



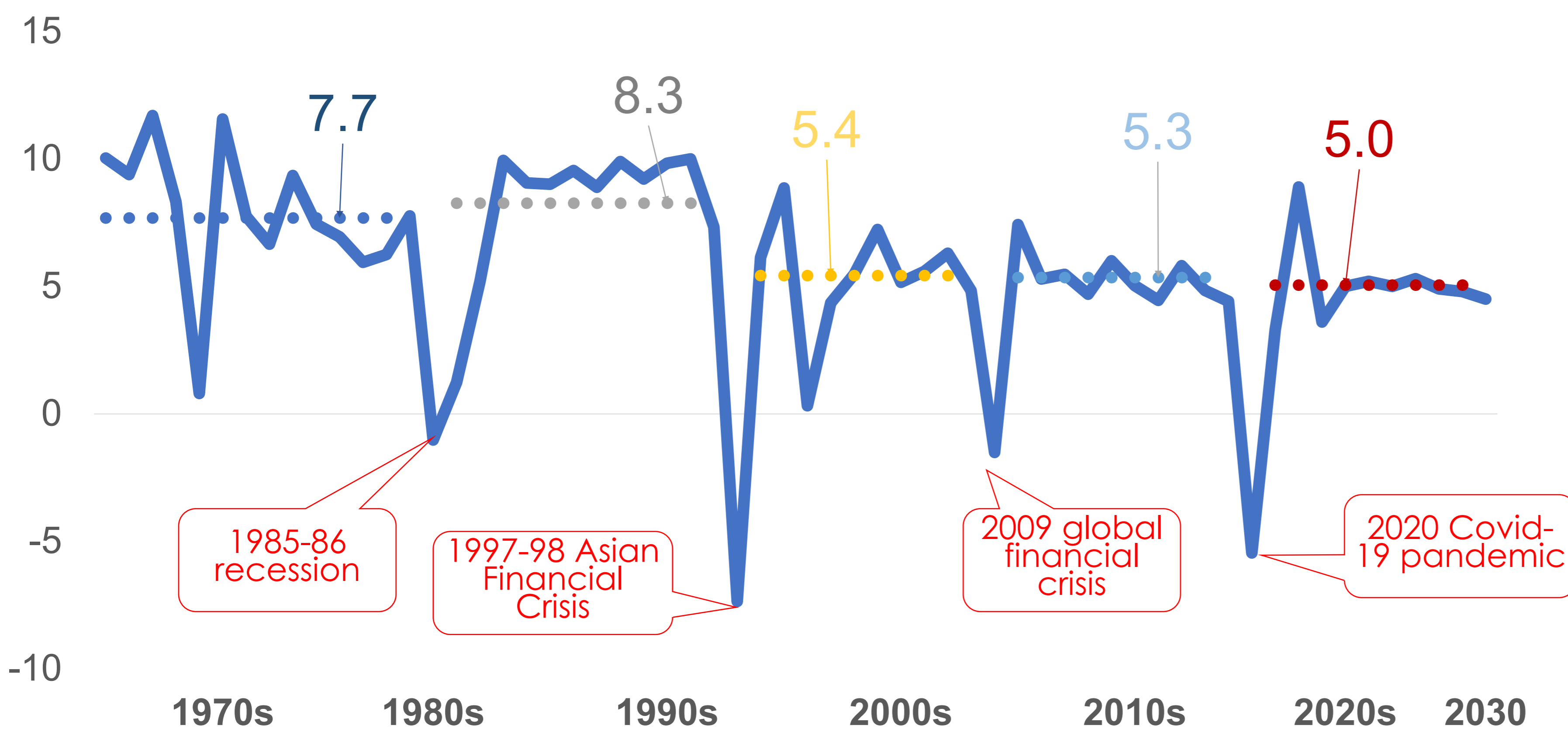
KPMG Tax and Business Summit 2024

# Malaysia's High-Income Drive: Short and Medium-term Growth Prospects and Challenges

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# Can Malaysia reach high-income?

Annual GDP growth (% in 2015 prices)

