

THE MALAYSIAN ECONOMIC EXPERIENCE AND ITS RELEVANCE FOR THE OIC MEMBER COUNTRIES

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Malaysia's economic track record in development is extremely impressive by any standards. The economy has made quantum leaps in just over three decades. It is noteworthy that rapid economic growth has been accompanied by a more equitable income redistribution without significant inflationary overtones. Trade represents the life-blood of the Malaysian economy with foreign direct investments playing a pivotal role in the industrialisation process. Economic openness has brought prosperity as well as vulnerability. To be sure, the Malaysian economy has been fairly resilient until it was caught in a major currency turmoil that began in mid-1997. However, the origins of the current crisis are not entirely external. Domestic policies too have inadvertently contributed to the economic woes of the country. Nevertheless, the economy rests on solid foundations built since independence in 1957. The current problems are viewed as no more than a passing phase. However, there is a need to recognise policy failures, identify structural flaws in the system and set the house in order. OIC member countries can find useful lessons, both positive and negative, especially in the real of economic governance in Malaysia's development experience.

1. INTRODUCTION

Malaysia has attracted much international attention first by putting up an extraordinary economic performance and more recently by getting caught in a major currency crisis. All this raises many questions concerning not only the Malaysian success story but also the management of success itself. There are important lessons, both positive and negative, that one can extract from the Malaysian experience.

It is however important that we do not let the current economic uncertainties obscure the underlying strengths of the Malaysian economy, which have been carefully built up over the years. To be sure, the present currency turmoil is no more than a passing phase and will, in all probability, be a thing of the past sooner

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than many would imagine. There is basis to expect that Malaysia's strong economic fundamentals will reassert themselves, in no uncertain terms, once the dust has settled.

Economic crisis is not new to Malaysia. It experienced a severe recession in the mid-1980s, with a negative gross domestic product (GDP) growth in 1985, but it pulled itself out of the doldrums with remarkable speed. Since 1987, the Malaysian economy was growing at an average rate of about 8.5 per cent per annum up till 1996. In the first half of 1997, the GDP growth averaged 8.3 per cent on an annualised basis before the currency crisis hit the country in July 1997. Despite the currency crisis, the Malaysian economy posted 7.8 per cent growth in 1997, indicating that the real sector of the economy was yet to feel the pinch. Nonetheless, if the experience of the mid-1980s is any guide, one should be quite confident of Malaysia's capacity to overcome the present difficulties.

Malaysia's track record in terms of economic development is very impressive. Per capita income increased from US\$304 in 1965 to US\$4,465 in 1996. The overall incidence of poverty (percentage of poor households) in the country declined from 49.3 per cent in 1970 to 8.9 per cent in 1995. The ratio of *Bumiputra* (indigenous) household means income to that of others has improved from 1:2.3 in 1970 to 1:1.3 in 1995. In terms of rural-urban disparity, the ratio of rural mean income has increased from 47.0 per cent in 1970 to 54.5 per cent in 1995. The quality of life has improved enormously in terms of amenities in relation to population size. In short, only a few developing countries can come close to Malaysia's excellent economic development track record.

It would, of course, be naive to view Malaysia as a development model that other countries can simply adopt or emulate. Nothing can be more fallacious. It will be dangerous to make generalisations based on observations that are specific in terms of both space and time. What works in one country may not work in another. By the same token, what could work in a country at one time may not work at a different time in the same country. Every country is unique and each country will have to mould its own development model according to its own changing circumstances. This does not mean that the past experiences of others are totally irrelevant. It is in this sense that the Malaysian experience is of considerable interest to others.

The relevance of the Malaysian economic experience to OIC member countries, in particular, is beyond question. The World Bank and the International Monetary Fund (IMF) have hailed Malaysia as a Third World showcase model, as it has successfully upgraded itself from being an average developing country to an advanced developing country in a relatively short period. What makes Malaysia outstanding is not just the high quantum GDP growth but the high quality of economic growth with an increasingly equitable income distribution and without

inflation. Malaysia clearly outshines other Islamic countries on many such counts. There may well be some useful lessons in the Malaysian experience for OIC members.

In what follows, an attempt is made to trace the development path of the Malaysian economy, with a special focus on policies and strategies. The main purpose of this effort is to highlight policy successes as well as failures in the Malaysian context. It is hoped that this insight will provide pointers for policy formulations in OIC member countries. They should sift through these experiences, taking what would confer benefit and leave out what might cause harm.

2. CHANGING PROFILE

The Malaysian economy has undergone rapid transformation since Independence in 1957. At the time of Independence, the economy was precariously dependent on two primary commodities, namely rubber and tin, the prices of which were highly volatile. Consequently, the economy was very vulnerable to fluctuations in primary exports. Export diversification was one of the first measures taken after Independence. Oil palm, pepper, cocoa and pineapple were among the new commercial crops geared primarily for the export market. Manufacturing was introduced for purposes of import substitution under mild tariff protection.

In the initial stages of industrialisation in the late 1950s, the focus was on the production of consumer goods for the home market. The limitations of the import substitution strategy soon became apparent as the small domestic market became saturated. Further expansion seemed impossible. Accordingly, there was a radical shift from inward-looking import substitution to outward looking export promotion in the 1970s. A racial riot in 1969, which led to the launching of the New Economic Policy (NEP), made this shift an absolute necessity. The main thrust of the NEP was to reduce inter-ethnic economic disparities, not through disruptive redistribution of the economic pie but through active contribution of the indigenous population to its expansion. This strategy called for rapid economic growth that would enable the Bumiputra share to grow without making other ethnic minorities worse-off (Zainal, 1994). It was readily apparent that primary exports could not provide the much needed growth impetus. Hence the emphasis placed on manufactured exports in the 1970s.

The profile of the Malaysian economy has changed radically since 1970. It is no longer dependent on a few primary commodities. Its production base has broadened, with manufacturing accounting for a growing share of national output and employment. The Malaysian economy has become more open and outward-looking over the years.

The changing structure of the Malaysian economy is reflected in the changing composition of the country's GDP (Table 1). The share of the agricultural sector in GDP has declined from 30.8 per cent in 1970 to 12.2 per cent in 1997, notwithstanding significant agricultural diversification, while that of the manufacturing sector has grown rapidly from 13.9 per cent to 35.5 per cent between 1970 and 1997. Structural changes in the Malaysian economy are also reflected in the changing pattern of sectoral employment, with the contribution of agriculture to employment declining from 53.5 per cent in 1970 to 15.2 per cent in 1997 and that of manufacturing rising from 8.7 per cent to 27.5 per cent over the same period (Table 2).

It is the manufacturing sector, which has played a key role in the modernisation of the Malaysian economy. And, in this regard, the decision to reorient the manufacturing sector towards the export markets certainly made a big difference. The 1970s witnessed the establishment of many export processing zones in which multinational corporations (MNCs) have played a pivotal role. Significant industrial restructuring has taken place within the manufacturing sector, with electrical and electronic (E&E) products playing an increasingly dominant role.

In the 1980s, Malaysia opted for a second round of import substitution by mounting its ambitious heavy industrialisation programme. The heavy industries which the government has vigorously promoted include petrochemicals, iron and steel and automobile manufacturing. These industries represent some of the most heavily protected activities in the country.

The Malaysian economy has always been very trade-dependent. Indeed, trade represents the life-blood of the Malaysian economy. The ratio of exports to gross national product (GNP) has risen from 48.2 per cent in 1965 to 100.3 per cent in 1996. The total value of exports and imports is twice as large as the country's national income. The composition of exports has changed dramatically, reflecting the changing profile of the economy. The share of primary exports in total exports has declined from 79.6 per cent to 17.5 per cent between 1970 and 1996. By contrast, the share of manufactures in total exports has risen sharply from 11.1 per cent to 80.6 per cent during the same period (Table 3).

