

# MALAYSIA'S 2020 Vision

*Comprised of two main landmasses separated by the South China Sea – Peninsular Malaysia to the West and Malaysian Borneo to the East – the Federation of Malaysia is a multi-ethnic, multi-religious nation with one of Southeast Asia's most vibrant and diversified economies. Boasting world class infrastructure, cost competitiveness and a multi-lingual talent pool, Malaysia – a member of ASEAN and an active participant in regional and global trade initiatives - remains hopeful of achieving “developed” country status by 2020*

By **Jennifer Khoo**

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*Colonial architecture in the historic town of Melaka; remnants of Dutch rule*

**F**rom the futuristic high-rises of Kuala Lumpur, UNESCO world heritage colonial architecture and tea plantations of the peninsula, to the traditional longhouse villages and lush rainforests of Sarawak and Sabah – Malaysia is a country of diverse landscapes and communities.

Often referred to as “Asia’s cultural melting pot,” Malaysia’s two main regions – Peninsular Malaysia and Malaysian Borneo – together constitute 13 states that are home to an estimated population of 30.7 million people.

The majority ethnic Malay Muslim population live alongside Buddhists, Christians and Hindus of Chinese, Indian and Indigenous descent, resulting in the rich tapestry of cultures, traditions and cuisines that Malaysia is known for.

## Export-driven economy

Since the 1970s, the nation’s economy has evolved from one heavily reliant on the production of natural resource materials such as rubber, tin and palm oil,

into an emerging multi-sector economy with a strong focus on export-oriented manufacturing.

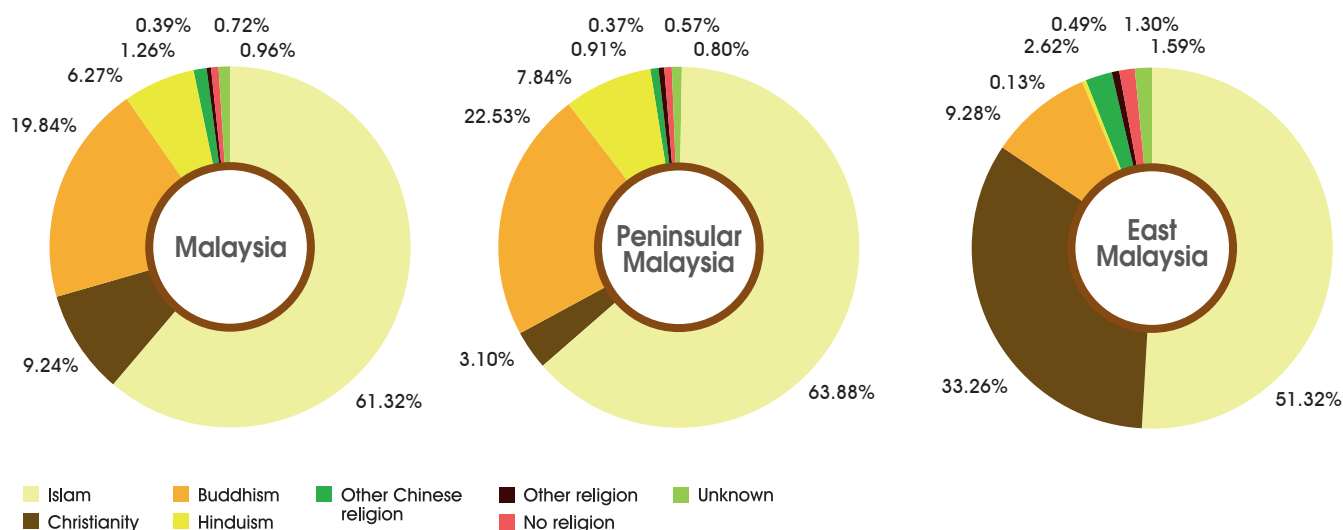
Currently, about 40 percent of jobs in the country are linked to export activities. Malaysia’s economy is largely driven by the export of electronics and raw materials such as palm oil, rubber, and oil & gas, leaving it vulnerable to fluctuations in global commodity prices.

In recognition of this risk, the government has been actively working towards reducing the nation’s economic dependence on exports by boosting investment and encouraging development in various “strategic high-growth” service sectors, in addition to continuously improving Malaysia’s existing developed industries such as Islamic finance and Oil & Gas.

In light of Malaysia’s aspiration to reach high-income, “developed” status by 2020, this appears to be the right move, especially considering the impact of the services sector on the country’s GDP. The services sector has become a critical pillar of Malaysia’s economy: growing by roughly 6.2 percent from 2010 to 2015 and contributing 54 percent to Malaysia’s GDP in 2015, with a further four percent increase expected by 2020.

