETRONAS holds exclusive ownership of reserves and operates oil industry in Malaysia monopolistically from upstream such as exploration development and production to downstream such as refining, marketing and sale. All foreign and private companies have to conclude production sharing contracts (PSCs) with PETRONAS. Major oil companies operating in Malaysia are ExonMobile、Shell, Chevron and BP.
Malaysia’s crude oil reserves are the 23rd highest in the world. Since middle of 1990s, production volume remains stable. In 2008, Malaysia produced 727,000 barrels of oil equivalent per day of crude oil. The country consumed an estimated 547,000 bbl/d, and exported about 180,000 bbl/d.
Malaysia’s natural gas reserves are the 14th highest in the world. Malaysia produced 5,891 million standard cubic feet per day of natural gas in 2008. Malaysia was the second largest exporter of LNG in the world after Qatar in 2007. Same as in the oil industry, PETRONAS has a monopoly on upstream of natural gas exploration, development and production, and also is a leading company in refining, liquefaction, transportation, distribution and marketing.
The Trans ASEAN Gas Pipeline project (TAGP project) which connects major natural gas supplying areas and its consuming areas in the ASEAN through pipeline network is taking shape. Malaysia is a candidate of a hub for the TAGP project.

Outline of petrochemical industry
The petrochemical industry in Malaysia has developed rapidly because of the reliability and security of oil and natural gas supply, well-developed industrial infrastructure and its location such as close proximity to major markets in the Asia Pacific Region. There are three major petrochemical industrial zones have been established in Malaysia, and attracted foreign investments mainly from USA (33.0% of total foreign investment), Germany (22.8%) and Japan(14.0%).
There are multinational petrochemical companies such as Dow Chemical, BP, Shell, BASF, Eastman Chemicals, Toray, Mitsubishi, Idemitsu, Polyplastics, Kaneka, Dairen and West Lake Chemical operating in Malaysia. Major export products are olefins, polyolefins, aromatics, ethylene oxides, glycols, oxo-alcohols, exthoxylates, acrylic acids, phthalic anhydride, acetic acid, styrene monomer, high impact polystyrene, ethyl benzene, vinyl chloride monomer and polyvinyl chloride and polybutylene terephthalate.
It is expected to expand the petrochemical industry of Malaysia with progress of AFTA and free trade agreement with China.

[Target of 10MP]

In 2009, the oil and gas sector contributed a total of RM68.3 billion or 13.1% of GDP, of which upstream activities including petroleum and gas represented RM39.5 million or 7.6% of GDP and downstream including petrochemical industry contributed RM28.2 million or 5.5% of GDP. According to the 10th Malaysia Plan, given the rise in global energy demand and economic growth, the contribution from oil and gas industry is expected to increase by approximately 20% over the next 5 years to reach RM81.9 million or 11.1% of GDP in 2015.

During the 10th Malaysia Plan period, the investment target in petrochemical industry has been set at RM11.3 billion annually and export from this industry are expected to reach RM27.7 billion in 2015.

[Strategies/Measures]

- Increasing international market access;
- Enhancing skills (both technical and management) training in partnership with industry;
- Enhancing linkages in the downstream industries to optimise resources, facilities and services available at the integrated petrochemical complex;
- Expanding opportunities in logistics and maritime business activities; and
- Strengthening oil and gas related professional services and creating international champions such as in OFSE, those related to deep water extraction and integrated service providers.

b. Palm oil and related products

[Current Situation]

Malaysia is a global leader in the palm oil and basic oleochemicals industry. In 2009, this sector contributed RM17.0 billion or 3.3% to GDP and accounted for RM49.6 billion in exports. Between 2005-2009, total oil palm planted increased by 15.8% to 4.69 million hectares and crude palm oil production increased by 17.4% to 17.6 million tonnes. However, despite these achievements, the industry continues to face issues related to low productivity among smallholders, rising cost of production and dependency on foreign labour in upstream activities. Further, downstream activities are confined to intermediate processing. Significant untapped opportunities exist to grow this sector, particularly in downstream activities that generate high value add.

[Target of 10MP]

During the Plan period, the target is to increase the palm oil industry's output to GDP to RM21.9 billion with export earnings of RM69.3 billion.

[Strategies/Measures]

- Promoting Malaysia as a global hub for palm oil and preferred destination for foreign investments in areas such as oleochemical based products, bulking facilities and R&D;
- Developing Palm Oil Industrial Clusters into integrated sites for promoting downstream activities such as biofuel, oleochemicals, biofertilisers, specialty food products, biomass products, nutraceuticals and pharmaceuticals;
- Encouraging good agriculture practices, agronomic management and mechanisation especially among smallholders; and
- Centralising procurement of agricultural inputs such as fertilisers and pesticides to lower input costs for smallholders.

c. Financial services

[Current Situation]