Although Malaysia is resource-rich, resource-based manufacturing has assumed a relatively low profile, accounting for 23.8 per cent of total manufactured exports in 1996. Non-resource-based manufactures form the bulk of the total exports. It is noteworthy that E&E exports accounted for 65.4 per cent of the country's total manufactured exports in 1996.

The structure of Malaysia's imports has also undergone major changes. The ratio of consumption goods to total imports has fallen from 28.5 per cent to 14.6 per cent between 1970 and 1996, while that of investment goods and intermediate

goods have increased conversely (Table 4). The changing structure of imports reflects the industrialisation process, which in itself is highly import-dependent with increased demand for machinery and intermediate inputs.

The direction of trade flows has not changed much over the years. The United States (US), Japan, Singapore and Western Europe continue to be the main export destinations as well as the main sources of imports for Malaysia. Their combined share of Malaysian exports has fallen only slightly from 71.9 per cent in 1970 to 65.7 per cent in 1996 (Table 5), while that of imports has risen significantly from 56.8 per cent to 67.7 per cent over the same period (Table 6).

Foreign direct investment (FDI) has played a crucial role in the development of the Malaysian economy (Ariff, 1992). As a matter of fact, trade and investment are interrelated. Much of the manufactured exports are associated with FDI activities in the country. Malaysia's main trading partners, namely Japan, Singapore, the US and Western Europe have also been the major sources of FDI for Malaysia (Table 7). It was only recently that Taiwan and Korea have emerged as important investors in Malaysia. FDI has gone into a wide spectrum of manufacturing activities, ranging from food processing to the production of scientific and precision instruments. Nonetheless, electronics, chemicals, textiles and wood products account for the bulk of FDI stakes in the country (Table 8).

3. MACROECONOMIC PERFORMANCE

The Malaysian economy has been registering high growth rates. In the 1970s, the economy posted an average real GDP growth of 7.8 per cent. Economic growth in the 1980s was also quite impressive, despite the recession of the mid-1980s. The economy has been growing at rates averaging over 8 per cent during the last 10 years (since 1987), with GDP growth peaking at 9.5 per cent in 1995 (Chart 1).

It is also noteworthy that the unemployment rate has declined significantly from 8.3 per cent in 1986 to 2.5 per cent in 1996. In fact, the Malaysian economy has experienced severe labour shortage, especially in the plantation, construction and manufacturing sectors, which has been filled by immigrant workers. There are some 2 million foreign workers in the country, which is extremely large for a small country with 9 million domestic workforce.

It is remarkable that Malaysia has been able to register high GDP growth without inflationary pressures, except during the mid-1970s when double-digit inflation was experienced in the midst of the "oil shock" (Chart 2). During the high growth period of 1987-96, inflation was kept at 3-4 per cent. In 1996, inflation stood at below 3.0 per cent. In the first half of 1997, the inflation rate decelerated further to as low as 2.7 per cent.

The only sign of overheating for the Malaysian economy has been the growing deficit in the current account of the country's Balance of Payments (BOP). Traditionally, Malaysia has enjoyed trade surpluses with sporadic current account deficits due to huge shortfalls in the services account. In 1995, current account BOP deficit amounted to 10.5 per cent of GNP, declining to 5.0 per cent of GNP in 1997 (Table 9). Until lately, these deficits have not posed a serious threat to the Malaysian economy as these were more than offset by substantial foreign investment inflows.

The country's macroeconomic management has been fairly sound, but there were weaknesses in the system, which were exposed during the recession of the mid-1980s (Ariff, 1993). Its budget deficits were large by Asian standards, while its external debt burden became disproportionately heavy. Subsequent economic reforms have ushered in conservative budgetary measures, limiting its budgetary options to either balanced or surplus budgets. Monetary policy has always been prudent, with the Central Bank pursuing realistic interest rates. However, there have been considerable central bank interventions in the foreign exchange markets. The Central Bank transgressed its boundaries in 1992 by actively playing in the foreign exchange market when the British Sterling was under severe pressure, losing billions of dollars in the process.

4. DEVELOPMENT POLICIES AND STRATEGIES

Malaysia's open-economy approach to economic development has paid handsome dividends. Resource endowments, colonial heritage, plural societal fabric and geographical setting are among the imperatives that propelled Malaysia into adopting such an overtly outward-looking approach right from the beginning. Liberal trade policy and FDI-driven export-oriented industrialisation have helped the economy develop rapidly without being constrained by the smallness of the domestic market, capital scarcity and technological handicaps.

There are many reasons as to why Malaysia has been actively seeking foreign investment, in addition to its strong commitment to long-cherished open-economy traditions. Modernisation of the economy, diversification of the production structure, employment creation, technology transfers, industrial dispersion and export orientation of the manufacturing sector have been some of the important policy goals. Investment incentive schemes were designed to achieve these policy objectives. Besides, foreign investment was preferred over foreign debt, as the latter will need to be serviced regardless of the country's export performance, whereas foreign investments in export-oriented activities will have to generate sufficient foreign exchange earnings before profits can be repatriated (Ariff and Semudram, 1987). It was duly recognised that foreign debt is a burden, while foreign investment is not.

It is important to note that agriculture was not neglected, despite the focus on industrialisation. Notwithstanding the sharp decline in the relative importance of agriculture in terms of its contributions to GDP and export earnings, commercial crops still constitute one of the strong pillars of the Malaysian economy, thanks to substantial R&D investments which have led to remarkable technological breakthroughs. It is noteworthy that Malaysia was able to turn palm oil and cocoa into viable primary export items at a time when some African producers were lamenting about declining terms of trade. It is no exaggeration to state that Malaysia's cost-saving production methods have revolutionised these activities. As an upshot, crop production has become less land-intensive mainly due to the discovery of high-yielding clones with shorter gestations, resulting in enormous productivity gains and significant cost reductions (Aziz, 1994).

Consistent with its outward-looking growth strategy, Malaysia had kept its tariff levels at relatively low levels by the developing country standards. The effective rates of protection, however, were much higher than the nominal rates of protection. The country's tariff regime gave rise to distortions in the manufacturing sector, pampering some activities and penalising some others. The structure of protection, designed for the import substitution phase, seemed inappropriate when the country shifted to export promotion. Nonetheless, the tariff system remained almost intact, as import-substituting and export-oriented industries coexisted. The anti-export bias in the tariff structure was neutralised by export incentives (Ariff and Hill, 1985). More recently, Malaysia has lowered its tariffs significantly. Unilateral, regional and multilateral initiatives in recent years have caused trade-weighted average tariff to be as low as 8 per cent, down from 15 per cent at the beginning of the industrialisation drive.

Government intervention in the economy has been quite pervasive. The interventionist policies have revolved mainly around the NEP. To achieve the NEP goals, the government introduced legislations and guidelines and established a number of public enterprises. Although the NEP objectives were truly laudable, the NEP did impose constraints on the business sector especially with respect to the equity structure. Foreign investors, in particular, found it difficult to comply with the NEP guidelines. Under the NEP, the extent of government involvement in the economy increased dramatically. Public sector expenditure, for instance, as a proportion of GNP increased from 24.5 per cent in 1970 to 38.3 per cent in 1982, although it fell subsequently to 24.4 percent in 1988 after policy reforms (Table 10).

As mentioned, public enterprises were the main instrument of direct government involvement in the economy in the 1970s and early 1980s. Many of them failed to perform and incurred substantial losses. With the worsening of economic conditions and budgetary constraints in the mid-1980s, they became

unacceptably burdensome to the government. Hence, the subsequent privatisation of many public enterprises.