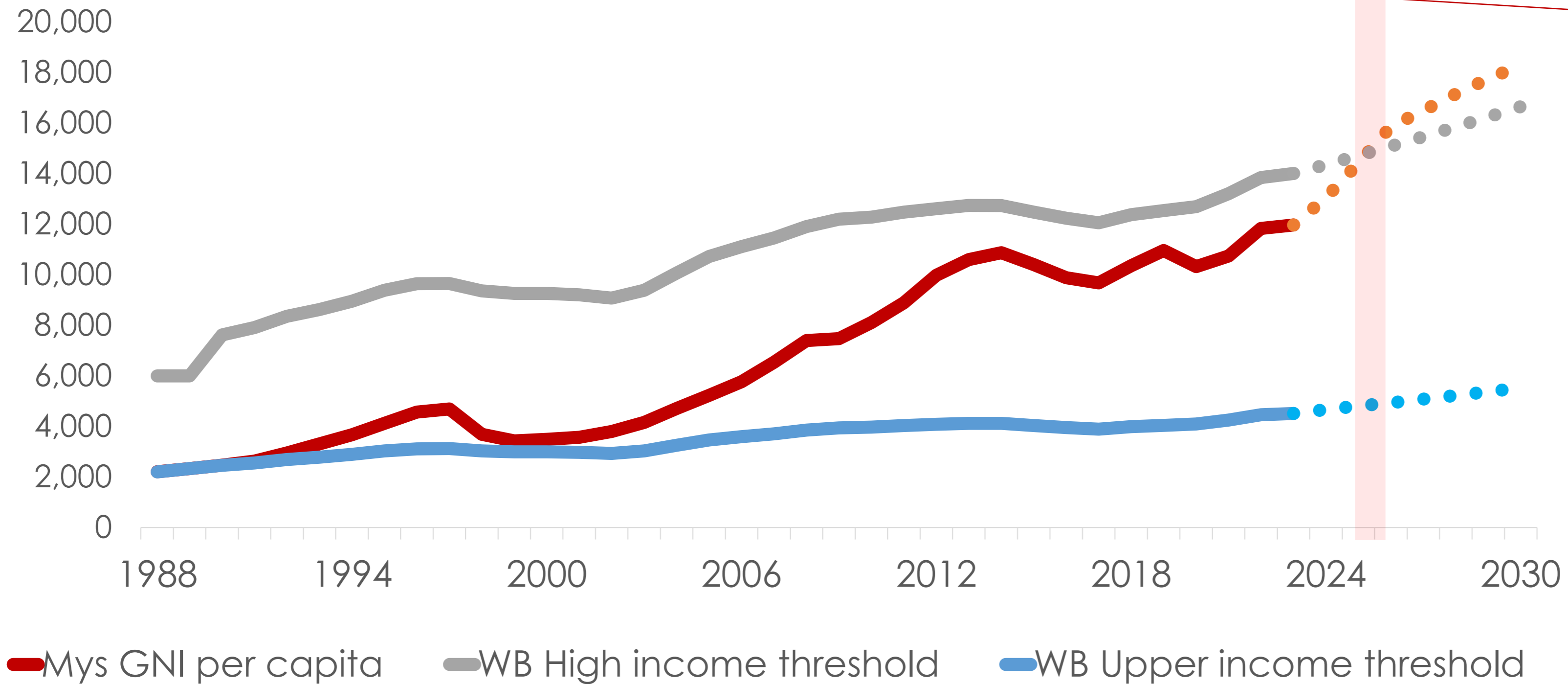


Malaysia's real GDP (inflation-adjusted) is forecast to expand at 5% annually over medium term (up to 2030)

Source: Department of Statistics Malaysia; own forecasts

# When will Malaysia reach high-income?

GNI per capita, Atlas Method (US\$)



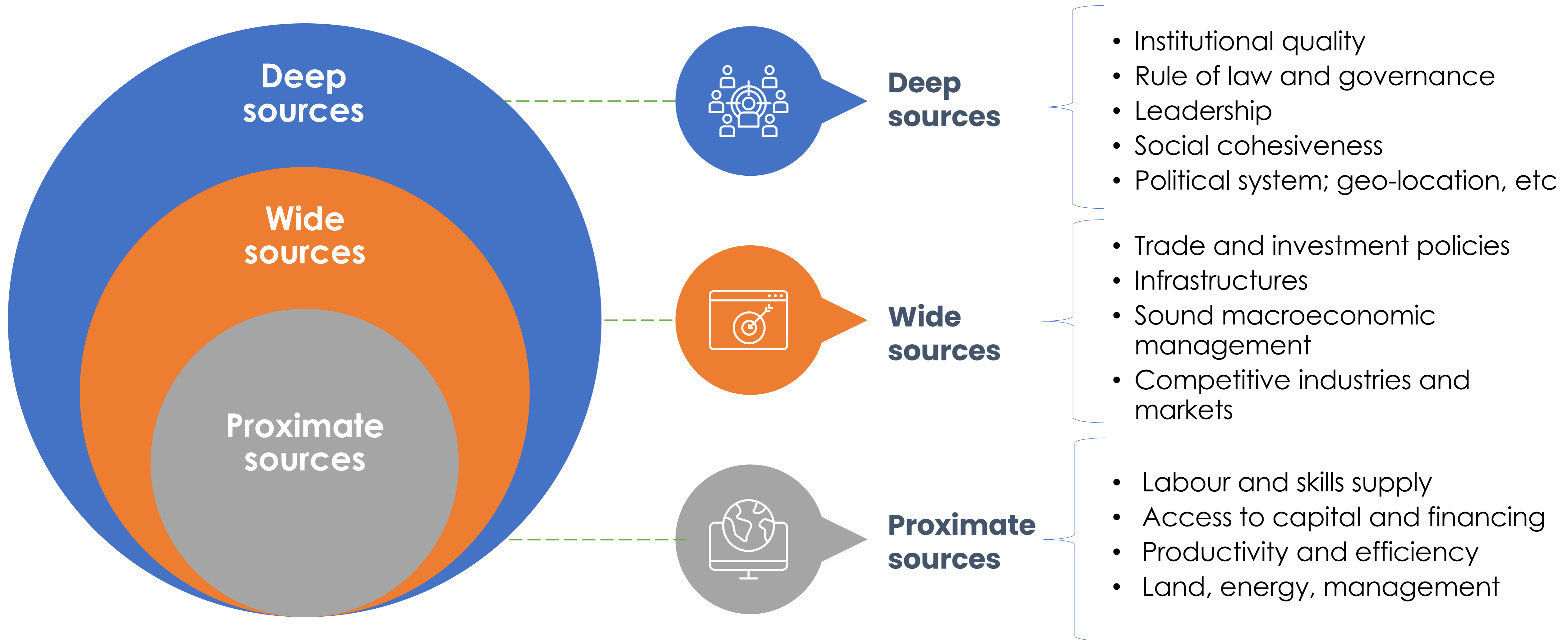
Projected to reach high income before 2030 with earlier target of 2026/27 achievable if current growth momentum is sustained

GNI per capita (current US\$, Atlas Method)					
	1990	2000	2010	2020	2023
Malaysia	2,470	3,490	8,110	10,320	11,970
High income threshold	7,620	9,265	12,275	12,695	14,005