The financial services sector is well positioned to respond to the challenging and evolving global environment and enhance its contribution to the Malaysian economy. This is due to financial reforms over the last decade that have enhanced institutional capacity, domestic financial infrastructure and strengthened the regulatory and supervisory framework. The contribution of the financial sector to economic growth is high, accounting for 11.7% to GDP as at end-2009. During the Tenth Plan period, the finance and insurance sectors are targeted to grow at 8.3% and contribute 12.7% to GDP. The Malaysian capital market, comprising equity and bond, grew by 10.2% to RM1.7 trillion and achieved strength across broad fronts between 2006 and 2009. The Islamic capital market with the most liquid *sukuk* market, accounting for 62% of the global *sukuk* market share, and the largest Islamic fund management industry remains a key competitive strength for Malaysia. Despite the successes of the Malaysian capital market, it still faces major challenges going forward, especially with market liquidity. Malaysia's liquidity ranking in Asia dropped from 3rd in 1996 to 14th in 2010. In addition, Malaysia's economic structure and growth prospects are constrained by the relatively low level of investment relative to its high level of domestic savings.

[Target of 10MP]

During the Plan period, the financial sector will be further strengthened so that it remains competitive, resilient, diversified, inclusive and continues to meaningfully contribute to economic growth. The role and liquidity of capital market will also continue to be enhanced.

[Strategies/Measures]

- Formulating a new financial sector blueprint to articulate strategies to further evolve the Malaysian financial sector to support and drive the next phase of Malaysia's economic development, which includes promoting financial inclusion and continued equitable financing access to all segments of the economy, greater leveraging of technology and innovation in the delivery of financial services, enhancing the financial system infrastructure including institutional and capacity building, and implementing adequate safeguards to preserve financial stability. The structural issues within the general insurance industry will be addressed by promoting further consolidation and rationalisation. Insurance penetration will also be enhanced via alternative distribution channels and greater product innovation;
- Enhancing Malaysia's position in Islamic finance globally via the strengthening of the Malaysia International Islamic Financial Centre (MIFC) initiatives, fostering greater linkages and collaboration with international standard setting bodies and other jurisdictions, and streamlining R&D development to enhance Malaysia's attractiveness as a preferred centre for Islamic financial education, research, training and product innovation. Focus is also placed on ensuring the dynanism and robustness of the established financial infrastructure, comprising the regulatory, legal and *Shariah* framework, research and training institutions; and
- Developing the Capital Market Masterplan 2 with strategic initiatives to expand the role of capital market in supporting the transition to a high income and knowledge-based economy. This will include deepening secondary market liquidity and creating better possibilities for managing risks to encourage exploration of investment opportunities in new growth and innovative areas. This will involve broadening the variety of new financing alternatives and accelerating the growth of capital market industries such as fund mangement, venture capital and private equity.

d. Wholesale and retail

[Current Situation]

The feature of the distributive trade in Malaysia has the high rate of the Chinese capital like those in Indonesia and the Philippines. On the other hand, restriction of the 30% Bumiputra equity still remains for foreign investment in the sector. Japanese companies, such as AEON and UNIQLO, have invested and other companies such as home delivery service and food service industry have plans to invest.

The distribution trade is one of the biggest sub-sectors in the expanding service sectors, contributing 13.3% of GDP in 2009. The hypermarket (store space of 5,000sq meter or more) and other modern retailers including convenience stores have led expansion of retail business during the 9th Malaysia Plan period (1995-2009). The sector attracted foreign direct investment worth RM1.2 billion in 2009. There are opportunities to continue to expand this sector as demographics change, rapid urbanization takes place and increasing affluence changes consumer behavior and increases demand for better services.

[Target of 10MP]

In the 10th Malaysia Plan, the sector is expected a growth rate of 8.3% per annum, and to account for 15.1% of GDP in 2015. In order to attain this target, the sector will be modernized and transformed to be more efficient with higher quality services to consumers.

[Strategies/Measures]

- Liberalising the retail and wholesale sector and promoting investment;
- Encouraging consolidation among local retailers to encourage efficiencies and achieve economies of scales;
- Encouraging modern retail formats such as hypermarkets, convenience stores, specialty stores to stimulate investment and expedite modernization; and
- Promoting franchise, direct sales and e-commerce to achieve their full potential.

e. Tourism

[Current Situation]

According to the World Tourism ranking compiled by United Nations World Tourism Organization, Malaysia ranked 9th after Germany in terms of international tourist arrivals, and received 23.6 million international tourists in 2009. The tourism industries employed 1.7 million workers or approximately 16% of total employment in 2008. Revenue from the tourism industry increased about 80% to RM53.4 billion in 2009 from RM29.65 billion in 2004 (Malaysia Tourism Promotion Board).

[Target of 10MP]

During the 10th Malaysia Plan period, Malaysia targets its position to be within the top ten in terms of global tourism receipts and increase the sector’s contribution by 2.1 times, contributing RM115 billion in receipts and providing 2 million jobs in the industry in 2015.

To achieve the target in 2015, tourists from countries with high economic growth such as Russia, India, China and Middle East will be focused, in addition to increasing the number of tourist arrivals.