The Malaysian government had a heavy hand in the launching of the ambitious heavy industrialisation programme in the early 1980s. The establishment of Heavy Industries Corporation of Malaysia (HICOM) was a strong manifestation of direct government involvement in the country's industrial development. Apparently, the policy decision in favour of heavy industrialisation was "inspired" by the Korean model of industrial development based on the practice of "picking winners". In fact, the First Industrial Master Plan (1985-95) had Korean fingerprints all over. The Malaysian heavy industries have been in trouble, saddled with high production costs, heavy debts, market glut and excess capacity. They are simply uncompetitive. They could not have survived, had it not been for state patronage and strong protection.

The role of the government has changed diametrically as a result of the paradigm shift in the mid-1980s. The new paradigm clearly favours no more than minimal government participation in business. The dictum is fairly straightforward: it is not the business of the government to be in business; the business of the government is to govern. The Malaysian government has adopted a pro-private sector posture, playing essentially a facilitating role. There has been considerable co-operation and collaboration between the government and the corporate sector, with regular consultations.

All this does not mean that the government has stopped playing a developmentalist role. Not at all. The government continues to provide vision and direction, albeit in consultation with the private sector. Generally speaking, development planning in Malaysia has been no more than indicative, charting directions in which the economy might move, with the private sector steering the course and the public sector taking the back seat. The principal planning agency, the Economic Planning Unit (EPU), which is directly responsible to the Prime Minister, formulates outline perspective plans, which are fine-tuned into five-year plans.

The main aim of the First Malaysia Plan (1996-70) was to promote agricultural and industrial activities so as to diversify the economy and create employment. Accordingly, the focus was on labour-intensive import and export substitution. The Second Malaysia Plan (1971-75) paid much attention to export-oriented industrialisation, in addition to increased direct government participation in commercial and industrial activities which signalled a radical departure from the earlier practice. Under the Third Malaysia Plan (1976-80), resource-based industries were given a boost, thanks primarily to the discovery of oil and gas. Education and training in the field of industrial engineering were given much emphasis, to relieve shortage of skilled manpower. The main task of the Fourth

Malaysia Plan (1981-85) was to boost productivity, expand the industrial base and modernise the services sector. In addition, small-scale industries were promoted through the provision of training and financing facilities. The Fifth Malaysia Plan (1986-90), launched in the aftermath of the recession, introduced reforms such as the removal of restrictions on private investment and foreign equity participation in the economy. R&D activities were given new emphasis, especially in high-technology areas including microelectronics, laser technology and electro-optics, biotechnology, and materials technology. The principal objective of the Sixth Malaysia Plan (1991-95) was to enhance the competitiveness of Malaysian manufactures through technological upgrading, industrial restructuring and innovation in production, design and marketing. The Seventh Malaysia Plan (1996-2000) has laid much stress on productivity-driven growth via integrated production in higher-value added activities, especially technology-intensive and knowledge-based industries (Tan and Ariff, 1997).

Reference must also be made to the two Industrial Master Plans (IMP 1 & 2). The IMP1 (1986-95) was a long-term indicative plan for the development of 12 industrial subsectors, comprising seven resource-based industries and five non-resource based industries. The IMP2 (1996-2005) has adopted a Manufacturing ++ concept to integrate all the components of the value-added chain, combined with the cluster concept whereby related industries are geographically grouped to maximise intra-industry synergies (Tan and Ariff, 1997).

5. ECONOMIC UPHEAVALS

Undeniably, Malaysia has achieved so much in so short a time, but its growth path has been punctuated with many ups and downs. In the mid-1980s, the country experienced the first major economic crisis, which was attributed to the poor performance of many state-owned enterprises, heavy external debts, depressed commodity markets and overvalued exchange rate of the Ringgit. Pump-priming by the government in the early 1980s only resulted in increased budget deficits and public debt and a deferment of the crunch. The economy experienced a painful contraction in 1985 with negative GDP growth and widespread unemployment. Fortunately, the Malaysian economy rebounded fairly quickly, responding positively to the various economic reforms that were introduced by the government. These reforms included trade liberalisation, privatisation of many public enterprises, deregulation, decontrol, debureaucratisation, tax reforms, devaluation of the Ringgit and civil service downsizing. As a consequence, the Malaysian economy could grow rapidly since 1987.

The second economic crisis, which began in July 1997, was triggered by a sharp depreciation of the Malaysian Ringgit. The external value of the Ringgit fell by about 50 per cent (Chart 3), while the Malaysian stock market plunged by nearly 60 per cent (Chart 4). What started as financial sector crisis has now spread to the

real sector as well. Importers are badly hit by the Ringgit depreciation, as they had sold their goods at the old exchange rate, while payments have to be made at the new rates. Many of them have been postponing payments hoping that the Ringgit would strengthen. With the Ringgit continuing to spiral downward, the debt burden has increased enormously. The credit squeeze and the rising interest rates have caused severe cash-flow problems for firms, resulting in the scaling down of operations and retrenchment of workers.

This second crisis differs from the first in terms of causation. This time, external debts were relatively low (about 42 per cent of GNP, with short-term debts constituting less than one-third), external debt-servicing ratio was pretty small (roughly 5.6 per cent of export earnings), savings/GNP ratio was quite high (over 39 per cent) and international reserves in mid-1997 were large enough to finance four months of imports. Primary commodity prices, especially palm oil, have been somewhat upbeat, not to mention the nation's comfortable budget surplus. It thus appears that economic fundamentals were in place. How can we then explain the currency turmoil?

The contagion effect emanating from the free fall of the Thai Bhat next door could only provide a partial explanation. The rest may be ascribed mainly to domestic weaknesses. The economy was overheating due to too rapid a growth, as reflected in the persistent current account BOP deficits. In 1995, current account deficit amounted to 10.5 per cent of GNP. Although the BOP situation (Table 9) seemed to have improved with the ratio of the current account deficit to GNP falling to 5.0 per cent, there were concerns about the way in which the deficit was financed. This time around, it was financed largely by volatile short-term foreign capital inflows. Growing "reverse" investments by Malaysian companies outside Malaysia (about 19.4 billion ringgits in 1994-96 and 5.2 billion ringgits in January-July 1997) have also contributed much to the BOP problem.

The perception in mid-1997 was that Malaysia's BOP situation would get worse, not better and that Malaysia might have difficulties in financing the BOP current account deficits. This was accentuated by FDI figures for the first half of the year, which showed a 45 per cent decline in FDI applications and approvals. This meant that Malaysia would have to either increase its external debts or draw down its international reserves. Worse still, the trade figures for March, April and May 1997 showed growing trade deficits. What was sadly overlooked was the fact that much of the increased imports were components and parts for subsequent E&E exports and that exports would soon overtake imports. The fall of Thailand's currency in June made the foreign portfolio investors extremely nervous, prompting them to push the panic button. They dumped their Malaysian stocks and sold the Ringgit, causing waves in the stock and currency markets.

At the macro level, there were some discomfoting signals. First, incremental capital-output ratio (ICOR) rose very sharply in the mid-1990s, indicating inefficiency in the allocation of capital (Chart 5). Second, total factor productivity (TFP) turned negative in 1996, suggesting that output growth was input-driven and not productivity-driven (Chart 6). Third, trade-weighted real exchange rate and trade-weighted nominal exchange rate of the Ringgit deviated from one another from 1992 onward, which implied an overvaluation of the Ringgit (Chart 7).

