

Malaysia's biggest advantage is its people

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Its multicultural environment a recipe for success in Asia



MALAYSIA'S economic success in the past 25 years is a story of change.

After suffering shocks to the economy since the early 1980s (the US recession of 1981-82, the commodities price collapse in 1985, the yen surging from 1985, and etc.), the then Prime Minister in the mid-1980s launched very deliberate economic policies to attract local and foreign direct investment (FDI), especially in export-oriented manufacturing.

The many free trade zones (FTZ) and industrial estates today are a direct result of huge government incentives for export and local manufacturers. Malaysia's industrial sector was transformed and the jewel in the crown was the success of the electronics sector.

The Government's active role was crucial to attracting world-class companies such as Intel, Motorola, Texas Instruments, Sony and Matsushita.

In the beginning, critics of the industrial liberalisation stoked fears that Malaysians were being disadvantaged by the Government being too liberal in promoting FDIs. Such doubts quickly disappeared when FDI factories

clearly benefited many individuals, companies and the economy.

The benefit was an expanding economic pie (annual gross domestic product, or GDP, growth ranged from 8% to 9% for much of the 1990s). It increased the nominal per capita income from US\$2,026 in 1985 to US\$8,141 in 2008, and improved the standards of living of many Malaysians.

Malaysia became known globally as a high-tech electronic manufacturing centre with a great pool of skilled workers such as engineers, managers, technicians and production workers of world-class manufacturing standards.

More successes included the birth of many local world-class manufacturing companies and many more small and medium-sized industries (SMIs) throughout Malaysia.

Today, as we survey the landscape in the midst of the global recession, economic realities tell us that we are facing another interesting crossroads in Malaysia's economic development.

The 2008 stock market crash and the current global recession triggered and accelerated a shift in the world economy. New (and increasingly wealthier) consumers will come from the East (China 1.3 billion people, India 1.1 billion and Indonesia 238 million) rather than the West (the United States 306 million people and Europe 731 million).

The West (16% of the world's population) will continue to consume more per person

(60% of global consumption) but growth in per capita consumption will be faster in the East.

How can Malaysia adapt to this changing economic landscape?

The previously successful model of attracting FDIs for export manufacturing may not work as well today. In fact, for the past 10 years, we've seen many more competitors with stronger competitive edge (in China, India, Vietnam) where costs are lower, incentives are better and domestic market much larger.

Fortunately, Malaysia still has some competitive advantages. For example, our geographic location is ideal and transport infrastructure is modern; but our greatest advantage are the people.

For a long time, Malaysia's multicultural environment has made our people adaptable. Combined with the ability to speak many languages and strong family ties to emerging economies of China, India and Indonesia, we have the recipe for success in a prosperous Asia.

Malaysia should use this advantage to forge ahead in the new economic landscape by not only continuing to export manufactured goods, but also by massively increasing our ability to sell our services worldwide, especially in Asia.

The services sector contributed 55% to 2008 GDP, of which 48% was contributed by non-government sector comprising such industries as tourism, education and financial services.

In tourism and education, Malaysia already has very successful programmes such as Visit

has very successful programmes such as Visit Malaysia Year, My Second Home programme and good private colleges that help increase the number of tourists and students from South-East Asia, India, China, and the Middle East. These sectors can be upgraded and expanded substantially as Asia becomes wealthier.

The Government's role and tremendous success in developing a world-class Islamic banking and finance in Malaysia can be applied to other sectors of financial services, for instance, fund management.

Foreign fund managers (including successful Malaysian fund managers based in overseas financial centres like New York, London, Hong Kong and Singapore) may be persuaded to make Malaysia a base if the playing field is the same or better than in other financial centres.

The services sector is about people and talents whereas FDI is about capital and technical know-how. Just like we encouraged FDI in the past, we should now encourage foreign professionals and talents to come live and work in Malaysia.

Some foreign companies in financial services such as those in the banking, investment and insurance industry, have been serving Malaysians without the desire to set up an office here.

To attract some of these world-class services companies to set up base in Malaysia may mean giving them full say in ownership control. To retain the foreign talents, for instance, there should be merit-based compensation and promotion system; these are just two of many minimal standards practised in established financial centres worldwide.

Malaysians should not fear the process of liberalisation. Prime Minister Datuk Seri Najib Razak started the ball rolling by liberalising 27 services sub-sectors in April this year.

We hope there will be more liberalisation forthcoming because if Malaysia does not take the opportunities to expand its competitive edge in the services sector, I fear we may lose out in the coming great Asia prosperity boom.

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