Source: World Development Indicators, The World Bank; own forecasts

# Where will growth come from?

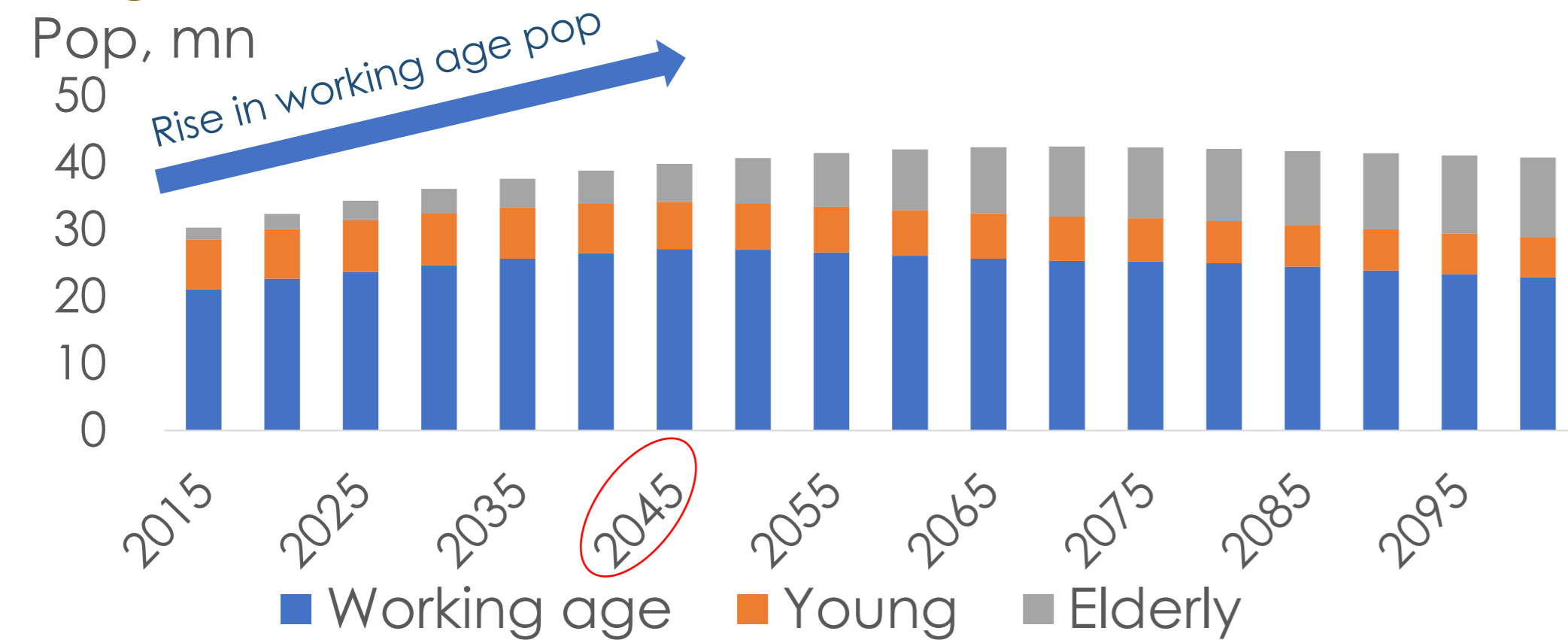
A simple analytical framework to understand complexities of economic growth