There were also some disturbing trends in the financial sector. The rapid expansion of overall money supply (M3) at rates exceeding 20 per cent per annum (Chart 8), the fast growth of bank loans at rates surpassing 30 per cent per annum (Chart 9), and the massive diversion of commercial credit away from the productive traded sector towards speculative sectors, especially the property sector, were particularly worrisome (Table 10). There is apparently a heavy domestic burden due to excessive borrowing, with loans-GNP ratio exceeding 150 per cent, although deposits-loans ratio for the banking sector as a whole has remained above unity. Non-performing loans ratio is expected to rise, as was the case in the mid-1980s (Table 11). Many corporate entities are more debt-based than equity-based, with debt-equity ratios of over 4:1. It seems that former state-owned enterprises, which were subsequently privatised, might have contributed much to the ballooning of domestic debts. It thus appears that the current crisis is essentially a making of the corporate sector, now that the government has been pursuing fairly conservative expenditure policies, generating budgetary surpluses year after year with low public debts, quite unlike the crisis of the mid-1980s (Table 12).

Nonetheless, the current crisis may also have much to do with a number of government policy errors. First, the government was persistently targeting at high growth rates, not realising that prolonged high growth is not costless. The economy has been growing at rates well above what may be termed the “potential” or “optimal” rate (estimated at 6 per cent) during the last 10 years (Chart 10) and overheating in the process. The government could keep tabs on inflation but only at the expense of growing external deficits. Tariffs were reduced primarily to make imports cheaper and foreign workers were brought in large numbers to keep wages low. Second, pegging the Ringgit to the US Dollar has led to a progressive overvaluation of the Ringgit, as the Dollar has appreciated over the years almost against every currency. Third, it was not a good policy to allow, let alone encourage, reverse investments at a time when the country was experiencing severe and persistent current account deficits. Some of these investments were also of questionable quality, as a large proportion has gone into infrastructure development with no prospects of an early harvesting. Fourth, the large-scale importation of unskilled labour into the country was a policy mistake, as it not only encouraged unsustainable high input-driven growth, but also caused the BOP to bleed on account of massive income remittances. Finally, the clustering of many mega infrastructure projects (e.g. the Bakun Dam in Sarawak, bridge linking Peninsular

Malaysia with Sumatra, bridge linking the mainland with the Langkawi island, new airport in northern Kedah, land reclamation in Kedah, and the Linear City in Kuala Lumpur) by the government has raised questions about their affordability, while some of them might have even been ill-conceived.

The current economic turmoil has turned out to be much more severe and its ramifications much more complex than what was thought at the beginning of the crisis. One cannot expect a quick turnaround. A positive side of such a crisis is that it tends to have a humbling effect on people at the helm and compels policy-makers to be pragmatic and down-to-earth. Although the currency crisis may be viewed basically as a market correction exercise, the market is by no means perfect. Without a doubt, the market has overshot and that the Ringgit is grossly undervalued.

The government has responded to the crisis with austerity measures which include substantial cuts in public expenditure, reductions in the salaries and allowances of civil servants, deferment of many infrastructure projects, freezing of reverse investments, squeeze on bank loans, and restructuring of financial institutions through mergers and take-overs. The government has avoided IMF assistance, as the standard Fund conditionalities would have a crippling effect on the economy. In any case, Malaysia's external debt situation is not serious enough to warrant IMF intervention.

In a sense, it would be incorrect to label the current crisis as "economic crisis", as it initially had little to do with the real sector of the economy and somewhat inaccurate to brand this crisis as "financial crisis" either, as the financial sector was not really ailing prior to the crisis. It now appears that what Malaysia is facing is essentially a "confidence crisis". It is the locals who have apparently driven the Ringgit and the Malaysian stocks to the basement after the foreign "hot money" had left the country. The residents have been shifting their deposits from local banks to foreign-owned banks in Malaysia and diverting their funds to countries where interest rates are higher and the exchange rate is more stable. The lack of confidence thus seems to be the main problem.

What led to the sudden loss of confidence? Hindsight tells us that the authorities may have wasted much valuable time initially on denying and blaming, unable or unwilling to come to terms with the new realities soon enough. This apparently led to a loss of credibility. The market perception was that positive government response came too late, if not too little. Some well-intentioned austerity measures taken by the government in December 1997 might have led inadvertently to an erosion of confidence, as these were seen as ominous signs as if the government was experiencing severe financial difficulties. As a matter of fact, the Treasury has remained financially strong and healthy all along, and the main purpose of the austerity announcements was to send a message to the private sector that it must

cut out its excesses. Market misinterpretation, however, inflicted a dent on confidence.

An announcement by the Central Bank in the first week of January 1998 asking the local financial institutions to come up with merger proposals by 31 March 1998 had also adversely impacted on market confidence. Many in the market place saw the merger plans as a government effort to bail out the shareholders of weak financial institutions and interpreted the deadline to mean as though the collapse of some banks was imminent. In fairness to the Central Bank, such merger plans have been on the cards as a long-term strategy to meet the challenges of globalisation. Presumably, the Central Bank had thought that such mergers at this time would also boost confidence in the financial system, as people usually associate bigness with strength, but the top-down approach has apparently had the opposite effect.

The lack of confidence in the currency and the financial system has tended to delay the recovery process. The flight of domestic capital in search of safer havens has exacerbated the difficulties. It is not easy to restore confidence, especially when transparency is lacking. There are important lessons of governance in all these for both the government and the corporate sector.

However, one must not underestimate the positive side of exchange rate depreciation. It will stimulate exports, even though some of the advantage of the weak Ringgit would be offset by the rising cost of imported inputs. It will also stimulate the domestic sector by diverting demand from imports to domestic substitutes. These positive effects, however, will not be strong enough to prevent a major slowdown in the economy in 1998 and 1999. It will be difficult for Malaysia to export itself out of the doldrums this time, as the East Asian market which accounts for some 56 per cent of its exports remains depressed, while world demand for electrical and electronic items which represents over one-half its total exports remains sluggish, not to mention supply side constraints.

Despite the currency turmoil, the fundamentals of the Malaysian economy remain strong. On many counts, Malaysia stands tall among countries, which have been afflicted by the currency meltdown. It is incorrect to lump Malaysia together with Korea, Thailand and Indonesia. Malaysia differs from these countries in terms of low external debts in general, and low short-term external debt in particular, low debt-service ratio, high savings ratio, low inflation, high employment, and relatively sound banking sector. It will probably take 4-5 years for the Malaysian economy to be back on the fast track. The medium- and long-term prospects are fairly bright. All indications are that the worst is over for the Ringgit, although the real sector of the economy will have to continue to experience painful adjustments for some time. The balance of payments will take care of itself with exports overtaking imports, thanks primarily to exchange depreciation and economic slowdown. However, inflationary pressures are likely to cause considerable

distress. The economy registered a negative growth of 1.8 per cent in the first quarter of 1998. The current economic crisis is expected to bottom out in the fourth quarter of 1998 with a negative growth of about 3 per cent for the whole year. Economic recovery, however, may be slow to come about, largely due to negative regional influences.

Much would however depend on the anticipated policy changes designed to calm the market. To be sure, the market is anxiously awaiting policy pronouncements from the newly established National Economic Action Council. It now appears that the government is prepared to stimulate the economy by instituting a deficit budget for 1999 after five consecutive surplus years. The market should view this positively so long as the proposed deficit can be financed by using the surpluses of preceding years without having to borrow. Needless to say, borrowing abroad will be costly while borrowing at home will crowd out would-be investors. Another important recent development is the establishment of Asset Management Company (AMC) that would buy up non-performing loans of commercial banks and other financial institutions. While all this is reassuring, the market remains nervous particularly about perceived bailouts of companies and individuals, which is exacerbated by mixed policy signals and a lack of transparency in the system.

