Editorial: An overview of the Malaysian economy today from a green economics perspective

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1 Introduction

The Green Economics Institute exists to promote the Greening of the World Economy (Kennet et al., 2011; Kennet et al., 2013). It is therefore important that we focus on the rapidly advancing economies and Malaysia is just such an economy. Therefore, as part of an ongoing project on the Greening of Malaysia, this special issue of *International Journal of Green Economics* is devoted to this rapidly developing economy. Additionally, a companion to this volume is the book, *The Greening of Malaysia* (Kennet, Yee, Pek and Kamaruddin, 2015), which addresses some of the particular challenges for Malaysia in this field. This issue therefore consists of a number of papers whose authors originate from Malaysia.

Malaysia is a small and open economy with a population of about 29 million. Prior to independence (in 1957), the Malaysian economy was based predominantly on agriculture and mining. At that time, the agriculture, and mining sectors accounted for about 40% of the value added in the Gross Domestic Product (GDP) and provided employment for about two-thirds of the labour force and contributed two-thirds of the country's export earnings. However, primary commodities are open to the vagaries of fluctuating prices and Malaysia's economic conditions fluctuated in tandem with these volatile prices. The discovery of oil and natural gas helped Malaysia to diversify her export revenue in the late 1970s. Nevertheless, to make the economy more resilient, the government embarked on an aggressive programme to diversify the economic base; thus manufacturing was aggressively promoted as a growth sector.

2 Industrialisation period

The manufacturing sector has since played a more significant role in various aspects of the economy; it became the largest sector in 1984, superseding the contribution from agriculture. In terms of contribution to export earnings, manufacturing exports as a percentage of total export has increased by leaps and bounds from 13.1% in 1970, to 73.5% in 2002 and 85% in 2012 (Malaysia Country Review, 2013). During the 1960s the manufacturing sector began its import substitution phase. During this phase, employment-generating activities were emphasised. This was followed with export-orientated activities during the 1970s through the establishment of Free Trade Zones with foreign multinational companies playing a major role. Then beginning in 1986, Malaysia began attracting foreign direct investment (FDI) with its FDI-led development strategy. This was the post 1985–1986 recession period in which the Industrial Master Plan (IMP) and liberalisation measures were introduced to provide the foundation for rapid growth of the manufacturing sector. The major thrust of the IMP drawn up in 1985 was to propel Malaysia into a newly industrialised country by 1995 through the creation of a broad manufacturing sector which emphasised on the development of export-orientated industries, resource based industries and heavy industries (Fong, 1989). The general strategy of the industrial master plan was to rationalise the existing infrastructure, deregulate the investment environment and upgrade the level of industrial technology so that Malaysia could be an attractive centre for foreign as well as domestic investments.

3 Globalisation and the services sector

With globalisation and the implementation of the General Agreement on Trade & Services (GATS) in 2005, attention then shifted to the services sector. In 2009, the Malaysian government announced the immediate liberalisation of 27 services sub-sectors (such as health, tourism services, transport services, financial services, business services and computer and related services). Since then the services sector has been an engine of growth and a major contributor to GDP. In 1990 its contribution to GDP was 42.3%; a decade later, in 2010, its contribution was 58%. In the 1960s and 1970s, the service sectors were primarily concentrated in the basic infrastructure such as public utilities and transportation and government services. Now the services sub sectors which are expanding rapidly include finance, insurance, real estate and business services, wholesale and retail and hotel and restaurants.

3.1 Islamic finance

One particular sub-sector in the financial services sector; the Islamic finance sector is gaining importance. The history of Islamic banking began with the establishment of Bank Islam Malaysia Berhad (BIMB) in 1983. Since then, Islamic banking has grown significantly in terms of total loans and also number of entities practicing Islamic finance. In 2010, Islamic banking deposits and assets stood at RM191.2 and RM235.7 respectively and backed by RM20.6 billion capital (where RM is the Malaysian currency and 1RM = 3.32USD). As at end 2011, total assets of Islamic finance have grown to account for 22.4% of total banking system assets (including DFIs). The Malaysian government played an instrumental role in fostering this growth. Islamic banking is not confined to solely Islamic banks, conventional banks also offer Islamic financial products through their Islamic windows. Thus Islamic banks in Malaysia comprise of: (i) five full-fledged local and foreign Islamic banks (ii) eight Islamic subsidiary banks (iii) Islamic windows in foreign conventional banks and (iv) International Islamic banks (Ariff, 2011).