# Proximate sources: Are the core growth drivers in place?

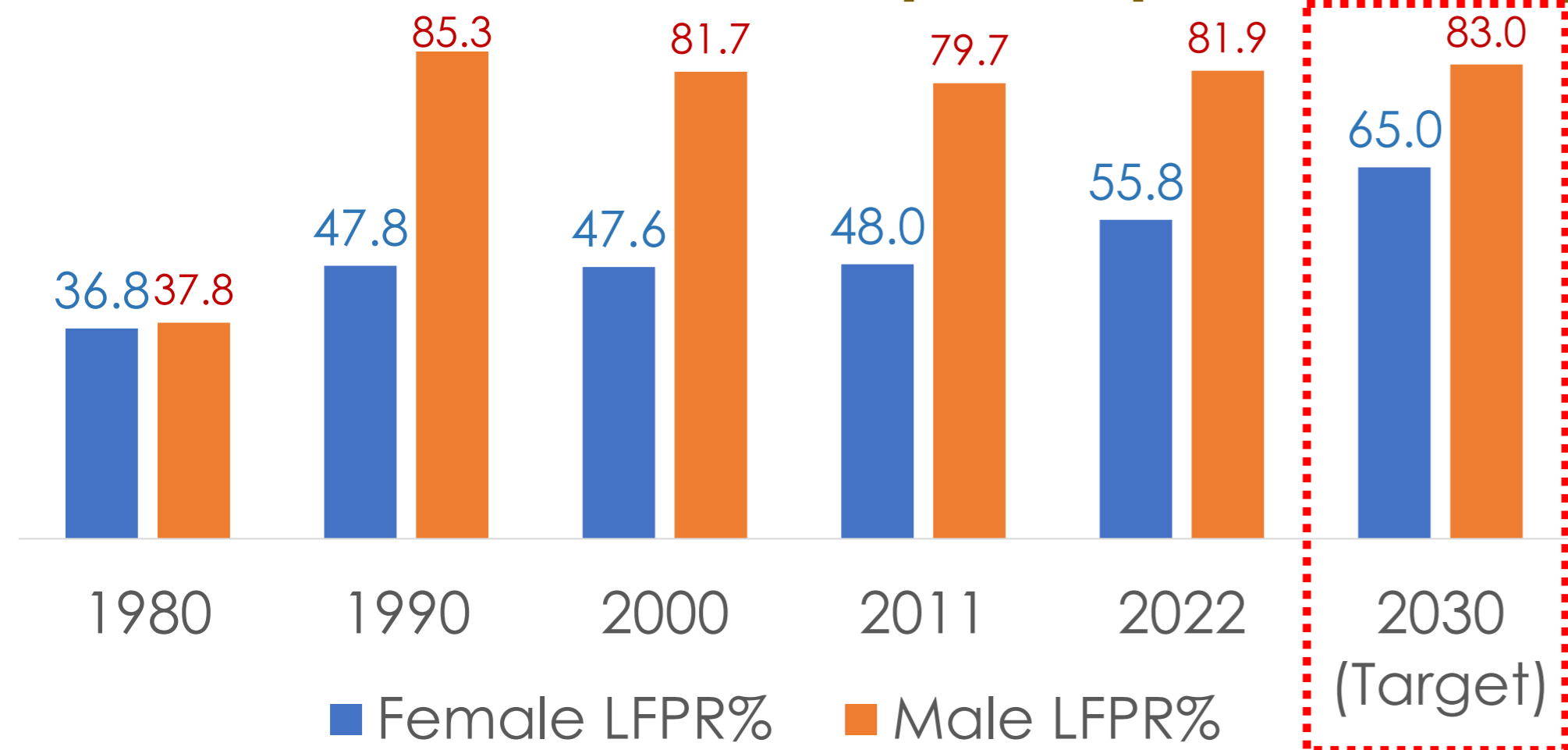
## Labour & skills supply

Dependency ratio has bottomed out and begins to rise



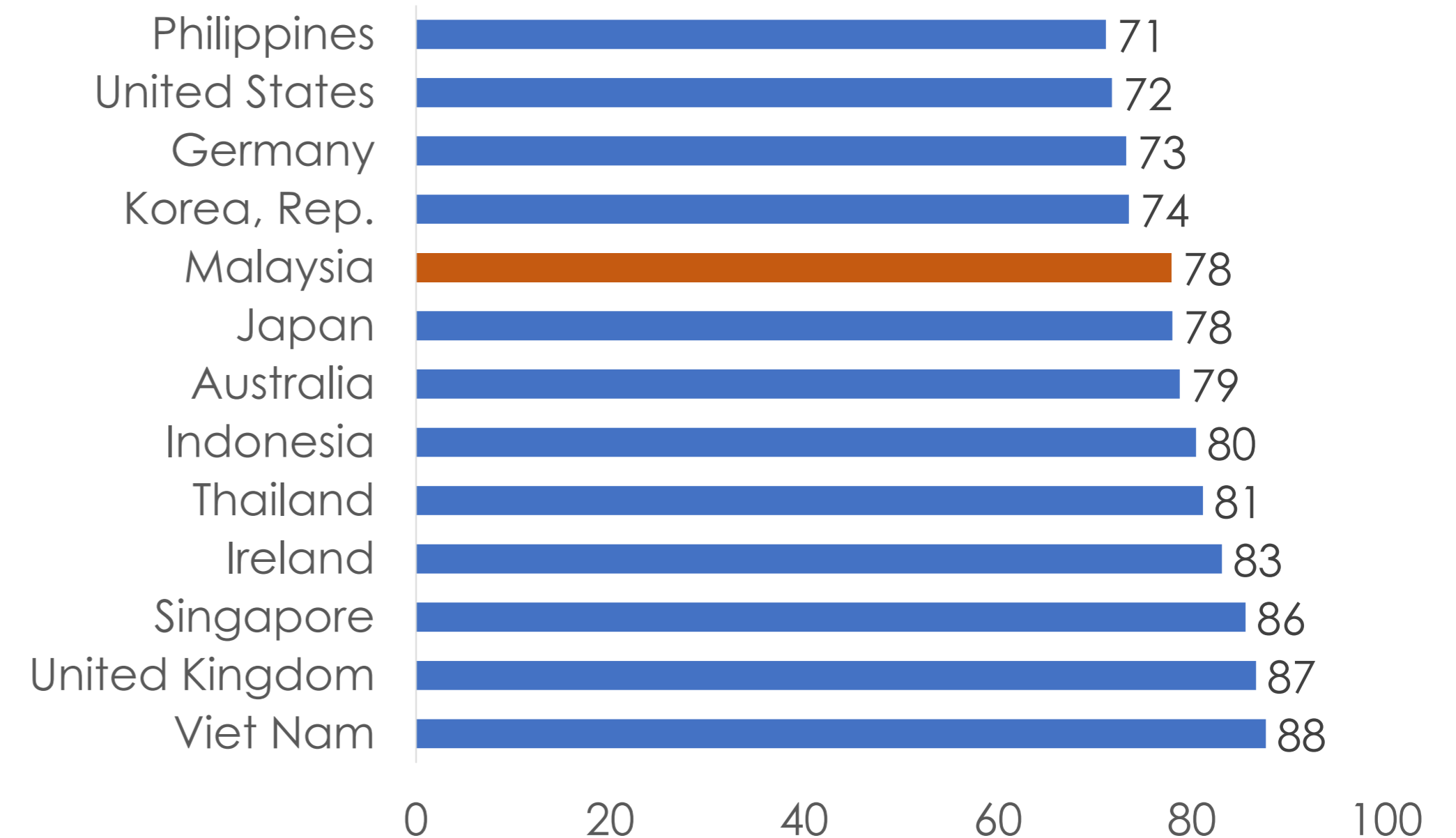
Source: UN Department of Economic and Social Affairs, Population Division (Medium variant)

## Low female labour force participation rate (%)



Source: Department of Statistics Malaysia; United Nations World Population Prospects

Malaysia's labour force with advanced education is lower than neighbouring countries (% of workforce)