6. POLICY LESSONS AND RELEVANCY FOR OIC MEMBERS

OIC members may draw a number of important policy lessons from the Malaysian experience. There is no suggestion, of course, that this experience is of equal significance or equal relevance to all OIC countries, as each country is admittedly different from the rest. Nevertheless, there is little doubt that they would find in the Malaysian experience some useful ingredients for formulating their own policies and strategies.

It is abundantly clear that economic openness has brought much prosperity to Malaysia, albeit at the cost of vulnerability to external forces. Malaysia has found that external instability is a “price” to pay for progress and that there are ways and means of keeping this price low. Economic resilience can be enhanced through structural changes and skilful macroeconomic management. A closed-economy policy would have insulated the economy from external fluctuations but would have made the country substantially poorer.

The Malaysian experience shows that it is possible to minimise the adverse effects of external instability through appropriate policy actions. In the 1960s and 1970s, for instance, Malaysia could cushion the impact of external volatility on the domestic economy by adopting Keynesian counter-cyclical policies. However, there remains the danger of wrong policies accentuating the amplitude of cyclical fluctuations, as was indeed the case in the early 1980s. Anti-recessionary measures

taken in the downswing through increased public expenditure would make sense only if public expenditure was restrained in the preceding upswing so that the government would have enough ammunitions to ward off the recessionary forces. It appears that the government went overboard, not only spending all the windfall gains in 1979 and 1980 but also borrowing heavily to finance the public sector projects, so much so that it could not do much when the crunch came in 1985. Expansionary fiscal policy was ruled out, as the debt burden was already heavy, and expansionary monetary policy was averted for fear of inflationary consequences. The sudden withdrawal of the public sector aggravated the situation in the mid-1980s. A phased withdrawal would have been more appropriate.

The Malaysian experience has also shown that export diversification cannot guarantee export stability, even though it helps spread risks. Export earnings can be stabilised only if commodity prices move in an offsetting manner. When commodity prices move in tandem, as was indeed the case in the mid-1980s, the impact is additive, causing export earnings to be extremely volatile. Diversification for its own sake can be costly to the extent that it violates the principle of specialisation and international division of labour. Export diversification would make economic sense provided that it is undertaken within the framework of dynamic comparative advantage, in the interest of efficient allocation of resources.

Economic openness need not be viewed as a source of weakness. As borne out by the Malaysian experience, economic openness can ensure efficiency in resource allocation and rapid economic growth. For exposure to international competition tends to eliminate inefficiency and complacency. An open economic system sensitises the economy so that it can pick up market signals instantaneously and respond to them quickly and spontaneously. In the mid-1980s when Malaysia was weak and weary, the government reacted not negatively by looking inward, but positively by opening the economy even more widely through economic reforms. It cannot be denied that the liberal, open policies had helped the Malaysian economy rebound remarkably.

The debacle of the early 1980s did expose the weaknesses of the system. The Malaysian policy-makers learned important lessons from the crisis. Consequently, flexibility, adaptability and pragmatism have become the hallmarks of the Malaysian policy machinery. The bold, down-to-earth policy adjustments made after 1985 turned the economy around dramatically. In particular, the pro-business posture of the government and its willingness to work with, not against, market forces are the by-products of the recessionary spell in the mid-1980s.

An important lesson drawn from the Malaysian experience is that flexible policies can ensure “soft landings” in difficult times. In an open economy like Malaysia, the transmission of external cyclical movements to the domestic economy is inevitable, but their impact will depend critically on the speed with

which domestic policy adjustments are made. Economic resilience thus hinges not only on the degree of the openness of the economy but also on the quality of policy responses.

If the Malaysian experience is anything to go by, it is certainly good economics to have an open economy, as it can ensure rapid economic growth through efficient resource allocation by putting resource and factor endowments to the best possible use, based on the principle of comparative or competitive advantage. The adverse effects of economic openness can be minimised through appropriate policy responses. Seen in this perspective, the question of internal resilience in the face of external volatility is essentially one of management of economic success resulting from closer integration with the global economy.

To be sure, export-led growth has brought much prosperity to Malaysia, but this observation begs the question what is “export orientation”? According to the World Bank definition, it simply means a “neutral” trade regime without a bias in favour of exports. Technically, an export promotion regime is one where the effective exchange rates for exportables and importables are equalised (Bhagwati, 1988). In other words, export promotion means nothing more than the removal of distortions caused by the structure of protection under an import substitution regime without creating a bias in the opposite direction (Krueger, 1978). It is better to eliminate such distortions as tariffs at the source than to offset them with such counter distortions as export incentives. Export orientation in Malaysia has necessitated considerable trade liberalisation, deregulation and decontrol. Malaysia has discovered that liberalisation does pay, as it leads to considerable static and dynamic gains.

Is all this tantamount to saying that export-led growth is a must for every country? It may well be argued that this is a must only for small countries with a small domestic market such as Malaysia and Maldives but not for big countries with a sizeable domestic market such as Indonesia and Egypt. It is pertinent to point out in this context that it is not export orientation per se in terms of its contribution to GNP but liberal policies behind it that really matter. In other words, it would still pay countries to adopt liberal policies, even if they do not have to depend on export markets, as this will make their products competitive vis-a-vis imports. Having a liberal trade regime is one thing, and aggressively pursuing export promotion is quite another.

Is there a limit to export-led growth? The recent turn of events in East Asian economies, including Malaysia, has given rise to some doubts. Upon close scrutiny, however, there is really no basis to think that the so-called “East Asian Miracle” is over. The current problems faced by some East Asian economies in general, and Malaysia in particular, have nothing to do with the “export pessimism” hypothesis advanced by some economists. As was seen, the current

crisis is largely associated with overvalued exchange rates and heavy reliance on debt financing rather than equity financing rather than a dearth of export opportunities. Slower growth of exports in some East Asian economies in recent years is largely attributed to a lack of competitiveness on the supply side rather than a lack of market opportunities on the demand side.

“Export pessimism” is by no means a new doctrine. It was argued in the 1950s that export reliance would cause significant deterioration in the terms of trade and that increased exports by developing countries would not be absorbed by developed-country markets (Nurkse, 1959). All this was proven wrong by the East Asian tiger economies in the 1970s and 1980s. However, export pessimism has reappeared. This time around, it is argued that the emulation of the East Asian model by other less developed countries (LDCs) would generate strong protectionist pressures in developed-country markets (Cline, 1982). This argument is not unassailable. Not all LDCs will arrive at the substantial manufacturing export capacity at any given time. Export initiatives by individual countries, if sufficiently staggered, may not invoke such pressures (Ranis, 1985). Besides, these pressures may well be diffused over a wide range of activities, if exports are increasingly diversified. After all, the LDC share in the developed country’s consumption of manufactures is still tiny, which suggests that there is considerable room for expansion. One must add to this the growing importance of South-South trade, as the export promotion strategy tends to spawn open trading regimes in LDCs. Furthermore, increased LDC imports from developed countries will also help diffuse protectionist pressures caused by increased LDC exports.

Open trading regimes can ensure efficiency in resource allocation based on the principle of comparative advantage. To be sure, protection for domestic industries on infant industry grounds is by no means inconsistent with open trade. It is however important to ensure that protection is time-bound and not excessive. The Malaysian experience has shown that industries that received mild protection were able to reorient themselves to export markets with greater ease than those that have been heavily protected. The strong anti-export bias found in high tariffs is an obstacle to export promotion, although it can be neutralised by export incentives. It is however more appropriate to eliminate the bias against exporting at the source than to have it offset by implicit export subsidies. Explicit export subsidy is out of the question, as it would provoke the imposition of countervailing duties in importing countries.