[Strategies/Measures]

- Promoting differentiated strategies to cater for unique and distinctive travel patterns and needs such as for nature adventure (including ecotourism), cultural diversify, family fun, affordable luxury, and Meeting, Incentives, Conferences and Exhibitions (MICE);
- Improving tourism products through the creation of focused tourism clusters that will leverage on existing and new iconic tourism products. For example, Langkawi (the Geopark and Pulau Payar Marine Park), Pulau Pinang (Georgetown UNESCO World Heritage Sites), Sabah (Sipadan island and Kinabalu Park UNESCO World Heritage Sites) and Sarawak (Sarawak Cultural Village and Gunung Mulu National Park UNESCO World Heritage Sites);
- Developing new iconic tourism products through the private sector and public-private partnership. Examples include Kidzania and Malaysia Truly Asia Centre in Kuala Lumpur and Legoland Malaysia in Iskandar Malaysia, Johor. Tourism products and activities such as parks and gardens, arts tourism, shopping will also promoted;
- Improving maintenance of tourist sites through multiple approaches, including through GLCs and corporate sponsorship, stronger enforcement and imposition of gate fees, particularly in environmentally sensitive and heritage sites;
- Realigning promotional and advertising activities and physical presence of Tourism Malaysia offices overseas by focusing on core markets, particularly Russia, India, China and Middle East; and
- Introducing progressively certification of tourism products and activities to ensure quality, sustainability and safety.

f. Information and communications technology

[Current Situation]

Malaysia economy has been developed rapidly during the last decades. Information communication technology (ICT) including hardware, software, and IT-services is one of the most important segments not only for support of the growth of the industrial sector but also boost of productivity and raise of the nation’s overall competitiveness. Malaysia government has implemented several projects in order to encourage dissemination of ICT in domestic industries. The key initiative is the Multimedia Super Corridor (MSC). The MSC located in vast zone within a 50 km of north and south, and 15 km of east and west including Kuala Lumpur City Center, Cyberjaya, Putrajaya and Kuala Lumpur International Airport.

Under MSC project, four key flagship applications were lunched to improve social conditions and provide economic benefits as mentioned below.

- MyKad (Multiple purpose card)
- Smart school (Remote education using internet network)
- Telehealth (Remote healthcare using multimedia)
- E-Government

[Target of 10MP]

In 2009, the ICT industry accounted for 9.8% of GDP. The contribution of the industry to GDP is targeted to increase to 10.2% by 2015.

[Strategies/Measures]

- MSC Malaysia will identify and support the development of niche areas in software and e-solutions, creative multimedia, shared services and outsourcing as well as e-business. FDI strategy will be to attract MNCs to anchor these selected focus areas, with clusters of knowledge-bases SMEs around the MNCs;
- The Government will aggressively promote the use of ICT in all industries in parallel with the development of the ICT sector. Cloud computing services will be developed to provide SMEs with critical software applications. Niche areas for applications development include healthcare, education and financial services especially in Islamic banking;
- Emphasis will be on creative multimedia, especially animation for simulation, advertising and entertainment, and games development; and
- Education and training will be prioritized to meet the human resource requirements in this sector. This will be done through focused collaboration between the industry-academia-government, especially for curriculum development and industrial training.

g. Education

[Current Situation]

Private education services has witnessed a robust growth after a deregulation in the late 1990s. Given its high output multiplier (2.19-2.34), it has strong spill over effects on other sectors of the economy and has contributed directly to productivity enhancement. Driven by increased demand for places in institutes of higher learning from local and international students, the gross output of private education increased by 44% from 2005 to RM7 billion in 2008. Malaysia's current global market share stands at approximately 2% to 3% of total internationally mobile students.

[Target of 10MP]

The target is to increase the contribution of private education to GDP by 1.5 to 2 times to 2% in 2015 and attract 150,000 international students by 2015. The open regulatory and innovative environment has supported private education services in Malaysia to be widely recognised in the region. Nevertheless, several challenges need to be addressed in order to reach the aspired target. Key challenges include the risks of crowding out arising from the expansion of public institutions, unsustainable government funding with low share of private demand side financing and increased competition from the regional market.

[Strategies/Measures]

- Expanding demand-side financing and undertake new provision of public higher learning institution (IPTA) seats through off-take in private higher learning institution (IPTS) and create private seats in IPTAs by expanding capacity through private subsidiaries. By 2015, 50% of public funds for higher education will be disbursed via demand side and 25% of all IPTA seats will be private 'fee-paying' seats;
- Improving quality of IPTS through performance-based funding by expanding the Rating System for Malaysian Higher Education Institution (SETARA) to cover private universities and college universities, and at the faculty level;
- Expanding the sliding scale on the National Higher Education Fund Corporation (PTPTN) loans to promote cost sharing based on means test of parent's income to ensure financial sustainability and increased access of low and middle income families;
- Introducing a central enrolment system for all students including international students in stages with flexible credit accumulation framework for all courses across public and private provision;
- Providing conducive educational ecosystem to attract students and world leading faculties in niche areas to set up branches in Malaysia; and
- Intensifying marketing and promotion efforts in high potential markets.

h. Electrical and electronics

[Current Situation]

Malaysia has developed a manufacturing base of electric and electronics (E&E) products, and became currently one of major producer and exporter of semiconductor devices, integrated circuits, memory chips and computer monitors in the world.