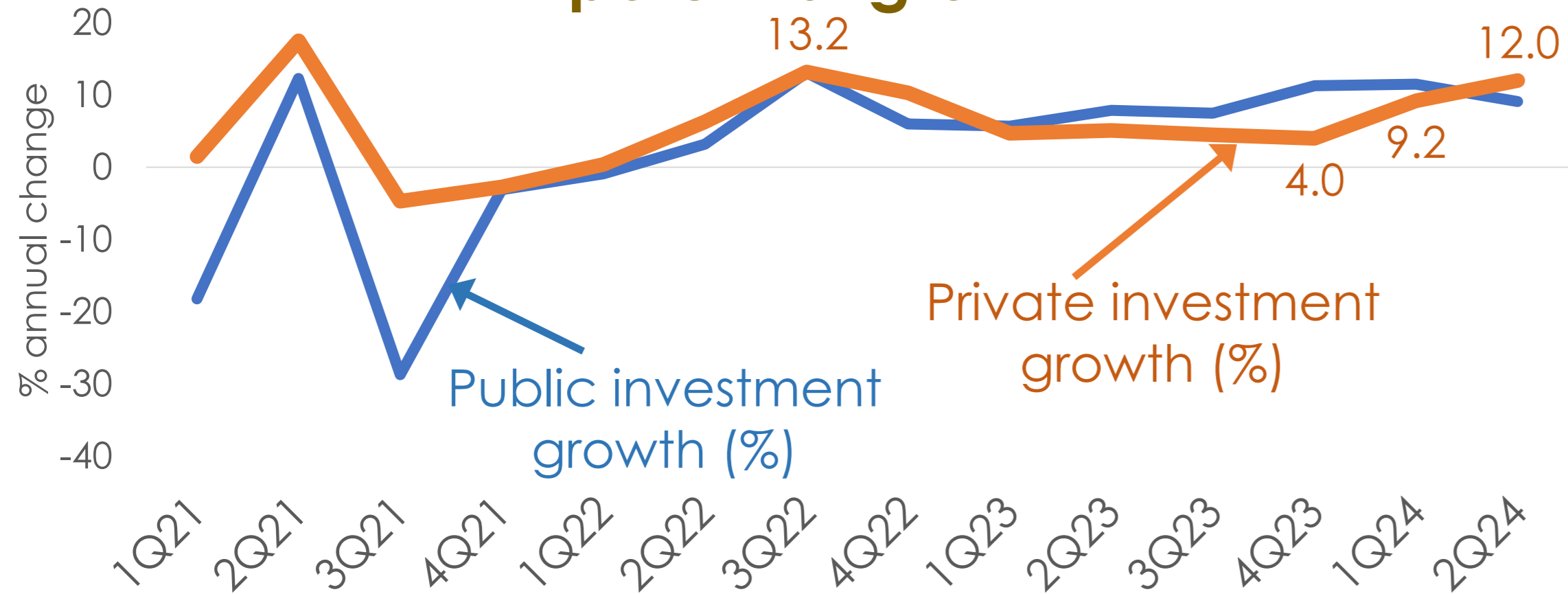
## Policy imperatives

- Increase labour force participate rate.
- Raise female labour force participation rate from current 56% to 65% by 2030.
- Raise quality and relevancy of higher education
- Intensify automation, digitalisation and labour-saving methods and processes.

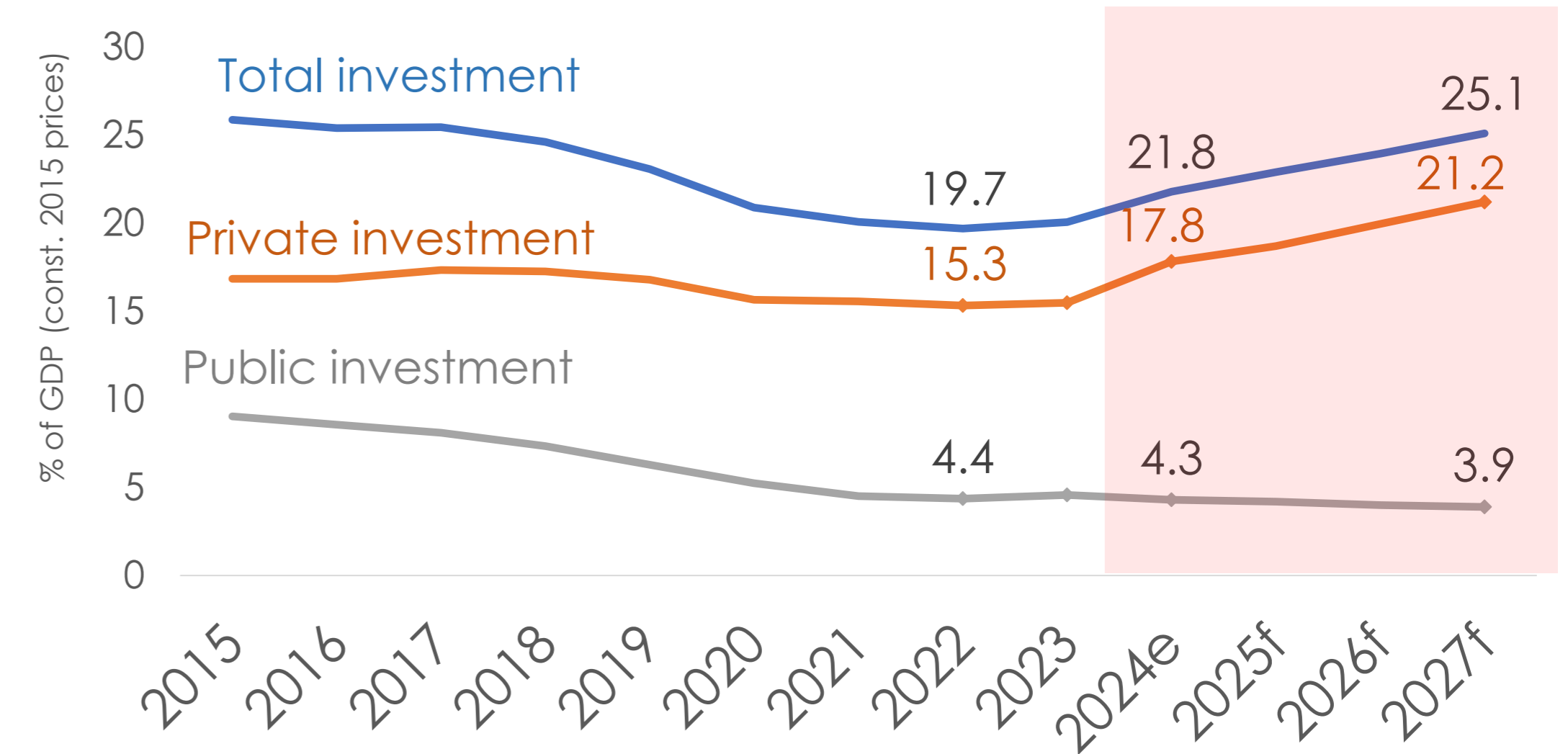
# Proximate sources: Are the core growth drivers in place?