3.2 Globalisation and financial crises

The East Asian Financial Crisis (EAFC) of 1997 highlighted the weaknesses of globalisation: increased instability and the iniquity of economic progress. During economic prosperity, the rich and the well-heeled get the lion's share of the wealth. However during downturns, the more vulnerable segments of the population (such as farmers, small business entrepreneurs, women and wage earners) bore the brunt of the burden and hardship (Singh and Zammit, 2000; Mahatir, 2002; Stiglitz, 2002). During the EAFC, several East Asian countries (Malaysia, Thailand, South Korea, Indonesia and Philippines) were badly affected. Millions of people lost their source of livelihood (Yellen, 2007) and bankruptcies among the small business entrepreneurs were wide spread due to the credit squeeze brought on by the onslaught of the EAFC. Financial liberalisation and the increase in global capital flows were seen to have contributed to the rise in these crises (Newsweek, 2008; Yee, 2004; Alba, 1999; Cole and Slade, 1998). The recovery of the Malaysian economy since 1999 was generally attributed to the recovery in exports (in which electronics products accounted for more than 50% of total exports); thanks in part to the government's policies that were put in place to enhance the competitiveness of the manufacturing and services sectors.

4 Socio-economic issues

Currently, Malaysia is a high middle income nation with GDP per person that is above the world average. Its GDP has increased 17.5 times from 1980 to 2013 and GDP per person increased 7.8 times from RM3841 per annum to RM32,984 per annum in 2013. However, "high GDP per person does not always translate into high household incomes and high average incomes can be distorted by the incomes of the very well-off" (Khazanah Research Institute (KRI), 2014). Malaysia has set a goal to become a high-income economy by 2020. Though this is a laudable goal, there are some urgent issues that ought to be looked into; such as the "new inequalities" that have surfaced. According to the United Nation's Development Programme's (UNDP) Human Development Report (2014), the top 1% of the nation have become richer; whereby this group of super-rich has 22 times more purchasing power than the poor (bottom 40%) and 18 times the median of Malaysians. The income gap between the rich and the poor widened significantly, from RM659 in 1970 to RM10,312 in 2012. The income gap between the urban and rural folks widened too, from RM228 in 1970 to RM2262 in 2012. In terms of ethnicity, the income gap is the biggest (in absolute terms) among Malays.

Both the KRI and UNDP reports found a lack of savings in more than half of Malaysian households especially the low income group who are heavily dependent on debts to finance household consumption. Rising level of household debts plague both urban poor and rural poor. If an economic downturn happens, this group will be severely affected (as witnessed in the 1997 EAFC). The problem of household debt among the poor and vulnerable may also turn into debt bondage, when it is obtained from informal money lenders. Of late, informal money lenders have mushroomed as evident from the many advertisements and shops that have sprung up offering “quick” loans.

4.1 Informal financing

Informal money lenders are thriving as the poor and the ‘not so rich’ face difficulties in obtaining a loan from formal financial institutions. These groups are generally considered not ‘credit-worthy’ for banks to extend loans to as they are usually not in the position to produce the required collaterals or guarantors that the formal banking procedure requires. These groups of people (housewives, wage earners and also small business entrepreneurs) would require short term loans or cash for an emergency. Under such situations they have no alternative but to turn to informal financing. Some of the popular form of informal financing are: pawnshops, tontines and ‘loan sharks’. Obtaining credit from pawnshops would not lead to dire consequences as the pawnshops are regulated by the Pawnbrokers Act 1972 and the interest rate is usually 2% per month. Traditionally, pawnshops serve as an important source of economic lifeline for the rural poor, who would pawn their valuables to meet unexpected expenditure. Nowadays, pawnshops are also a source of credit for the urban ‘poor’ (Chew, 2011) to tide over hard times. However, ‘loan sharks’ are a source of socio-economic woes. Typically, a loan obtained from such sources comes with an astronomical rate of interest. Quite often, the borrower finds it hard to repay the loan and will go into hiding, resulting in the lender issuing severe and incessant threats to family members of the borrower.

On the other hand, tontine, also known as Rotating Savings and Credit Association (ROSCAs) is actually an innovative and efficient way of informal finance. A striking feature of these ROSCAs in Malaysia is that it is organised predominantly by the women folk. An enterprising woman usually would gather a group of 10 to 20 members to form a “hui’ or “kutu” to raise funds for themselves. Traditionally, reasons for raising funds include:

1. Working capital for microenterprise ventures or other business ventures
2. Funds for important events, including marriages
3. Fulfilling peak seasonal demand for cash, such as the start of a school term
4. Purchasing durable consumer goods such as televisions and refrigerators
5. Home improvement activities, such as repairing of leaks and extension of living space.

In Malaysia, ROSCAs is not legal, hence, victims of fraud have no legal recourse. As an informal financial institution, ROSCAs play an important and useful role for the people who do not have access to the formal financial institutions. Using innovative methods, this group of financially excluded segment of the population, obtained credit for working capital and ventures, contributing to the country’s growth. It is time for the relevant authorities to help this group by legalising ROSCAs’ operations; informal it maybe, but illegal it should not be.