The electric and electronics industry is the largest contributor to the manufacturing sector accounting for 26.1% of manufacturing output. The sector is also the largest employer, representing more than 40% of total manufacturing labor.

[Target of 10MP]

During the 10th Malaysia Plan period, effort will be intensified to move the E&E industry up the value chain through effective PPPs. Opportunities in automation, miniaturization, digitization and multimedia applications will be pursued, and specialization in semiconductors, embedded systems, optoelectronics, radio frequency and wireless will be promoted.

[Strategies/Measures]

- Developing centers of engineering excellence by collaborating with industry and academia, particularly for R&D and training;
- Promoting state skill training centers and co-funding masters and PhD programme in critical fields;
- Strengthening incubators and shared services centers for knowledge SMEs; and
- Focusing incentives on strategic segments of the value chain such as design, testing and precision matching.

i. Business services

[Current Situation]

Between 2006 and 2009, business and professional services grew at 6.3% and contributed 2.6% of GDP in 2009, equivalent to RM13.3 billion. This sector has the potential to raise productivity through intra and inter sectoral linkages and the diffusion of best practices and technology. In addition, it will continue to generate knowledge-intensive employment opportunities in line with moving to a high income economy.

[Target of 10MP]

The target is to increase this sector’s contribution to 3.3% of GDP by 2015. To achieve this target, the focus will be on further developing construction related and environmental management services.

[Strategies/Measures]

- Providing support such as market intelligence, networks and government-to-government relations to enable firms to export professional construction services within ASEAN region, India and China as well as Organisation of Islamic Countries (OIC) countries;
- Establishing a consolidated presence and brand for Malaysian professional construction services overseas. In this regard, the role of the Construction Industry Development Board and Professional Services Development Corporation will also be rationalised; and
- Amending legislation to facilitate commitments made at bilateral, regional and multilateral levels to liberalise the industry and create new business opportunities. Environmental management is an incipient industry with substantial growth potential in green technology and will spin off new categories of professionals and new areas of specialisation for architectural and engineering services.
- Streamlining the Green Technology Council to drive the green technology agenda across multiple ministries and agencies which include regulatory aspects, developmental, awareness and promotion; and
- Creating the environment and demand for the green technology industry to spur business opportunities for professional and service providers by:
    - Developing and enforcing regulations especially on energy efficiency in buildings for new developments;
    - Promoting investment in renewable energy to provide long-term contracts for renewable energy providers and create the spillover effects on the related domestic service providers; and
    - Promoting culture of conservation and efficiency in energy and water use.

j. Private healthcare

[Current Situation]

The healthcare travel industry grew by 12.3% between 2006 and 2008. In addition, Malaysia attracted over 1 million foreign patients with total medical receipts of about RM800 million. Rising affluence and an ageing and more mobile population will drive continued demand and spend for high quality healthcare services. Malaysia aspires to create a seamless and integrated healthcare system, incorporating a competitive healthcare travel industry with strong values of professionalism and state-of-the-art medical technology. Currently, there are 273 private hospitals in Malaysia with 35 participating in the health tourism programme and 6 healthcare facilities having Joint Commission International (JCI) accreditation. As part of the initiative to promote the industry, Malaysia Healthcare brand with the tagline “Quality Care for Your Peace of Mind” was launched on 9 June 2009 and Malaysia Healthcare Travel Council (MHTC), the primary agency to promote and develop health tourism was launched on 21 December 2009.

[Target of 10MP]

During the Tenth Plan, the target is to grow revenue from healthcare travel by 10% per annum and make Malaysia the preferred healthcare destination in the region.

[Strategies/Measures]

- Fostering strategic alliances among local and foreign healthcare service providers, travel organizations and medical insurance groups to provide a more integrated and comprehensive package of services to healthcare travellers;
- Encouraging more private hospitals to seek accreditation with international healthcare accreditation bodies;
- Promoting investment in and utilisation of high-end medical technology to increase efficiency, effectiveness and competitiveness; and
- Intensifying coordinated and integrated promotional activities to strengthen the presence of Malaysia Healthcare brand globally.

k. Agriculture

[Current Situation]

In 2009, high value agriculture, including swiftlet farming, aquaculture, seaweed, sago, ornamental fish, herbs and spices, organic fruits and vegetables, mushroom and floriculture contributed about 1% to GDP. There is growing demand for these high value products which provide opportunities for farmers to increase their income. However, growth in these products have been constrained by limited access to suitable land and financing, lack of skilled workers, uneconomic scale operations, inadequate support services, lack of R&D support and weak linkages to the market.

[Target of 10MP]

During the Tenth Plan period, these high value agriculture activities will be given special focus such that the contribution to GDP increases to 2% by 2015.

