# Focus on Malaysia - The Tiger with a Vision

*Christopher T. Selvarajah*

This paper outlines the opportunities for trade with three countries, Malaysia, Thailand and Indonesia - the Three Little Tigers, with special focus on Malaysia; the tiger with a vision.

Keywords: ASEAN, development, export opportunities, Malaysia

## Introduction

In the last ten years the world's most dynamic economies have been those of the East Asian countries (see Table 1). The average GDP growth between 1986 and 1992 in the Pacific Rim East Asian economies was 7.8 % with an inflation rate of 5.1 %. In contrast, the average GDP growth during the same period for the Pacific Rim OECD countries (excluding Japan) was 1.9 %, while the inflation rate was 4.9 %.

As a result of this dynamism, many of the East Asian countries are expected to achieve the status of newly industrialised countries (NICs) before the end of the century[1]. The phenomenal rate of economic growth in the so called Asian Tigers (also popularly referred to as Dynamic Asia, Dragon Power or Asian Dragons) - Hong Kong, Singapore, South Korea and Taiwan - enabled these three countries to achieve NIC status in the 1980's. At their current rate of development, they will move into the category of developed countries (DCs) within the next 10 years.

In per capita GDP, some of these economies have already reached DC status, but this status also includes a measure of sophistication in the economy's infrastructure. Malaysia joined the ranks of NIC countries in 1992 and Thailand, at the current rate of per capita GDP growth of 7.9%, will achieve NIC status within the next five years. Indonesia, the closest Asian neighbour to Australia and New Zealand, is also experiencing an economic boom.

China is predicted to be the next country to join this 'magic band of economic progress'. In 1992 China recorded 12.8% growth (the forecast was only 5.5%). China is at present the fourth-largest economy in the world and World Bank projections show that by the year 2010, China will have the world's largest economy (Asiaweek 1993).

It is predicted that the "magic band" will form an arc of boom economies that will stop with the Indian sub-continent (Selvarajah 1991). India, in comparison with other asian countries, has performed at a lower level; 2.2% growth in 1991 with an expected growth of 4% in 1993 ("Economic Indicators", 1993). With deregulation and free floating of the Rupee, India is expected to undergo progressive economic changes and the Gandhian philosophy of self-sufficiency is giving way to more open market and consumer driven operations.

Political instability has denied Philippines and Sri Lanka greater achievements. However, one other country that is coming into prominence is Vietnam. *Doi Moi*, the Vietnamese version of perestroika, is quietly taking place in the country. The Association of South East Asian Nations (ASEAN) has stated that, at the current rate of political democratisation, Vietnam will join the Association, as the seventh member, before the end of this decade. Vietnam achieved an impressive GDP growth of 7% in 1992.