## Capital and investment

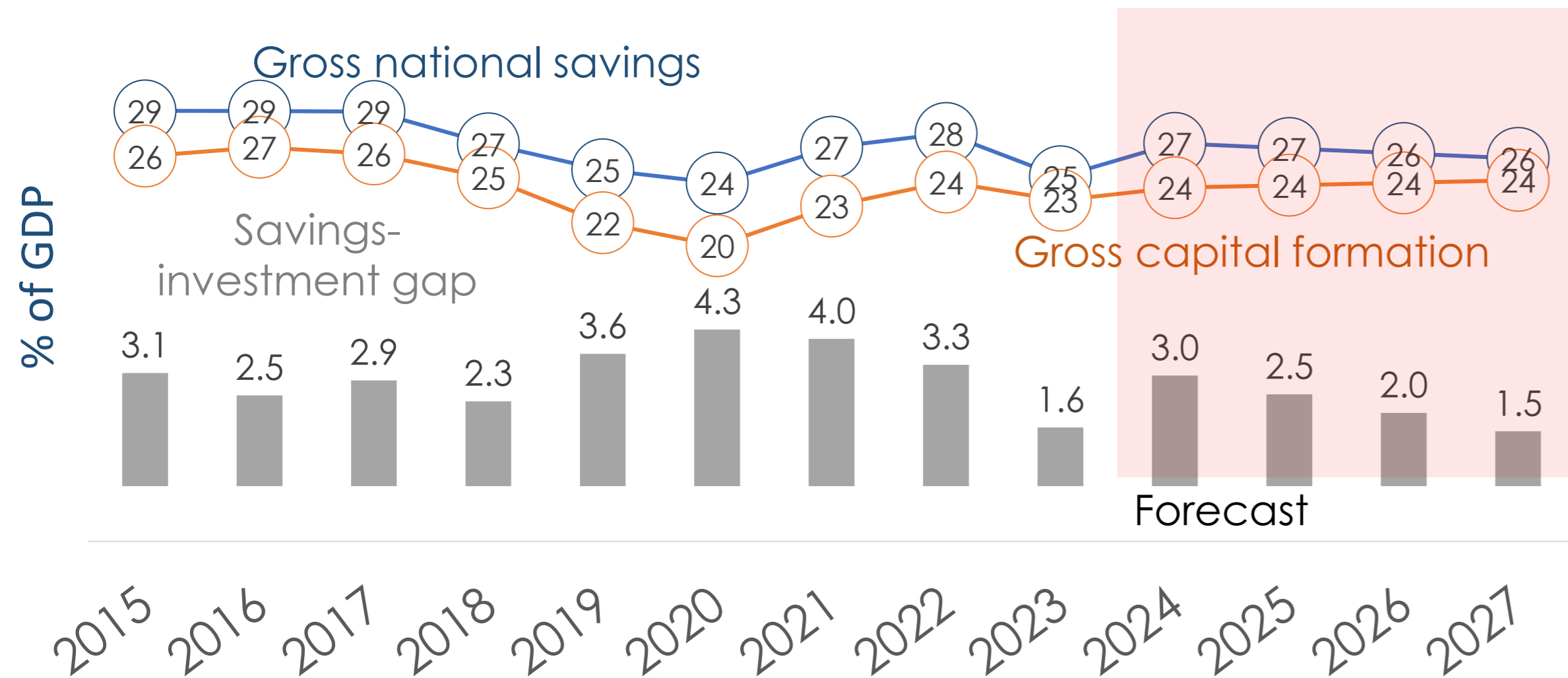
Private investment trending up... key to higher potential growth



Private investment-to-GDP ratio remains below desired 20% of GDP



Savings-investment gap narrows but not concerning as long as investment rate remains high



## Policy imperatives

- **Government:** Enhance policy clarity and stability, investment regime and ease-of-doing business.
- **Private sector:** Invest in new and emerging industries; diversity business portfolio;