In addition, food security will be strategically addressed to ensure the availability, accessibility and affordability of food, particularly rice for the general public. During the Plan period, strategies to ensure sufficient supply of rice include maintaining rice stockpile at 292,000 metric tonnes or sustained consumption for 45 days, entering long-term contract agreements to import rice with matching agreements to export palm oil or oil, and increasing the productivity of existing granary and non-granary areas through upgrading of infrastructure. No new areas will be developed for paddy cultivation and local production of rice will be set to fulfil a 70% level of self-sufficiency.

[Strategies/Measures]

- Setting up agriculture consortiums and cooperatives to reap the benefits of scale, encourage adoption of accredited practices by farmers, fishermen and agropreneurs, and strengthen marketing through contract farming and strategic alliances;
- Reviewing and streamlining current regulation and procedures, particularly in the swiftlet, aquaculture and herbal industries to attract greater investments and participation from private sector;
- Promoting innovation-based growth and production processes that utilise modern farm technology and ICT, including ICT-based Agriculture Flagship Project;
- Providing adequate and specific infrastructure, facilities and logistics to support value addition activities based on availability and proximity of resources, particularly in the designated Permanent Food Production Parks and Aquaculture Industrial Zones; and
- Intensifying collaborative R&D with established agriculture research institutes to leapfrog innovation in the production processes, disease control, safety and quality control, including development of new high-value added products.

Others

"Environment" is a key word frequently raised from various sectors like agriculture, mining, manufacturing and services. Activities related to the environment are expected to expand irrespective of sectors or cross-cutting them. The examples presented are biotechnology, ecotourism, manufacturing of environmentally friendly machines and parts, loan appraisal of environment-related projects, environment-related financial commodities, green energy, energy saving technology, and environmentally friendly infrastructure development.

8.2.3 Other Factors

(1) Balance of Payments

- The balance of payments is not regarded as a problem as it has been a surplus since the Asian Financial Crisis. The deficit of the balance on long-term capital in recent years is thought to be caused by investment abroad by Malaysian companies and withdrawal of foreign capital from Malaysia. The former is regarded as a positive sign of Malaysia's activities abroad, but at the same time it indicates lack of domestic investment opportunities or low return from domestic investment. The latter is monitored for necessary actions (not restrictions) based on the experiences of the Asian Financial Crisis.

(2) Employment and Foreign Workers

- The unemployment rate has been stable at a low level. On the other hand, among the issues are labor cost increase due to shortage of labor force instead of increased productivity, mismatch of the quality of labor force, and accompanying actions for foreign workers. These issues will be more serious in high growth periods and participation of women and elderly people in the workforce is expected by some people.
- The government has a policy to reduce an estimated total of 2 million to 3 million unskilled foreign workers, presenting controversial argument with industries especially manufacturers.

- The Federation of Malaysian Manufacturers (FMM) has following views on skilled and unskilled foreign workers.

> Foreign skilled labor helps to build Malaysia's talent base which is critical in meeting the objective of the New Economic Model into moving to a high income economy. At the same time, the foreign skilled labor is a source of transfer of knowledge and technology which the locals could leverage on. This would enable Malaysia's economy to stay competitive, enable companies to survive and in the process create more and better jobs for Malaysians.
>
> In terms of unskilled labor, this is a critical source of manpower required by the industry to fill up positions in industries, especially in the 3D (dirty, dangerous and demanding or difficult) environment which local workers shun. However, the over dependency on unskilled foreign workers to fill up positions in labor intensive industries would mean that the country would continue to be a base for labor intensive operations and low value added activities. This would then derail the country's plans on achieving a developed and high income economy status by 2020.
>
> Shortage of labor would remain as the major challenge for manufactures irrespective of the industry type now and moving toward 2020. With the government's direction towards reducing dependency on foreign workers, labor intensive industries would have to decide on whether to automate and mechanize their operations or to relocate to other countries where labor is in abundance and easily available.

- In contrast to the above views, some people argue that plantations and factories are generating a large amount of profits relying on foreign workers and so they oppose the policy to reduce foreign workers. According to this view, the government's policy has not been realized due to the opposition of such groups. It is thought that general sentiment of Malaysians to foreign workers are affected by such recognition that unskilled foreign workers account for over 20% of Malaysian workers, they expand beyond the 3D jobs, and some of them cause social problems.

(3) Poverty and Inequality

- The poverty has been steadily reduced. Now it is a less focal issue than before and the relative poverty needs to be solved, especially (2) in rural areas far from towns for example in East Malaysia and (2) in urban areas where life cost is high. Support measures for the latter are yet to be developed. Thus the diversified poverty requires diversified measures.
- Regarding the inequality, the ethnic-based socio-economic policy was not mainstreamed in the 1Malaysia Government Transformation Programme (GTP) and the New Economic Model for Malaysia Part 1 (NEM). However, it is featured in the Tenth Malaysia Plan. Bumiputera Council will be newly set up with its secretariat in EPU. Future scenarios of the ethnic-based socio-economic policy are subject to various factors.
- The mean and median of monthly gross household income by ethnic group and strata (urban

versus rural) are shown below. Besides the "others", Bumiputera's growth rates are the highest in both mean and median. An issue is the low growth rate of the median of Indians together with another data that the gap among Indians is not considerably narrowing.