Although Malaysia’s nominal tariffs have been relatively low by LDC standards, its effective rates of protection have tended to pamper some firms and certain subsectors, sheltering inefficiency and penalising export activities. This is not to deny that trade distortions can serve certain objectives such as output expansion and income distribution. The point to stress here is that such measures

involve a cost to the rest of the economy and that these objectives can be achieved by other means.

Abnormally high nominal and effective rates of protection are usually associated with the practice of “picking winners” by the governments. Hand-picked industries often receive special treatments in the hope that they will some day become the dynamos that will drive the economy to greater heights. The experience, however, shows that such industries seldom measure up to great expectations and that they can hardly survive without continued government protection. The danger is that such policy-engineered industries are likely to end up as sitting ducks, not flying geese. A policy inference from this discussion is that market is better at identifying the winners. This observation, in turn, calls for industrial policies without pronounced bias.

The importance of getting macroeconomic policies right can scarcely be exaggerated. No other policies will work unless sound macroeconomic policies are in place. Malaysia learned this lesson in the mid-1980s. One must, however, hasten to add that sound macroeconomic policies are necessary but not sufficient, as shown by the current crisis. Good governance at the state level, often associated with sound macroeconomic management, is not good enough, if it does not extend to corporate entities as well. Corporate governance, which represents the micro side of the equation, is equally important, as manifested by the current crisis in Malaysia.

The importance of FDI can hardly be over-emphasised. The Malaysian economy has been largely FDI-driven. Malaysia’s export-oriented industrialisation drive could not have taken place without FDI, which provided access to not only foreign capital but also foreign technology, foreign markets and foreign management know-how. Malaysia has also benefited immensely from the strong demonstration effect of FDI on the domestic enterprises. Malaysia has learned that FDI is clearly superior to foreign debt, as it is the latter, not the former, that represents a burden. Foreign investors repatriate profits only if their investments do well, whereas foreign creditors insist on the repayment of the principal with interests, no matter what. There are important lessons in all this for many OIC members which have relied heavily on external debt with adverse consequences.

The recent Malaysian experience has exposed the danger of relying too heavily on foreign short-term capital which is highly sensitive, extremely volatile and totally footloose. Not surprisingly, the short-term capital outflow of RM14.2 billion in 1997 exceeded the net short-term capital inflow of RM11.2 billion in the preceding year. Foreign short-term investment tends to amplify the vulnerability of the financial markets and weaken the resilience of the economy. It was only in recent years that foreign short-term or portfolio investment has figured prominently in the Malaysian scene in the wake of the government’s efforts to make Malaysia a

regional financial centre. It has contributed to the development of get-rich-quick, casino mentality which led to the diversion of resources from productive activities towards speculative ones. When the crunch came in mid-1997, all foreign short-term capital was withdrawn abruptly, causing the local stock market to collapse and sending the Ringgit on tailspin. The Malaysian experience should serve to caution OIC members against too much dependence on foreign short-term capital and speculative activities.

The link between investment and trade is far more powerful than usually assumed, and this is particularly pronounced in the case of Malaysia's trade with industrialised and newly industrialising economies. Intra-industry trade in general and intra-firm trade in particular are intimately related to foreign direct investments in Malaysia's manufacturing sector. An important policy implication is that Malaysia has little choice in the direction of its external trade in manufactures, given the structure of FDI in the country. It would then follow that Malaysia's trade policy is heavily influenced by, or dependent on, its foreign investment policy and not the other way around. Why does not Malaysia trade much with other OIC members? The answer is simple: this is so mainly because its investment links with them are either weak or totally absent.

An important policy message for OIC members is that intra-OIC trade cannot grow unless intra-OIC investments increase. This begs the question: why is that there is little intra-OIC investment in the first place? Although there are several capital-surplus countries within the OIC, the surplus capital does not flow to capital-deficit OIC countries. Financial capital cannot be transformed into direct investments unless it is combined with technology. The problem here is that countries with surplus capital lack industrial experience, while countries with industrial experience encounter capital shortage or BOP constraints. There is a need to bridge them in some fashion so that investments can take place in third countries within the OIC. The Islamic Development Bank (IDB) is well equipped to play this bridging role. Thus, for example, countries with industrial experience such as Turkey and Malaysia may join hands with capital-surplus countries like Brunei and Saudi Arabia to invest in third countries like Bangladesh and Morocco. Such triangular intra-OIC investments can go a long way in promoting intra-OIC trade.

While FDI can bring about rapid economic development and generate much trade, it is certainly no substitute for local investment, as shown by the Malaysian experience. Domestic savings in Malaysia are quite substantial. In 1996, the ratio of savings to GNP exceeded 39 per cent, which is high by any standards. It is important to underline that Malaysia has viewed FDI as a complement, and not as a substitute, for domestic investment. By the same token, domestic investment is also a poor substitute for FDI, as the latter brings with it technology, industry-specific knowledge and market connections that are beyond the reach of domestic

investors. The message to OIC members is that they must step up their own savings and at the same time attract FDI inflows.

While it is important to ensure that economic fundamentals, such as low external debts, high savings, monetary prudence, fiscal discipline, and deficit-free balance of payments, are always in place as a mark of sound macroeconomic management, the fact remains that fundamentals assert themselves only in the long run. During turbulence, the market is driven not by economic logic but by instincts, sentiments, intuition and perceptions. At such times, priority should be given to restoring confidence. Understanding market psychology is absolutely critical for policymakers and there is a need to exercise caution and care in making public statements.

The market in the real world is admittedly imperfect. It is even irrational at times, exhibiting unrealistic exuberance during uptrends and undue pessimism during downtrends. Its penchant for overshooting is manifest. Nonetheless, it is important for the State to work with the market, not against it. The danger of “government failure” is perhaps more serious than that of “market failure”. For there are early warning signals when the market does not work well, whereas government failure is likely to remain concealed until it develops into a crisis. Hence the importance of transparency, which can ensure a smooth functioning of the economy. With transparency in place, things cannot go wrong for long.

A “smart partnership” between the state and the private sector is desirable. The concept of “nation incorporated” where the government, the private sector, trade unions and non-government organisations all work in tandem towards a common goal, is a powerful implement for growth and development. However, care must be taken to ensure that this does not devolve into “unholy alliances” between the government and certain private sector interest groups, sometimes stigmatised as “crony capitalism”. It is important for the government to play the facilitating role in a neutral manner without any covert or overt sector- or firm bias.

Finally, it is pertinent to recognise that economic development is a long-drawn process and that there can be no quick fixes. It is good to have a vision similar to Malaysia’s Vision 2020 which would take the Malaysian economy to a fully developed status by the year 2020. But, one must ensure that one does not get carried away, as overzeal can be counter-productive. It is important to ensure that we pace ourselves towards our long-term goals in such a way that we do not exhaust ourselves too early in the game. This observation serves to highlight the dangers associated with single-minded pursuits of high GDP growth. There is certainly a need to slow down a little now and then before accelerating all over again so as to avoid overheating.

Needless to say, the current crisis in Malaysia cannot obliterate its past accomplishments. This crisis, like the previous one, will certainly pass. Crises are blessings in disguise, as they force the authorities to take a hard look at their policies, learn from past mistakes and change gears and direction. There is little doubt that the Malaysian economy will emerge leaner and stronger from the current turmoil. I believe that we will soon witness important qualitative changes in the management of the Malaysian economy with increased transparency, greater accountability and better governance.

One is tempted to reiterate that the “miracle” is not over for Malaysia. But the fact remains that it was no miracle after all. The term “miracle”, with due respect to the World Bank (1993), is a misnomer. It makes it appear as if rapid economic progress were humanly impossible without direct divine intervention. Malaysia owes its economic success mainly to enlightened leadership, efficient administration, good policies, sound strategies, excellent physical, institutional and social infrastructure and disciplined workforce. Policy coherence, consistency, transparency and predictability have made Malaysia a great place for investments. As stated in the Holy Qur’an, God will not change the conditions of the people unless they themselves strive to have them changed. The Malaysian success story is yet another manifestation of this gospel truth. Thank God, it was not a miracle! Had it been a miracle, it would not have been so interesting because miracles cannot be transferred or replicated at will.