5 Greening Malaysia

Malaysia was one of the earliest nations in the region to pursue environmental sustainability. Back in 1974, the Environment Quality Act was enacted. In 2009, Malaysia launched her Green Economy initiative and a new ministry, The Ministry of Energy, Green Technology and Water (KeTTHA) was established. The National Green Technology Policy which was adopted in October 2009 and has four objectives:

1 Minimise the degradation of environment

2 Attain zero or low greenhouse gas (CHG) emission

3 Conserve the use of energy and natural resources; or

4 Promote the use of renewable resources

The development of green technology is an important objective, thus innovative economic instruments and financial mechanisms were introduced to support the growth of green industries. To this end, the Green Technology Financing Scheme was launched in 2010 to promote investments in green technology.

Though the government had the National Renewable Energy Policy and Action Plan approved in 2010, energy generation in Malaysia is still dominated by fossil fuels such as petroleum, natural gas, coal and diesel (APM, 2012). Hydropower forms about 6% of energy consumption only (Ong et al., 2011) while other renewable energy sources form a very minor part of total energy mix. In 2011, the government had introduced a feed-in tariff and other incentives to promote the uptake of renewable energies. Recently in 2013, Malaysia has partnered with Japan-based Asian Energy Investments Pte Ltd (AEI) in a $100 million green energy mega fund to seed promising new ideas and innovators in South East Asia (Investment Business Weekly, 2013). This fund will focus on investments in small to medium sized technologies and enterprises. With this fund it is hoped that a family of new technologies that is able to draw energy from renewable, inexhaustible sources (such as the sun, wind and tide) is developed.

The Green Building index (GBI), an initiative to make buildings more sustainable was created by the Association of Consulting Engineers Malaysia and the Malaysian Institute of Architects. The GBI can be used in the design process of green buildings. Buildings are awarded a GBI rating based on six criteria: energy efficiency, environmental quality, sustainable site planning and management, use of environmentally-friendly material, water efficiency and innovation. Owners of building that are awarded GBI certification are eligible to receive tax exemptions on additional investments made to their green buildings. Additionally, the transfer of ownership for GBI certified green building is a process which is exempted from stamp duty.

The Low Carbon Cities Framework which was set up in 2010 aims to encourage to planning, design, construction and maintenance of sustainable townships. The criteria for low carbon cities include: energy and water, ecology and environment, community planning and design, transport and connectivity, building and resources and business and innovation. Two locations, namely Putrajaya and Cyberjaya are now showcased as models of green townships. However, currently the construction costs associated with green buildings are high, which means that this remains an obstacle to constructing more green buildings (Gelber, 2011 cited in Malaysian Business, 2011). As argued by Gelber, Malaysia has put in place a solid policy framework to support a Green Economy but there remain many bottlenecks along the way.

6 The way forward

"The way forward" is a phrase used by Malaysia's former prime minister, Dato Seri Dr. Mahatir Mohamad in his inaugural speech to the Malaysian Business Council in February 1991. In that speech, Dr. Mahatir reiterated the country's commitment to a manufacturing based economic growth and modernisation to achieve the status of a fully developed nation by 2020. 23 years later, Malaysia has indeed been modernised and transformed; from an agrarian economy in the 1950s and 1960s to an economy that is now dominated by services and industry. Malaysia's current Prime Minister, Datuk Seri Najib Tun Razak has stayed committed to modernise Malaysia and also to become a high income nation by 2020. According to EIU (2014), Malaysia's ambition of attaining high income status is an attainable goal if economic growth in Malaysia significantly outpaces that of existing high income nations. However, as highlighted by the two recent reports; the UNDP 2013 report and "The State of the Households" Report (Khazanah Research Institute, 2014); income and wealth disparity, household debts, rising food prices and spiralling home prices require urgent attention.

The Malaysian government is aware of the issues faced by Malaysians; as evident from the commissioning of Khazanah Research Institute (KRI) about a year ago. KRI will be a Think Tank to provide the Government with inputs concerning the country's economy and socio-political scene (The Star, 2013). One of KRI's objectives is to conduct data-driven analysis and research on "pressing issues of the nation" and to provide policy recommendations to the government. Thus "The State of Households" report that was released recently by KRI, sheds light on problem areas; such as housing, food, education, and income. With regard to housing, the report states that affordable housing should cost three times the annual median income, but in Malaysia, prices are 5.5 times the annual median income making it out of reach of most of the young people who have just embarked on a working career. Affordable housing is one of the concerns now in the country, thus KRI will be doing an in depth study to determine if and how prices can come down. Additionally efforts are being made for people to have more disposable income and to reduce cost of food and transport prices. As a result, Datuk Charon Mokhzani, the Managing Director of KRI, believes that Malaysia is still on track to becoming a high income, developed nation by 2020.

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