Table 8-2-6 Mean and Median of Monthly Gross Household Income by Ethnic Group and Strata, 2004 and 2009

	Mean household income (RM)		**Average annual growth rate (%)**	**Median household income (RM)**		**Average annual growth rate (%)**
	2004	**2009**		**2004**	**2009**	
Malaysia	**3,249**	**4,025**	**4.4**	**2,186**	**2,830**	**5.3**
Bumiputera	**2,711**	**3,624**	**6.0**	**1,858**	**2,531**	**6.4**
Chinese	**4,437**	**5,011**	**2.5**	**3,076**	**3,631**	**3.4**
Indians	**3,456**	**3,999**	**3.0**	**2,469**	**2,836**	**2.8**
Others	**2,312**	**3,640**	**9.5**	**1,525**	**2,088**	**6.5**
Urban	**3,956**	**4,705**	**3.5**	**2,759**	**3,426**	**4.4**
Rural	**1,875**	**2,545**	**6.3**	**1,394**	**1,829**	**5.6**

Source: Tenth Malaysia Plan
Original source: Household Income Survey 2004 and 2009

The above gap can be translated into the time dimension by simple estimation as follows. How the years are evaluated may be worth discussion.

Comparison	Mean (Years)	Median (Years)
Years required for Bumiputera in 2009 to reach Chinese 2009 level	Approx 5.6	Approx 5.8
Years required for Bumiputera in 2009 to reach Indian 2009 level	Approx 1.7	Approx 1.8
Years required for rural areas in 2009 to reach urban areas' 2009 level	Approx 10.1	Approx 11.6

Calculation of Years "n": (high income)/(Low income)=(Growth rate of low income)^{n}

An approach presented to realize equality is shifting the focal target from Bumiputera to the bottom 40%

Ethnic groups Income groups	Bumiputera (Focal target so far) Approx 66%	Non-Bumiputera Approx 34%
High income group 60%	Group who may go out of target Approx 40%	Out of target Approx 20%
Low income group (Focal target from now) 40%	Continued focal target Approx 26%	New focal target Approx 14%

(4) Human Resources Development

- It is common understanding that education, training and human resources development are the most important key to economic development through productivity, innovation, creativity and high value addition. While a number of Malaysians are playing important roles at very high levels in and out of Malaysia, average workers do not have high academic background now. Degradation of the education from the primary level to the tertiary level needs to be addressed including improvement of the teachers' qualification and reinforcement of vocational training and skill development courses as a pillar in a dual pathway system.

- Malaysia's ranking is lowering in the Trends in International Mathematics and Science Study (TIMSS) for secondary school students. In addition, Malaysia's universities have been degraded in ranking of Times, etc.
- In order to be a developed country by 2020, Malaysia requires highly qualified human resources who are capable of high value addition, high productivity, innovation and creation. Therefore strengthening not only the academic education system but also the technical education and vocational training are important.
- Currently education and training systems toward services sector are not yet fully established and need discussions.

(5) Urbanization and Regional Development

- As the services sector expands, urbanization continues especially in suburbs of Kuala Lumpur. The Tenth Malaysia Plan, therefore, features development of Greater Kuala Lumpur as a National Key Economic Area. Against the background of the road traffic congestion and the policy to reduce subsidies for fuel, urban public transport systems are planned. In addition to development of individual facilities, integrated planning, operation and management are required for having connectivity and continuity for smooth movement.
- Regional growth corridors are planned in local areas and development of access to the corridors are also expected.

Greater Kuala Lumpur (Source: Tenth Malaysia Plan)

[Current Situation]

Greater Kuala Lumpur (Greater KL) comprises the national capital of Kuala Lumpur and its surrounding satellite cities. Today, Greater KL is an important economic growth cluster, contributing 8 times the GDP of any other city in Malaysia. Greater KL is well-positioned to become a national growth node, and gateway towards developing a global economy, leveraging upon its strengths of a cosmopolitan population, a uniquely Asian heritage and strong worldclass infrastructure. Liveability of Greater KL is crucial in the competition for talent, wealth and investments in the global arena. In 2010, Kuala Lumpur ranked 79 out of 130 cities under the Economist Intelligence Unit survey on liveability.

[Target of 10MP]

Major initiatives have been identified under the national key results areas (NKRAs) to address this, particularly on combating crime and improving urban public transport. Liveability, owever, encompasses a broader concept, and initiatives to create attractive public spaces, nurture a uniquely internationally relevant arts and culture scene, and provide a rich mix of leisure activities will create a distinctive urban character for Greater KL, making it an ideal place to live, work and play. In order to position Greater KL as a world-class city, a combination of economic growth and liveability strategies will be required.