**Table 1. Comparative country statistics**

| | GDP Growth (%) | | | | | | | Inflation Rate (%) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1986** | **1987** | **1988** | **1989** | **1990** | **1991** | **1992[F]** | **1986** | **1987** | **1988** | **1989** | **1990** | **1991** | **1992** |
| **Pacific Rim: OECD Countries** | | | | | | | | | | | | | | |
| Australia | 2.4 | 4.3 | 3.5 | 4.4 | 1.7 | -0.9 | 2.3 | 9.0 | 4.3 | 3.5 | 4.4 | 1.7 | -0.9 | 3.5 |
| New Zealand | -0.1 | -1.2 | 2.3 | -0.1 | 1.9 | -1.5 | 1.5 | 13.2 | 15.8 | 6.4 | 5.7 | 6.1 | 2.8 | 1.8 |
| Canada | 3.3 | 4.2 | 4.7 | 2.5 | 0.5 | -0.7 | 3.3 | 4.2 | 4.4 | 4.0 | 5.0 | 4.8 | 5.7 | 3.5 |
| United States | 2.9 | 3.1 | 3.9 | 2.5 | 1.0 | -0.7 | 2.9 | 1.9 | 3.7 | 4.1 | 4.8 | 5.4 | 4.2 | 3.2 |
| Average | 2.1 | 2.6 | 3.6 | 2.3 | 1.3 | -1.0 | 2.4 | 7.1 | 7.1 | 4.5 | 5.0 | 4.5 | 3.0 | 3.0 |
| **Pacific Rim: Non-OECD Countries** | | | | | | | | | | | | | | |
| China | 8.3 | 11.0 | 10.8 | 3.9 | 5.0 | 7.2 | 5.5 | 6.0 | 7.3 | 18.5 | 17.8 | 2.1 | 3.0 | 4.0 |
| Hong Kong | 11.9 | 13.9 | 7.9 | 2.7 | 2.8 | 3.9 | 5.0 | 2.3 | 5.5 | 7.4 | 10.1 | 9.8 | 4.3 | 9.0 |
| Indonesia | 5.9 | 4.8 | 5.7 | 7.5 | 7.4 | 7.0 | 5.5 | 9.2 | 9.3 | 5.6 | 6.1 | 8.5 | 9.0 | 5.6 |
| **Malaysia** | **1.2** | **5.4** | **8.9** | **8.8** | **9.8** | **8.6** | **8.0** | **0.6** | **0.8** | **2.5** | **2.8** | **3.1** | **5.0** | **6.0** |
| Singapore | 1.8 | 9.4 | 11.1 | 9.2 | 8.3 | 6.7 | 5.0 | -1.4 | 0.5 | 1.5 | 2.4 | 3.4 | 3.7 | 2.4 |
| South Korea | 12.4 | 11.8 | 11.5 | 6.2 | 9.0 | 8.4 | 7.8 | 2.8 | 3.0 | 7.1 | 5.7 | 8.6 | 9.6 | 5.6 |
| Taiwan | 12.6 | 11.9 | 7.8 | 7.6 | 4.9 | 7.0 | 7.0 | 0.7 | 0.5 | 1.3 | 4.4 | 4.1 | 5.0 | 4.7 |
| Thailand | 4.9 | 9.5 | 13.2 | 12.0 | 10.0 | 7.9 | 7.5 | 1.8 | 2.8 | 3.9 | 5.4 | 5.8 | 6.0 | 4.6 |
| Average | 7.7 | 9.7 | 9.6 | 7.2 | 7.2 | 7.1 | 6.4 | 2.8 | 3.7 | 6.0 | 6.8 | 5.7 | 5.7 | 5.2 |
| Japan | 2.6 | 4.3 | 6.2 | 4.7 | 5.6 | 3.8 | 3.5 | 0.6 | 0.1 | 0.7 | 2.3 | 3.1 | 3.3 | 2.0 |

Sources: World Outlook 1992 Note. F = Forecast

Although both Australia and New Zealand have traditionally placed greater importance on relations with the West than the East, both countries now recognise a need to shift their marketing orientation towards Asia. The opening of strategic windows in Japan, South Korea, Taiwan and Hong Kong has attracted the attention of Australian and New Zealand investors for the last decade or two. However, 'strategic windows' are now opening in Malaysia, Thailand and Indonesia - the Three Little Tigers. This paper outlines the opportunities for trade with these three countries, with special focus on Malaysia; the tiger with a vision.

## MALAYSIA: The Tiger with a Vision

In the last five years, Malaysia has recorded an 8.8% average growth rate while maintaining an average inflation rate at 3.8 %, and this is expected to be repeated in 1993.

Table 2 illustrates the Confidence Index of Pacific Rim countries. The Confidence Indices are gathered from individual country studies published in *Asian Business*. The Confidence Index measures six criteria used in the survey; local market prospects, export market prospects, turnover, profits, company prospects and economy. Each country is evaluated against a total of 100 points. As can be seen in Table 2, Malaysia has consistently had one of the highest Confidence Index ratings of the countries noted.