Source: Department of Statistics Malaysia; own forecasts

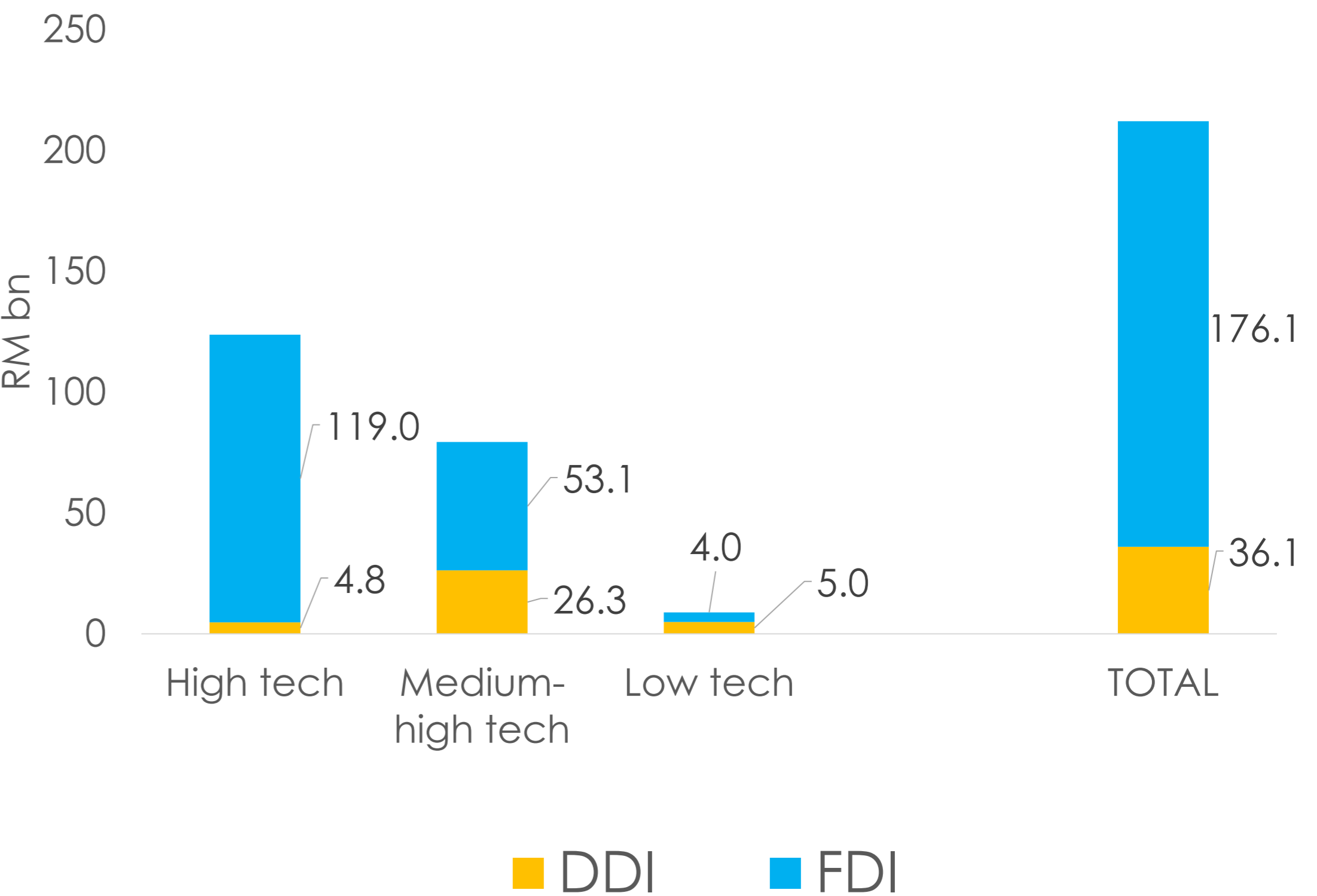
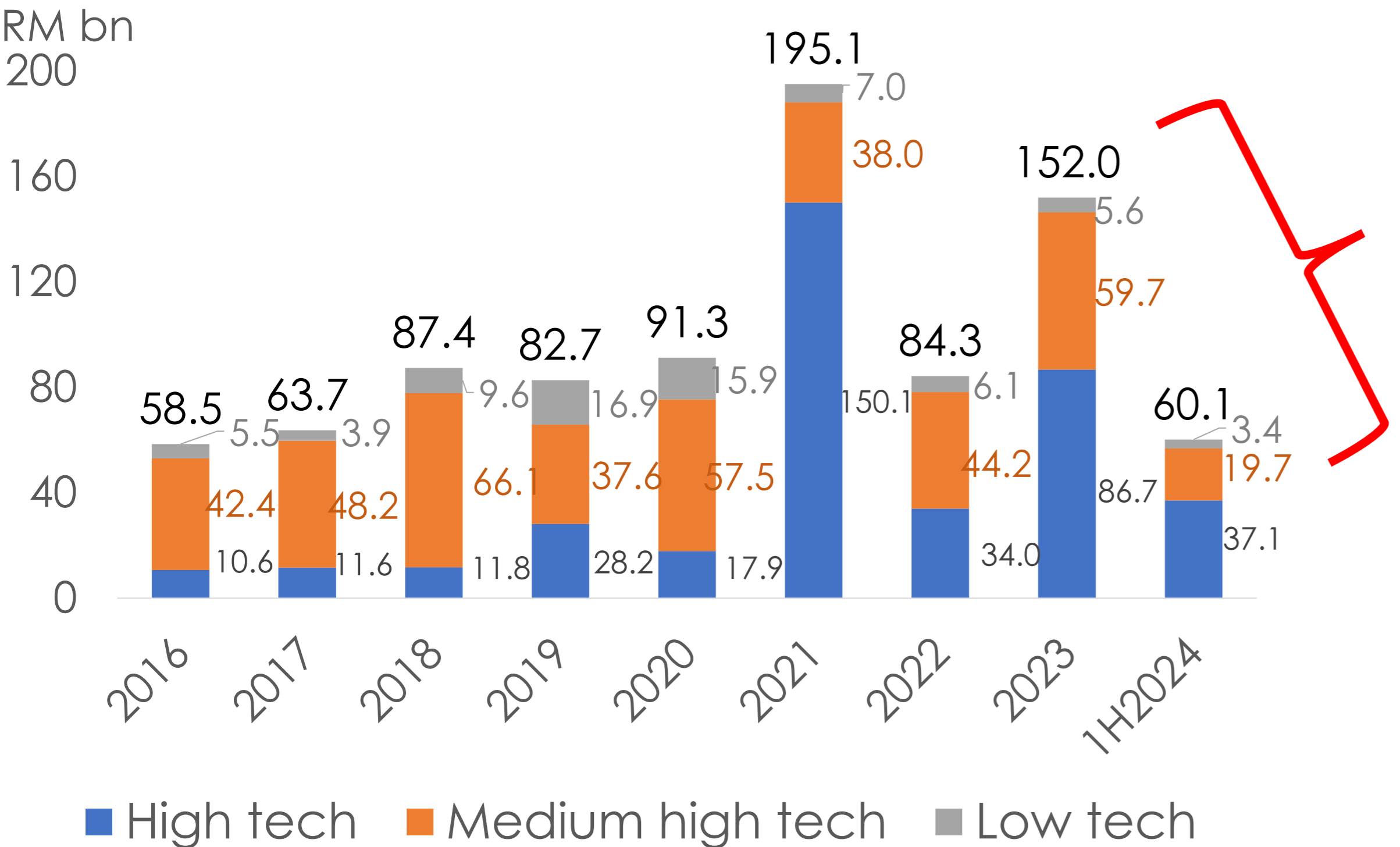
# Proximate sources: Are the core growth drivers in place?