[Strategies/Measures]

- Establishing Kuala Lumpur International Financial District as a global financial centre, especially for Islamic finance and its related professional services, in order to attract local and international financial policy and monitoring organisations and talent;
- Establishing Sime Darby Vision Valley, which includes Guthrie Corridor Development, Ampar Tenang Green Experimental Cluster, Carey Island Eco-tourism Cluster and Sepang Estate Logistics Cluster;
- Making Greater KL a tourist destination by leveraging on existing iconic institutions such as Muzium Negara and Istana Budaya, and also Malaysia Truly Asia Centre, which is to be established during the Plan period;
- Creating a network of attractive open public spaces by developing a comprehensive open space strategy that moves beyond allocating land and infrastructure for open spaces, to one that incorporates strategies to attract people to these spaces. The 101-hectare Lake Gardens will be developed into a world-class botanical garden, connected to a citywide network of interconnected green spaces that are equipped with facilities such as cycling paths and pedestrian pathways; and
- Transforming urban public transportation across greater KL through the Mass Rapid Transit System to ensure seamless interconnectivity links.

8.3 Future Prospects

- In order to be a fully developed country by 2020, Malaysia will proceed in the direction presented by the Vision 2020, the GTP, the NEM and the Tenth Malaysia Plan. According to preliminary estimation assuming the unchanged criterion for the high income group, if the average growth rate of real GDP is 5% per annum, Malaysia will be a high income country in 2022. Even if the growth rate is 4%, the goal will be achieved in 2024.

- Currently consensus has not been reached among the stakeholders on the following issues.
  Approach to reduce subsidies and its time framework
  Extent of priority to ethnic-based measures
  Priority between wage hike and productivity improvement
  Approach to foreign workers and its time framework

- Schedule
  The NEM Part 2: September or October 2010
  The budget speech: October 2010
  The revision of the 3IMP: 2010
  SME Master Plan: 2011
  Revision of 10MP as a rolling plan: 2012

Chapter 9　Suggestions for Further Cooperation

9.1　Trend of Cooperation with Malaysia

from	to
Issues typical in developing countries such as BHN or MDGs	New issues typical in developed countries such as environment, health and welfare
Cooperation between government and government	Cooperation in partnership with the private sector
Individual sector approach	Integrated strategic approach
No economic partnership agreement	Malaysia Japan Economic Partnership Agreement
Relation between assistant and recipient	More equal relation
Malaysia as target	Joint support for third countries
ODA agency as implementer	ODA agency as facilitator

9.2　Suggestions for Cooperation

Cooperation demands or concepts mainly from a Malaysian view point are presented below based on the suggestions during the survey.

(1) Cooperation on a more equal footing

Practical cooperation for mutual benefit according to Malaysia Japan Economic Partnership Agreement and cooperation on a cost sharing basis.

(2) Cooperation focusing on human development and organizational management

Human resources development, organizational capacity building, strengthening operation and management of programs and other non-physical cooperation.

(3) Cooperation in various types of partnerships

Partnership of public, private, academic and civil sectors by considering Malaysia’s status as an upper middle income country and its policy to consolidate the public sector.

(4) Cooperation for third countries

Collaboration with Malaysia’s international activities.

9.3　Candidates for Cooperation

As candidate roles of JICA as a member of the all Japan team, the following actions or support activities are deemed.

(1) Policy Dialogue

- As Japan has a number of advanced socio-economic issues, Japanese view points are useful to find and analyze Malaysia’s problems and potential. (Examples: investment promotion, measures for aging society, social welfare, urbanization, over population and under population, devolution, strengthening fiscal and financial systems)
- Concluding a working level cooperation agreement as a platform between the two parties

(2) Cooperation in science and technology fields

- Capacity building (Example: services sector)
- Support for collaboration between universities, industries, governments, and local citizens. (Examples: Support for collaboration between Japanese universities and Malaysian universities, NGOs and community groups, as well as Japanese local governments and

Malaysian local governments.)
(Concrete example: Malaysia Japan International Institute of Technology)

- Support for technical education and vocational training
- Support for cooperation in biotechnology among support institutes, private sector, universities and research institutes (Example: joint research of bio-resources in Malaysia)

(3) Cooperation in industrial fields

Cooperation for industrial development involving the private sector of Japan and Malaysia (Examples: activities with JETRO, AOTS, JODC, chambers, federations, etc).

- Support for promotion of investment in Malaysia
- Strengthening industrial and firm linkages, subcontract systems, and supporting industries
- Cooperation in environmental technology (green technology), energy efficiency technology, management of unrecyclable resources, energy saving, appraisal of environment related projects, etc. (Example: Automotive part industry) (Concrete example: MAJAICO)
- Cooperation in emerging markets, Halal industries and Islamic finance
- Soft loan for entrepreneurship and export credit

(4) Cooperation for development and operation of infrastructure

- Participation in PPP projects (Example: joint marketing of Japan's public and private sectors)
- Operation and management of public transport systems and ports

(5) Narrowing inequality

- Activities for welfare and for mitigating the gaps jointly with NPO/NGOs (Examples: activities featuring ethnic cultures in East Malaysia and east coast areas of Peninsular Malaysia, handicraft and vocational training in rural areas) (Concrete example: Handicraft training in FELDA settlements by Japan Overseas Cooperation Volunteers)
- Participation of the private sector in poverty reduction (Example: insecticide-steeped mosquito nets in Sarawak)