*The modern cityscape of Kuala Lumpur lit up at night*

## Population by religion



Source: Population and Housing census of Malaysia 2010

According to the *KL calling: Investor's guide* published by EY in February this year, the government has identified three “strategic high-growth” service sectors for development in particular: Aerospace, Halal products & services, and Construction & Engineering.

### Aerospace

Malaysia's aerospace sector is an area which has taken off alongside aviation growth in the Asia-Pacific region – a region forecast by Boeing to make up the world's largest aviation market within the next 20 years. In fact, according to the Malaysian Aerospace Industry Blueprint 2030, the industry has the potential to reach a revenue stream of MYR55 billion (US\$13.8 billion), i.e. more than four times the current amount, by 2030.

Encompassing three major areas in the global aerospace supply chain – Original Equipment Manufacturing (OEM), Avionics and Systems Integration, and Maintenance, Repair and Overhaul/Operations (MRO) – Malaysia's aerospace sector is currently estimated at around MYR12 billion (US\$3 billion) and employs over 19,500 people.

Landmark projects in the capital city of Kuala Lumpur such as the development of Asia Aerospace City (AAC) and KLIA Aeropolis reflect the country's aspiration to become a regional aerospace hub by 2030. The Malaysian Investment Development Authority (MIDA) has even introduced incentives for aerospace companies undertaking MRO activities in the country,

including import duty and sales tax exemption on raw materials, components, machinery and equipment, and spares and consumables.

In addition, Malaysia's active participation in strategic trade and economic partnership agreements including the ASEAN Economic Community (AEC) and the Trans Pacific Partnership Agreement (TPPA) has helped to open the country to direct investments, particularly in the aerospace sector.

### Halal products

It is of utmost importance for Muslims to consume only food and drink considered “halal,” or permissible, as dictated by the Koran. Where meat is concerned, the Arabic word “halal” refers to animals which have been slaughtered in accordance with strict Islamic standards; excluding pork, which is strictly forbidden. Other non-halal foods include alcohol, and animals which have been fed the by-products of other animals.

According to EY, the global market value of Halal products (food and non-food) is estimated to be worth around MYR9.2 trillion (US\$2.3 trillion) annually. The global halal food sector alone was worth almost MYR2.5 trillion (US\$617.7 billion) as of 2015, and is one of the fastest growing segments in the global food industry.

With over 60 percent of its population comprised of ethnic Malay Muslims, Malaysia has grown its halal products sector into the region's most advanced, with end-to-end services encompassing raw material sourcing,





*Highland tea plantations on the peninsula*

production, packaging and distribution. The country is home to the world's first halal certification body – the Islamic Development Department (JAKIM) – which ensures that products pass stringent audit procedures and meet strict religious standards before earning the globally-recognized and sought-after “Malaysia Halal” logo.

Already a major player in the global halal supply chain, Malaysia is currently the world's largest exporter of halal ingredients, exporting over MYR42 billion (US\$11 billion) worth of halal consumables in 2015 to key destinations including China, USA, Indonesia and Japan, and has aspirations of becoming a global halal hub by 2020.

Reflective of its commitment to this goal, Malaysia's government has invested significant resources into the development of Halal Parks across the country, i.e. industry clusters which house halal manufacturing and services businesses in a common location; attracting businesses to operate there using tax-related incentives. Despite notable steps by the government to support the development of the halal industry, participation and investment from the private sector are equally required if Malaysia is to achieve its goal of becoming a global halal hub by 2020.

Companies with business interests in halal markets can benefit from establishing a presence in Malaysia by leveraging the country's strategic location in APAC, its first-rate infrastructure, and globally recognized halal certification, to boost the quality, reputation, and distribution of its halal goods and services.