**Table 2. Confidence Index**

| Country | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|
| Australia | na | 49 | 50 | na | na |
| China | na | na | na | na | 73 |
| Hong Kong | 73 | 60 | 57 | 66 | 62 |
| India | na | 82 | na | na | na |
| Indonesia | 86 | 85 | 81 | 81 | 82 |
| **Malaysia** | **90** | **83** | **81** | **75** | **77** |
| New Zealand | na | 56 | na | na | na |
| Philippines | 81 | 60 | 70 | 65 | 65 |
| Singapore | 78 | 77 | 69 | 66 | 74 |
| South Korea | 71 | 63 | 69 | 62 | 67 |
| Taiwan | 71 | 58 | 66 | 67 | na |
| Thailand | 85 | 88 | 86 | 74 | 70 |

**Source**: Asia Business

Table 3 shows the Investment Risk Index, which is based on 10 criteria. A score out of 10 is allotted to each criterion. The total score reflects the overall risk in investing in the country. The closer the score is to 100, the less risky the country is as a destination for investment. On the basis of this measure, Malaysia has performed well in comparison with the other countries listed, surpassed only by Singapore, New Zealand and Taiwan.

The attractiveness of the investment opportunities in Malaysia, Thailand and Indonesia can be seen by the support they have received from foreign investors (see Table 4). In 1991, Malaysia was ranked third amongst developing countries in attracting direct foreign direct investments. Thailand was ranked 5th, and Indonesia 6th.

**Table 3. Investment Risk Index**

| Countries | Australia | Hong Kong | Malaysia | New Zealand | Singapore | South Korea | Taiwan | Thailand |
|---|---|---|---|---|---|---|---|---|
| **Year of Survey** | **90** | **92** | **93** | **90** | **92** | **93** | **92** | **90** |
| **Criteria** | | | | | | | | |
| Inflation | 7 | 4 | 8 | 7 | 9 | 8 | 8 | 7 |
| Interest rate | 3 | 6 | 6 | 4 | 8 | 8 | 8 | 4 |
| GDP growth | 1 | 3 | 8 | 2 | 5 | 6 | 6 | 8 |
| Infrastructure | 9 | 8 | 6 | 9 | 10 | 8 | 8 | 4 |
| Labour: strife & shortage | 6 | 5 | 4 | 6 | 4 | 4 | 5 | 4 |
| Bureaucratic impediments | 9 | 9 | 7 | 9 | 5 | 5 | 7 | 4 |
| Government intervention in business | 9 | 9 | 5 | 9 | 5 | 5 | 7 | 4 |
| Armed aggression (internal & external) | 9 | 7 | 9 | 10 | 9 | 7 | 6 | 6 |
| Political volatility | 9 | 5 | 6 | 9 | 9 | 5 | 6 | 4 |
| Business confidence | 5 | 7 | 8 | 6 | 6 | 7 | 7 | 8 |
| TOTAL | 6 | 6 | 6 | 6 | 7 | 6 | 6 | 5 |

Source: Asian Business

## Corporate Planning and Strategic Vision

In Malaysia, the government has set directions and visionary goals for the country and its people well into the 21st century. The leadership of Malaysia's Prime Minister, Dr Mahathir Mohammed, has united the country and its various racial groups towards Vision 2020 - the target year for the country to attain developed nation status.

Based on Vision 2020, Malaysian companies are now taking a long-term strategic view of planning. Prompted by this vision, many companies have incorporated strategic directions and strategic corporate intent with a view to growth beyond the national shores (Selwyn & Astbury 1993). Some of the strategic changes taking place in Malaysia include:

> “Strengthening of core businesses through vertical integration, and the launching of entirely new businesses
>
> “Movement from nuts-and-bolts assembly of foreign products to integrated manufacturing;

**Table 4. Top Destinations of Global Foreign Direct Investments in Developing Countries in 1991**

| Countries | US$ millions | %Share |
|---|---|---|
| Mexico | 4,762 | 13.3 |
| China | 4,366 | 12.2 |
| **Malaysia** | **3,454** | **9.6** |
| Argentina | 2,439 | 6.8 |
| Thailand | 2,014 | 5.6 |
| Venezuela | 1,914 | 5.3 |
| Brazil | 1,600 | 4.5 |
| Indonesia | 1,482 | 4.1 |
| South Korea | 1,116 | 3.1 |
| Turkey | 810 | 2.3 |

Source: International Bank for Construction and Development Report 1993.

