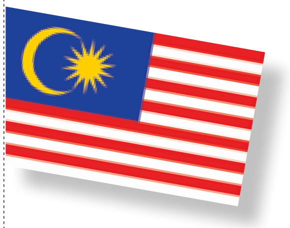


Malaysia

Renowned as an Islamic finance centre, Malaysia aims to become a fully fledged member of the developed world by 2020. Raymond Wong explains how

Malaysia is the third-largest economy in the Association of Southeast Asian Nations (ASEAN) and has one of the best economic records in the world, having grown 6.4% per year on average between 1960 and 2011. According to the Commission on Growth and Development, it is one of the 13 countries that has successfully managed high and sustained growth over the past few decades.

Once dependent on mining and exports such as tin and rubber, Malaysia now boasts a diversified economy. This has been a key factor in helping the country bounce back from the 1997 Asian financial crisis faster than its peers. The country has successfully transformed itself from an agricultural and primary commodity-focused economy to an externally oriented global manufacturing hub.

Malaysia's per capita GDP rose from $300 in 1960 to $9,700 by 2011. The World Economic Forum (WEF) *Global Competitiveness Report* and the World Bank attest to this healthy economic barometer. At the 2011 WEF, Malaysia was ranked 21 among 142 countries surveyed, overtaking South Korea. The World Bank's report, *Doing Business 2012*, ranked Malaysia 18 out of 183 countries assessed for 'ease of doing business', ahead of economic powerhouses such as Germany (19), Japan (20) and Taiwan (25).

The country has a young, diverse and multicultural society, and more than 60% of the 29.4 million population is aged between 15 and 64. Malaysia's affluent population is large and has grown at a compound annual growth rate (CAGR) of 10% for the past five years. Datamonitor forecasts that this segment will grow at 6.6% CAGR in the next five years.

Malaysia is the 25th-largest trading country in the world. Trade accounts for nearly 200% of its GDP. Electronics constitute a hefty 34% of its total exports. Besides manufactured goods, Malaysia is also a large commodity exporter, with key exports including liquefied natural gas, palm oil and rubber. In fact, it is the largest palm oil exporter in the world. Together with Indonesia, it accounts for more than 80% of the world's exports in palm oil. Thanks to its exports, the country enjoys strong current account surpluses, which in turn support its currency, the Malaysian ringgit.

To sustain Malaysia's economic growth and enable the country to become a fully fledged member of the developed world by 2020, the government has launched a comprehensive economic transformation programme (ETP). The ETP aims to lift the country's gross national income to $523bn; raise per capita income from $6,700 to at least $15,000; create 3.3 million new jobs; and increase the services sector's contribution to the economy to 65% from 58% at present.

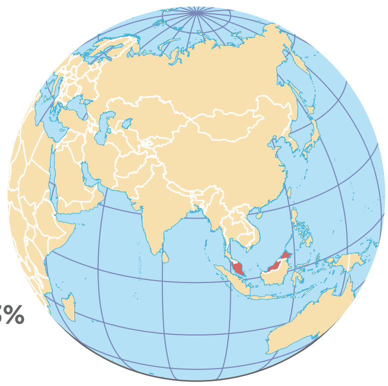
The ETP consists of 12 national key economic areas (NKEAs) – such as palm oil and rubber; financial services and tourism – and six strategic reform initiatives (SRIs). The 12 NKEAs were determined as the key growth engines for Malaysia, and will receive prioritised public investments and policy support, while the SRIs are policy measures that will help to boost the competitiveness of Malaysia.

Complementing the ETP and SRIs is the government transformation programme (GTP). The GTP consists of broad-based initiatives aimed at addressing key concerns of the population. Seven national key results areas (NKRAs) were identified. For example, reducing crime and fighting corruption are two of the seven NKRAs. GTP, together with ETP, the 1Malaysia concept and 10th Malaysia Plan, form the four pillars to propel Malaysia to achieve high-income status by 2020, through sustainable and inclusive growth.

Inevitably, there will be challenges along the path to achieving high-income status, but the old saying applies nowhere

COUNTRY FILE

Population size: 29.4 million
Area: 330,290km²
% growth in 2011: 5.1%
Type of govt: Constitutional monarchy
Official language: Bahasa Malaysia
Capital city: Kuala Lumpur
Largest state: Sarawak
GDP (PPP): $447.3bn
Central govt debt as a proportion of GDP: 53%
Currency: Malaysian ringgit (MYR)
Currency rate against the pound: 4.8367



The Petronas Twin Towers are one of the most prominent sights on the Kuala Lumpur skyline

TOP TIPS FOR DOING BUSINESS IN MALAYSIA

1. Familiarise yourself with local diversity and appreciate the different cultures and religions.

2. **The best times to discuss business are over a round of golf or while eating good food (Malaysians love food).**

3. Speak a few Malaysian phrases and greetings, such as *apa khabar* (how are you?) and *terima kasih* (thank you).

4. Personal and informal contacts are vital.

5. **People tend to accept you and do business with you if you have a proven track record.**

if not in Malaysia: where there is a will, there is a way. This certainly holds true as investment rose to $31bn as of April 2012, surpassing the government's goal by 13%. The country's per capita income rose to $9,700 from $6,700, a testament that the country is on the right trajectory.

Malaysia as a global Islamic financial centre

The Islamic banking industry has grown tremendously over the past decade and today it is the fastest-growing financial segment in the world. Islamic finance closely mirrors conventional finance, except that it operates in accordance with sharia jurisprudence and its practical application is through the development of Islamic economics and teachings.

Sharia-compliant financing lies at the core of the Malaysian government's attempt to reshape the country's economy to one that is services-based and high-value added by 2020. While the $1 trillion global Islamic finance industry is still dwarfed by conventional finance, it is gaining momentum, fuelled by growth in many Muslim countries from the Gulf to Southeast Asia.

Malaysia has a head start. It has established itself as a leading international Islamic financial centre and operates an Islamic financial system that is separate from conventional. The country's Islamic financial system has liberalised at a more rapid pace than its conventional financial system. The central bank's motivation for doing this is to form greater international economic and financial linkages.

> Malaysia's long track record of building a successful domestic Islamic financial industry gives the country a solid foundation – a financial bedrock of stability that adds to the richness, diversity and maturity of the financial system. In spite of the challenging global environment, Malaysia's Islamic banking assets reached $137bn by 2011, with an average annual growth rate of 16-24% over the past few years.

The contribution of Islamic finance to the Malaysian economy has also been growing significantly, accounting for a 2.1% share of the country's GDP in 2009, compared with just 0.3% in 2000. This has led to greater job creation, and employment in the Islamic financial industry accounts for 11% of total employment in the financial sector, according to the central bank.

Malaysia's greater liberalisation of the Islamic financial system has attracted foreign businesses from other parts of the world to the country to raise funds using Islamic financial instruments such as Islamic bonds (commonly known as *sukuk*). The global Islamic bond market saw a 68% increase in value of new issuance to $92bn last year, with Malaysia taking centre stage. The domestic market accounted for 73% of the total new issuance and the domicile for 68% of the estimated $210bn worth of outstanding *sukuk* worldwide.

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