Malaysia sets ambitious growth target

By John Burton in Singapore
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Malaysia on Friday set an ambitious annual economic growth target of 6.3 per cent over the next 15 years to achieve its goal of developed-country status by 2020.

Malaysia, the third richest south-east Asian nation on a per capita basis after Singapore and Brunei, has reached the halfway point in the Vision 2002 programme that it unveiled in 1990.

The latest progress report said that Malaysia must focus on high value-added manufacturing and services to maintain expansion of its $140bn economy as cheap labour forces in China and Vietnam reduce its cost competitiveness. A similar strategy has been followed in neighbouring Singapore.

However, economists believe the new target may be difficult to achieve since Malaysia's growth rate averaged 4.2 per cent in the past decade. The growth rate has accelerated to 5.5 per cent on average in the last five years, following the Asian 1997-98 financial crisis.

A nation is seen as reaching developed-country status when its per capita income is around $30,000. Malaysia's current per capita income is $10,300.

The government identified manufacturing industries such as electronics, medical devices, textiles, machinery, petrochemicals, drugs and food-processing as areas for future development.

Foreign electronics companies, including Flextronics, Dell, Intel and Infineon are continuing to invest in Malaysia, with total foreign direct investment expanding to $4.2bn last year. The companies say Malaysia remains cost-effective once land costs and labour productivity in China are taken into account.

The departure of Mahathir Mohamed as prime minister in 2003 and his replacement by Abdullah Badawi, seen as more friendly to western interests, has improved the investment climate.

The report recommended that Malaysia should reduce its dependence on electronics, the mainstay of the export-dependent economy, by developing new industries such as biotechnology, nanotechnology, wireless technology, photonics, fuel cell and laser technology.

"Malaysia needs to increase the availability of skilled and knowledge workers, strengthen R&D capabilities and improve technological readiness, telecommunications and government delivery systems," the report said.

The government wants to reduce manfacturing's share of gross domestic product slightly to 28.5 per cent by 2020, which increasing that of services to nearly 60 per cent.

The main focus will be on tourism, which could enjoy robust growth as visitors from the Middle East switch their trips to predominately Muslim Malaysia from previous preferred destinations in Europe and the US.

Much of the future economic strategy will depend on global conditions remaining stable given Malaysia's continued reliance on exports and foreign direct investment, economists said.