*Borneo's indigenous Proboscis monkeys*

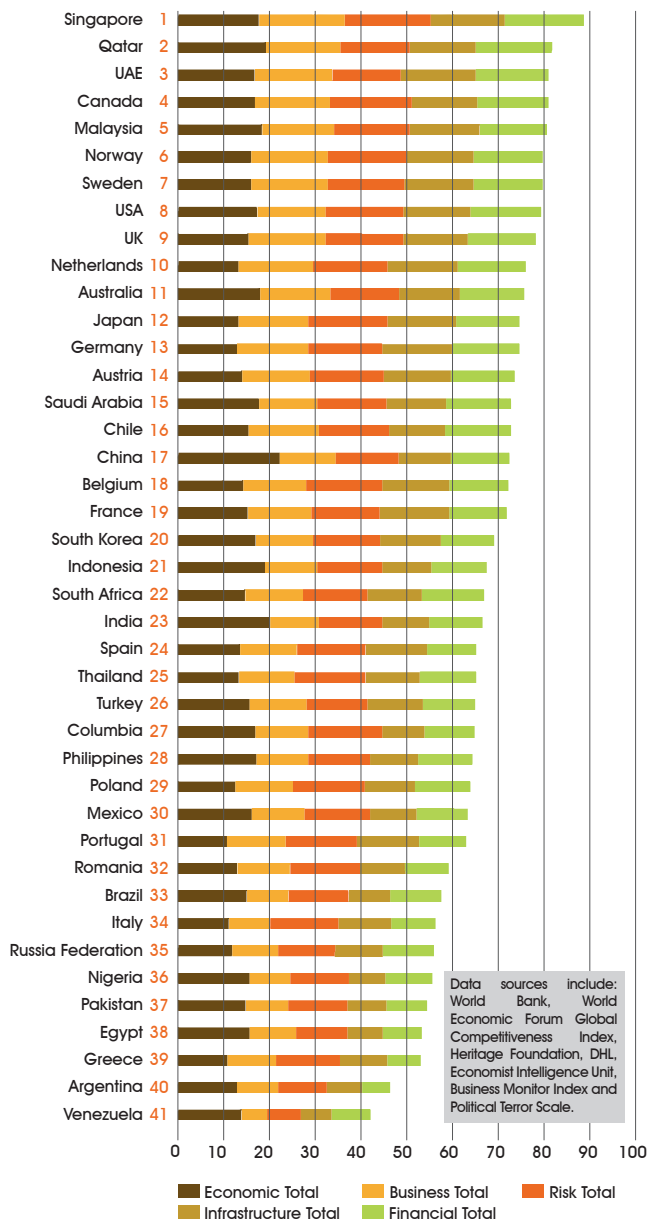
Nestle Malaysia, for example, was among the first global F&B companies to be certified Halal in Malaysia when the certification process was introduced in 1994. Today, with three halal factories in Kuala Lumpur, Nestle Malaysia sets the halal standard for the Nestle Group, offering policy guidelines, best-practices and expertise on halal products to other Nestle markets worldwide.

## Construction & Engineering

As the fastest growing segment in the country's economy in 2015, Malaysia's construction and engineering sector has experienced an average annual growth of 13.5 percent over the last three years, and is forecasted to expand at a rate of 10.3 percent per annum in 2016, according to estimates by Malaysia's Construction Industry Development Board (CIDB).

Growing demand for construction and engineering services in Malaysia is largely driven by the numerous ongoing transport and infrastructure improvement projects in Kuala Lumpur. According to the *2016 Global Infrastructure Investment Index* published by Arcadis, Malaysia is ranked number five out of the 41 countries reviewed for infrastructure investment attractiveness, four places below neighboring Singapore which is

## Global Infrastructure Investment Index 2016



Source: Arcadis

ranked the most attractive to investors, due to its stable political situation, pro-business environment and strong growth potential.

This finding ties in favorably with the government's five-year 11th Malaysia Plan, unveiled in 2015, which highlights the importance of infrastructure development in reaching its 2020 goals.

The cumulative value of infrastructure projects awarded this year is expected to surpass the record of MYR46 billion (US\$11.3 billion) reached in 2012, with

a full pipeline of rail and road projects on the agenda. The biggest of these is the Klang Valley Mass Rapid Transit (MRT) Line project valued at MYR32 billion (US\$ 7.9 billion) – part of Malaysia's largest infrastructure project to date and will extend coverage of the peninsula's public transportation system once completed.

In addition to increasing investor appeal and improving living standards for Malaysians, an increase in infrastructure projects will have the additional effect of creating jobs in the construction and engineering sector for local citizens, while also attracting skilled foreign talent to its shores.

## Challenges: politics and race

Though the diverse mix of Malaysian citizens live largely harmoniously alongside each other in the secular Islamic state, there is an underlying racial and religious divide between the majority ethnic Malay Muslims and the rest of the population.

In response to the deadly race riots of 1969 – ignited by culminating ill feeling towards the Malaysian Chinese and their economic success – a "New Economic Policy" (NEP) was introduced by the government in 1971, aimed at increasing the number of opportunities for native Malays by giving them preference in local university admissions, civil service employment, and corporate shareholder policies, among other benefits. Though announced as temporary in 1971, many of the policies outlined in the NEP remain in effect to this day, resulting in a steady outflow of highly educated and skilled Malaysian minorities from the country.

More recently, Malaysia's political climate has experienced some turbulence as a result of alleged corruption and other scandals involving key state officials. This has provoked the nation to call for a change of leadership, resulting in feelings of uncertainty about the country's political direction and hindering foreign direct investment.

Truthfully speaking, Malaysia's problems are not unique. Racial issues and business scandals are present in many countries, and the issue of political inscrutability is globally contended with. In spite of its challenges, the nation continues to grow economically, and remains more determined than ever to reach its 2020 goals. This is evident in the country's ever-improving infrastructure, its active participation in trade relations, and government-funded initiatives in various strategic industry sectors.

At this stage, it is difficult to foresee what effect Malaysia's uncertain political climate will have on its long term prospects. But if its economic track record is any indication to go by, Malaysians have nothing to worry about.