> "Nurturing of the development of second tier small to medium-sized industries, similar to those in Japan and Taiwan;
>
> "Acquisition of sophisticated technologies through mergers, acquisitions and strategic alliances with overseas groups;
>
> "Enhancement of productivity and incremental spending on R & D. The percentage of Malaysia's GNP devoted to R & D is expected to double to 1.6% by the year 2000."
>
> "Looking beyond Malaysia for future growth, with a view to becoming regional players.

The concern that with full-employment the economy may slow down and may redirect foreign investments to neighbouring countries, abundant in labour and with lower labour costs, no longer exists. Investment is still coming into Malaysia based on factors that are not related to cheap labour alone. Compared to most developing countries, Malaysia seems to offer a better infrastructure, a good business climate, a sophisticated and skilled labour force, and easy access to growth markets in Asia.

## Small Manufacturing Industries

With growing competition from neighbouring countries and with the tightening of the labour market, Malaysia is moving towards increasing productivity by improving labour management and promoting capital intensive manufacturing sectors. The nation is placing greater emphasis on the development of high value-added small manufacturing industries (Simi's) to support larger manufacturing concerns. The push is for investments in Simi's, which produce value-added products, employ highly-skilled labour, are environment friendly, capital intensive and able to provide forward and backward linkages. The development of 'feeder industries' in important niche areas of manufacturing is being promoted as being important to Vision 2020. Simi's are promoted in three major ways (Selwyn & Astbury 1993):

> "Multinationals are persuaded to increase the use of local components to 50 % by the third year of operation if they are to retain pioneer status[2].
>
> " 'Incubator centres' are being set up under one roof to provide support for development of business.
>
> " Specialised rather than generalised industrial estates are being established to cater for selected industries such as furniture manufacturing, and textile and garments manufacturing.

The manufacturing sector has been singled out as the main vehicle for spear-heading the economic growth towards Vision 2020. The sector is expected to grow from the current 30% (28% in 1991) to 37.2% by the year 2000 (NDP).

The agricultural sector, which has been the backbone of Malaysian economic development since independence in 1957, has been relegated in importance by other primary industries, especially petroleum and liquefied natural gas. Since 1987, revenue from manufacturing exports has become the mainstay of Malaysian prosperity. In the early 1980's Malaysia was ranked 40th in the world with regard to both exports and imports, but by 1992 ranked 23rd for exports and 22nd for imports (Rachel 1993).

## Conclusions

The dawning of the Pacific century has been overstated in that not all the economies in this geographical region are experiencing high levels of economic activity. This laurel should go to the East Asian economies. Japan has achieved economic success and this has fuelled other economies in the region toward economic progress. The Little Dragons - South Korea, Hong Kong, Taiwan, and Singapore - are the new NIC's in Asia and are steadily progressing towards developed nation status. In the last six years, the Little Tigers - Malaysia, Indonesia and Thailand - have shown promising results, and Malaysia recently has moved into the coveted NIC status.

For countries such as Australia and New Zealand, Malaysia is a natural attraction, not only because many Malaysian graduates from Australian and New Zealand universities are in high ranking influential positions in Malaysia, but because all three countries have a common colonial heritage and are members of the Commonwealth of Nations.

Malaysia has become a centre for direct foreign investment and this is not solely based on availability of cheap labour. On the contrary, Malaysia has full employment. The attractiveness of Malaysia is due to other attributes such as good infrastructure, skilled labour and good government, access to markets in the region and overall stability. These attributes provide an opportunity for both Australia and New Zealand to extend their interests in the South East Asian region.

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**Christopher T Selvarajah is Visiting Professor in the Department of Management Systems at Massey University, Albany.**

### Footnotes:

1. NIC status is usually said to have been achieved when the per capita GDP of a nation exceeds US $2000.

2. Pioneer status is offered to manufacturing and service industry firms who are able to demonstrate to MIDA (Malaysian Industrial Development Authority) that their industry satisfies certain criteria. Pioneer status, depending on the industry and the priority rating of MIDA, receives incentives from the government, such as tax holidays, for a stated period of years.