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Table 1
Sectoral Share of GDP (%)

Sector	1970	1975	1980	1985	1990	1995	1997*
Agriculture	29	29.8	22.9	20.8	18.7	13.5	12.2
Mining	13.7	4	10.1	10.5	9.7	7.5	6.8
Manufacturing	13.9	16.4	19.6	19.7	27	33.1	35.5
Construction	3.8	4.6	4.6	4.8	3.5	4.5	4.8
Services	36.2	46.5	40	43.5	42.3	44.3	45

*Preliminary Figures

Source: *Economic Reports*, Ministry of Finance.

Table 2
Share of Employment as % of GDP

Sector	1970	1975	1980	1985	1990	1995	1997*
Agriculture	53.5	45.3	39.7	31.3	27.8	18	15.2
Mining	2.6	2.1	1.7	0.8	0.6	0.5	0.5
Manufacturing	8.7	13.5	15.7	15.2	19.5	25.9	27.5
Construction	2.7	4.4	5.6	7.6	6.4	8.3	9.2
Services	32.5	34.7	37.4	45.9	47.2	47.3	47.6

*Preliminary Figures

Source: *Economic Reports*, Ministry of Finance.

Table 3
Sectoral Share of Malaysian Exports

Sector	1960	1970	1980	1990	1995	1996
Agriculture	62.1	74.4	48.5	22.3	13.1	11.1
Mining	18	5.2	26.4	18.3	5.8	6.4
Manufacturing	3.4	11.1	20.6	58.8	79.6	80.6
Others	-	9.3	4.5	0.6	1.5	1.9

Source: *Economic Reports*, Ministry of Finance

Table 4
Gross Imports of Goods by Economic Function

Activity	1970	1975	1980	1985	1990	1995	1996
Consumption Goods Share (%)	28.5	22.2	31.7	20.3	16.4	14.2	14.6
Investment Goods Share (%)	25.2	31.7	52.7	31.1	37.5	40.5	40.0
Intermediate Goods Share (%)	35.3	41.3	87.4	47.7	45.4	44.7	45.2
Total Imports (RM billion)	4.29	8.53	13.45	30.44	79.12	194.34	197.31

Source: Bank Negara Malaysia

Table 5

Director of Exports (% Share)

Year	US	Japan	Singapore	EU*	ASEAN	UK	German	Holland	ASEAN, Japan, US & EU	US, Japan, Singapore, EU
1970	13.0	18.2	21.5	19.2	24.7	6.6	3.1	2.2	75.1	71.9
1975	16.1	14.5	20.3	23.2	24.2	6.0	4.3	8.4	78.0	74.1
1980	16.4	22.8	19.1	17.0	22.4	2.8	3.6	6.0	78.6	75.3
1985	12.9	24.4	20.7	14.1	25.8	2.6	2.6	5.9	77.2	72.1
1990	16.9	15.8	22.7	14.9	29.0	3.9	3.9	2.6	76.6	70.3
1995	20.7	12.7	20.3	14.2	27.2	4.0	3.2	2.4	74.8	67.9
1996	18.2	13.4	20.5	13.7	28.0	3.4	3.0	3.0	73.3	65.7
1997	20.9	14.1	22.5	16.8*	31.5	3.7	3.2	4.4	83.3	74.3

*Refers to Western Europe

Source: Department of Statistics

Table 6**Sources of Imports (% Share)**

Year	United States	Japan	Singapore	EU*	ASEAN	UK	ASEAN, Japan, US and EU	US, Japan, Singapore, EU
1970	8.60	17.5	7.50	23.2	15.8	13.4	65.1	56.8
1975	10.7	20.1	8.50	20.4	15.2	10.0	66.4	59.7
1980	15.1	22.9	11.7	15.4	16.5	5.40	69.9	65.1
1985	15.2	23.0	15.9	14.2	22.4	4.00	74.8	68.3
1990	16.9	24.1	14.7	14.6	18.7	5.50	74.3	70.3
1995	16.2	27.3	12.4	15.4	17.4	2.82	76.3	71.3
1996	15.5	24.5	13.4	14.4	19.9	2.61	74.3	67.7
1997	18.8	24.6	14.7	17.6*	22.9	2.9	83.9	75.7

*Refers to Western Europe

Source: Department of Statistics

Table 7
Foreign Direct Investment in Malaysia (RM Million)

Countries	1990		1985		1990		1995		1996		1997	
	No	Value	No	Value	No	Value	No	Value	No	Value	No	Value
US	14	105.3	26	111.9	29	567.3	42	1802	52	2893	37	2297
Japan	36	94.3	46	264.4	134	4213	175	2096	163	4607	98	2097
Taiwan	17	23.8	25	31.9	270	6339	123	1442	79	775.7	63	1345
Singapore	63	117.3	92	100.2	147	895.3	186	1009	148	4766	117	1279
Indonesia	-	-	2	12.8	12	1083	11	88	8	47	2	100
UK	23	48.4	17	26.9	13	867.2	27	189.9	28	380.7	19	206.6
Germany, F.R of	11	37.7	12	8	11	126.9	10	149.5	18	148.2	25	1811
Korea, Rep. of	-	-	9	25	25	650.4	20	604.4	18	644.3	18	677.7
Australia	15	9.1	14	25.7	17	54.3	17	139.5	17	136.5	10	90.5
Philippines	-	-	1	0.6	3	40.6	3	11.5	3	5	-	-
Hong Kong	25	17.5	18	28.8	43	375	39	175.2	13	13.8	22	23.1
Total		729.5		959.2		17629		9143.5		17057		11303

Source: Malaysian Industrial Development Authority, MIDA

Table 8
Foreign Investments in Approved Projects by Industry (RM Million)

Industry	1980	1982	1984	1985	1986	1988	1990	1992	1994	1995	1996	1997
Food Manufacturing	107	81.1	48.3	58.5	293.7	571.1	325.7	215.1	202.3	119.3	128	173.7
Beverages & Tobacco	0.4	17.6	4.5	1.1	2.3	7.1	8.4	24.5	237.4	2.2	-	209.7
Textiles & Textile Products	21.3	10.6	49.8	31.2	31.4	238.8	874.2	1158	1219	473.6	344.1	141.4
Leather & Leather Products	0.9	0.7	-	0.38	-	0.4	30.5	3.8	1.7	22.2	7.5	-
Wood & Wood Products	14.6	62.2	6.2	11.6	12.63	198.8	542.7	276.6	916.9	742.2	172.2	88.8
Furniture & Fixtures	4.3	2.6	5.4	6	1.1	72.3	127.6	44.1	43.3	110.8	43.7	47.1
Paper, Printing & Publishing	19.9	2.9	18.1	101.9	12.3	34.2	373.6	32.2	84.9	98.2	1572	474.7
Chemicals & Chemical	68.2	886.9	50.9	29.4	42	763.5	1727	1321	1124	461.2	2101	730.3
Petroleum Refineries/Products	2.7	3.2	5.2		876.3	-	2703	10006	235	1826	627.9	4201
Natural Gas	-	-	-		-	-	-	17722	-	392.9	-	-
Rubber Products	50.7	20.1	22.8	29.8	71.2	662.7	54.3	49.2	60.3	76.6	56.5	90.2
Plastic Products	8.1	9.6	16.4	19.1	92.2	272.3	426.6	216.4	352	177.8	144.6	254.4
Non-Metallic Mineral	88.8	27.9	76.6	110.8	26.3	73.4	180.1	334.3	805.4	1255	649.5	77.6
Basic Metal Products	88.1	324.6	48.1	148.1	25.3	612.7	4539	775.4	392.1	474.5	612.2	700.1
Fabricated Metal Products	13.8	22.9	65.2	43.8	19.5	147.4	304.9	101.7	246.3	285.3	577.9	605.2
Machinery Manufacturing	4	37.2	10.9	43.6	21.4	12.2	1168	383.7	257.1	231.5	337.1	461.1
Electrical & Electronic	193.3	99.8	136.8	110.6	97.1	1152	3773	957.5	4825	2374	9240	2744
Transport Equipment	4.5	8.3	141.2	186.4	53.6	22.4	279.5	78.2	248.7	461.2	332.8	281.3
Scientific & Measuring	11.2	3.6	-	5.7	-	13.9	78.9	2	36.1	2.3	41.1	4.6
Miscellaneous	27.9	4	11.1	20.1	9.1	23.1	111.8	70	1896	18.1	825.1	18.6
Total	730	1627	718	959	1688	4878	17629	17772	11339	9143.5	17057	11304