(6) Public security, disaster prevention and global environment

- Anti-terrorism activities
- Prevention from disasters like Tsunami
- Climate change measures

(7) Cooperation for third countries

Joint efforts for third countries by sharing roles in fund, knowledge, technologies, and activities

- Malaysia's development experiences and knowledge for third countries (Example: Malaysia's experiences of multicultural societies as contents of JICA's training)
- Joint economic cooperation involving both public and private sectors (Example: Improvement of connectivity and infrastructure in ASEAN)
- Transfer and development of Malaysia's traditional industries in third countries (Example: palm oil)
- Peace initiative in third countries (Example: solving religious conflicts involving Moslems)
- Cooperation as partners or members of regional cooperation schemes (Examples: ASEAN Community, ASEAN+3, East Asian Community, etc) (Concrete examples: cooperation for ASEAN Bond Markets Initiative (ABMI), cooperation through Asian Development Bank for ASEAN Infrastructure Fund (AIF)).

Annex 1 Participants in Advisory Committee Meetings

[Universities]

Mr. YOKOYAMA Hisashi	Professor, Tsuda College
Mr. TORII Takashi	Professor, Meiji University

[JICA Headquarters]

Mr. HIROTA Koki	Director General Southeast Asia 1 and Pacific Department
Mr. SASAKI Takahiro	Deputy Director General for Planning Southeast Asia 1 and Pacific Department
Mr. OSHIKIRI Koji	Director, Southeast Asia Division 2 Southeast Asia 1 and Pacific Department
Mr. MANO Shuhei	Assistant Director, Southeast Asia Division 2 Southeast Asia 1 and Pacific Department
Ms. TERAKADO Mamiko	Senior Country Officer, Southeast Asia Division 2 Southeast Asia 1 and Pacific Department

[JICA Malaysia Office]

Mr. NAGAE Tsutomu	Resident Representative
Mr. TAKAHASHI Masatoshi	Senior Representative
Mr. MATSUMOTO Katsuo	Senior Representative
Mr. HAYASHI Masayuki	Staff Member
Mr. NAGUMO Takao	Staff Member
Mr. OHNO Masayoshi	Project Formulation Advisor
Mr. Shariff Syariza	Staff Member
Mr. Tanlichin Florence	Staff Member
Mr. Hafiz Othman	Staff Member

[Survey Team]

Mr. TSURUTA Shinsuke	Leader/Economic development Regional Planning International Co.
Mr. TESHIMA Naoyuki	Socio-economic analysis Regional Planning International Co.
Mr. KAMIKURA Shizuo	Industrial policy Mungu and Associates Inc.
Dr. YANAGITUBO Megumi	Economic development/Data analysis Regional Planning International Co.

Annex 2　Interviews

(1) Interviews in Japan

Day		Interviewees
April 13 (Tue)	Mr. KUMAGAI Satoru	Deputy Director Inter-Disciplinary Studies Center Institute of Developing Economies
April 23 (Fri)	Dr. ANAZAWA Makoto	Professor Otaru University of Commerce
April 27 (Tue)	Mr. YOSHIDA Etsuaki	Deputy Chief Europe, Middle East and Africa Finance Department Japan Bank for International Cooperation
	Mr. TORII Takashi	Professor Meiji University
	Mr. Mohamad Hashim	Director Tokyo Office Malaysian Industrial Development Authority
May 24 (Mon)	Dr. SODA Naoki	Associate Professor Graduate School of Global Studies Tokyo University of Foreign Studies

(2) Interviews in Malaysia and Thailand

July	Interviewees
11 Sun	Trip
12 Mon	1. World Bank Office, Bangkok
13 Tue	2. JICA Malaysia Office (Ms. Suraya) 3. Department of Statistics
14 Wed	4. Economic Planning Unit, Prime Minister's Department Malaysia (EPU)
15 Thu	5. Ministry of International Trade and Industry (MITI) 6. Malaysian Industrial Development Authority (MIDA) 7. SME Corporation Malaysia (SME Corp) 8. SME Bank 9. Malaysia External Trade Development Corporation (MATRADE)
16 Fri	10. Federal Land Development Authority (FELDA) 11. Federation of Malaysian Manufacturers (FMM)
17 Sat	Minutes of Meetings
18 Sun	Port Klang Cyberjaya KL Tower
19 Mon	12. Malaysia Productivity Corporation (MPC) 13. Ministry of Finance (MOF) 14. University of Malaya, Faculty of Economics & Administration 15. University of Malaya, Faculty of Economics & Administration (Centre for Poverty & Development Studies)
20 Tue	16. Central Bank of Malaysia 17. CIMB Investment Bank
21 Wed	18. JETRO Kuala Lumpur 19. Sumitomo Corporation 20. Bank of Tokyo-Mitsubishi UFJ
22 Thu	21. Malaysian Industrial Development Finance Berhad (MIDF) 22. Institute of Strategic and International Studies (ISIS), Malaysia
23 Fri	7. SME Corporation Malaysia (SME Corp) 23. Malaysian Biotechnology Corporation (BiotechCorp) JICA
24 Sat	Trip

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