Source: Malaysian Industrial Development Authority, MIDA

Table 9**Malaysia: Balance of Payment (RM million)**

Imports Exports	1970	1975	1980	1985	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Merchandise account balance	1,067	614	5,238	8,883	14,524	11,871	7,093	1,449	8,609	8,231	4,460	97	10,154	9,670
- Export (f.o.b.)	5,020	9,057	28,013	37,576	54,607	66,727	77,458	92,220	100,910	118,383	148,506	179,491	193,127	204,701
- Import (f.o.b.)	3,953	8,443	22,775	28,693	40,083	54,856	70,365	90,771	92,301	110,152	144,046	179,394	182,973	195,031
Services account balance	-862	-1,722	-5,813	-10,391	-10,180	-11,392	-9,723	-13,195	-14,568	-16,670	-17,005	-19,407	-19,470	-19,049
- Freight & insurance	-304	-621	-1,781	-1,852	-2,072	-3,027	-3,837	-4,847	-4,265	-4,890	-7,367	-9,028	-8,522	-8,495
- Other transportation	-21	98	-56	64	-44	-5	-25	-10	-355	-196	441	737	1,492	2,398
- Travel	-105	-105	-885	-1,332	-1,403	-891	632	547	657	906	3,603	4,143	4,786	5,120
- Investment income	-355	-727	-1,820	-5,434	-5,019	-5,935	-5,072	-6,735	-7,920	-8,174	-9,448	-10,516	-11,685	-11,982
- Govt. transactions	68	47	-7	-31	-217	-261	-3	-55	54	-72	-36	-23	-36	-35
- Other services	-145	-414	-1,264	-1,806	-1,425	-1,273	-1,418	-2,095	-2,739	-4,244	-4,198	-4,720	-5,505	-6,055
Balance on current account	25	-1,187	-620	-1,522	4,739	698	-2,483	-11,644	-5,622	-7,926	-14,770	-21,825	-12,252	-13,084
- % of nominal GNP	0.2	-5.5	-1.2	-2.1	5.5	0.7	-2.2	-9.3	-4.0	-5.1	-8.2	-10.5	-5.1	-5.0

Source: Ministry of Finance

Table 10
Loans to Property Sector by Financial Institutions (RM Million)

Year	Total Loans by Commercial Banks	Total Loans by Finance Companies	Total Loans by Merchant Banks	Grand Total	% Growth	Total Loan to Property Sector	% Growth	% Share of Loan
1980	21031.1	3576.2	1137.5	25744.8		6768.9	48.7	26.3
1981	25521.4	4585.3	1582.2	31688.9	23.1	9125.4	34.8	28.8
1982	29665.6	5715.7	1957.3	37338.6	17.8	11467.2	25.7	30.7
1983	36781.8	7426.5	2756.5	46964.8	25.8	14410.3	25.7	30.7
1984	43504.3	10067	3321.2	56892.5	21.1	18551.9	28.7	32.6
1985	48981.7	12326.5	3752.6	65060.8	14.4	22056.8	18.9	33.9
1986	52328.7	13001.7	3692.7	69023.1	6.1	24210.7	9.8	35.1
1987	52180.7	13551.6	3626.7	69359	0.5	25094.6	3.7	36.2
1988	56837.6	15864.3	4851.4	77553.3	11.8	26692	6.4	34.4
1989	67141.7	19868.8	5525.4	92535.9	19.3	28803.5	7.9	31.1
1990	80758	27031	6282.8	114071.8	23.3	32635.8	13.3	28.6
1991	97206.1	34126.2	7456.6	138788.9	21.7	38100.6	16.7	27.5
1992	105729.1	38229	8500.9	152459	9.8	42468.1	11.5	27.9
1993	117235.5	43776	9765	170776.5	12.0	47684.7	12.3	27.9
1994	134151	50086.7	11594.7	195832.4	14.7	48408.2	1.5	24.7
1995	175007.4	62712.2	14144.4	251864	28.6	61433.6	26.9	24.4
1996	217820.5	82496.7	18891.3	319208.5	26.7	77255.7	25.8	24.2
1997	276366.3	102545.8	23055.7	385228.8	20.7	93322.6	20.8	24.2

Source: Bank Negara Malaysia

Table 11

Banking System: Outstanding Loan Provision

	1991		1992		1993		1994		1995		1996		1997
	RM Mil.	% of T. Loans	RM Mil.	% of T. Loans	RM Mil.	% of T. Loans	RM Mil.	% of T. Loans	RM Mil.	% of T. Loans	RM Mil.	% of T. Loans	% of T. Loans
COMMERCIAL BANKS													
Total provision	9915	9.9	10723	9.8	11357	9.2	8074	5.8	7576	4.2	9019	3.9	5.3
Non-performing loans	15447	15.5	15926	14.6	16145	13.0	13676	9.8	8932	4.9	8684	3.8	
FINANCE COMPANIES													
Total provision	3374	10.7	3727	10.0	3643	8.6	3294	6.9	3600	5.6	3561	4.1	9.9
Non-performing loans	5634	17.8	5975	16.0	6133	14.5	5331	11.2	4285	6.6	4018	4.7	
MERCHANT BANKS													
Total provision	479	7.1	403	5.1	733	8.1	973	9.2	995	7.0	489	2.6	5.1
Non-performing loans	724	10.7	583	7.3	576	6.4	1142	10.8	1103	7.8	284	1.5	
BANKING SYSTEM													
Total provision	13768	10.0	14854	9.6	15733	9.0	12342	6.2	12171	4.7	13069	3.9	6.5
Non-performing loans	21804	15.8	22484	14.6	22854	13.0	20149	10.0	14320	5.5	12986	3.9	

Source: Bank Negara Malaysia's Annual Reports

Tble 12

Federal Government Finance (RM million)

Revenue Expenditure	1970	1975	1980	1981	1982	1983	1984	1985	1990	1991	1992	1993	1994	1995	1996
Revenue	2400	5117	13926	15806	16690	18608	20805	21115	29521	34053	39250	41691	49446	50954	58280
Expenditure	2163	4900	10292	13686	15922	16124	17506	18766	25026	28296	32075	32217	35064	36573	43865
Net Development Expenditure	712	2118	7338	11135	11189	9417	8074	6756	7932	8397	8418	9120	9974	12520	12600
Overall surplus (+)/deficit (-)	-475	-1901	-3704	-9015	-10421	-6933	-4775	-4407	-3437	-2640	-1243	354	4408	1860	1815

Source: Bank Negara Malaysia

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