## *Structural upgrading and moving up the value chain*

**Policy imperatives: Upgrading led by FDI; need to raise domestic investment to complement FDI and reduce external dependency**

**60% of approved manufacturing investments since 2021 are in high tech industries**

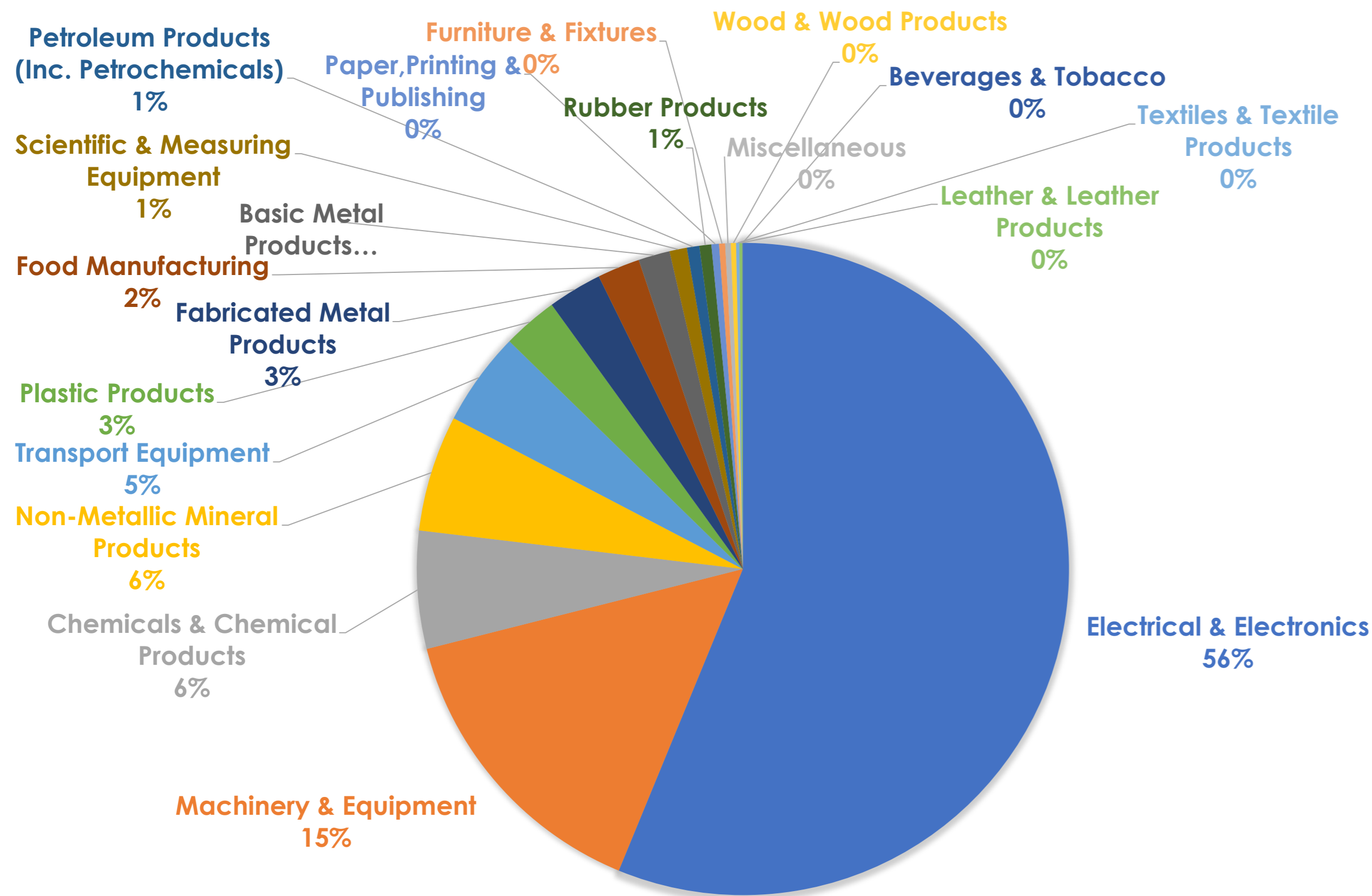
**FDI accounted for over 80% of total approved investments in 2023 and 1H2024**



Source: Data from Malaysian Investment Development Authority; own compilation based on OECD Technology Classification System

# Electrical & electronics and machinery & equipment industries account for 71% of approved investments in 1H2024

## Approved investments in 1H2024 concentrated in high and medium tech industries



## Rising ESG-related investment opportunities

### I. Combating climate change

- Oil & gas investment for short term energy security
- Clean energy technologies (including LSS batteries and EV batteries)
- High value minerals (rare earths, nickel, graphite, graphene) mining for large scale energy storage and EV batteries)

### II. Restoring biodiversity

- Hi-tech agriculture
- Alternative food sources (e.g. lab-grown meat)
- Regenerative agriculture
- Regenerative tourism
- Biodiversity-centred investments

### III. Circular economy – SCP investments

- Zero waste and 'waste-to-wealth' CE – waste and biomass recycling & upcycling
- Sustainable consumption and production (SCP) investments
- Sustainable ESG fashion
- Industrial symbiosis

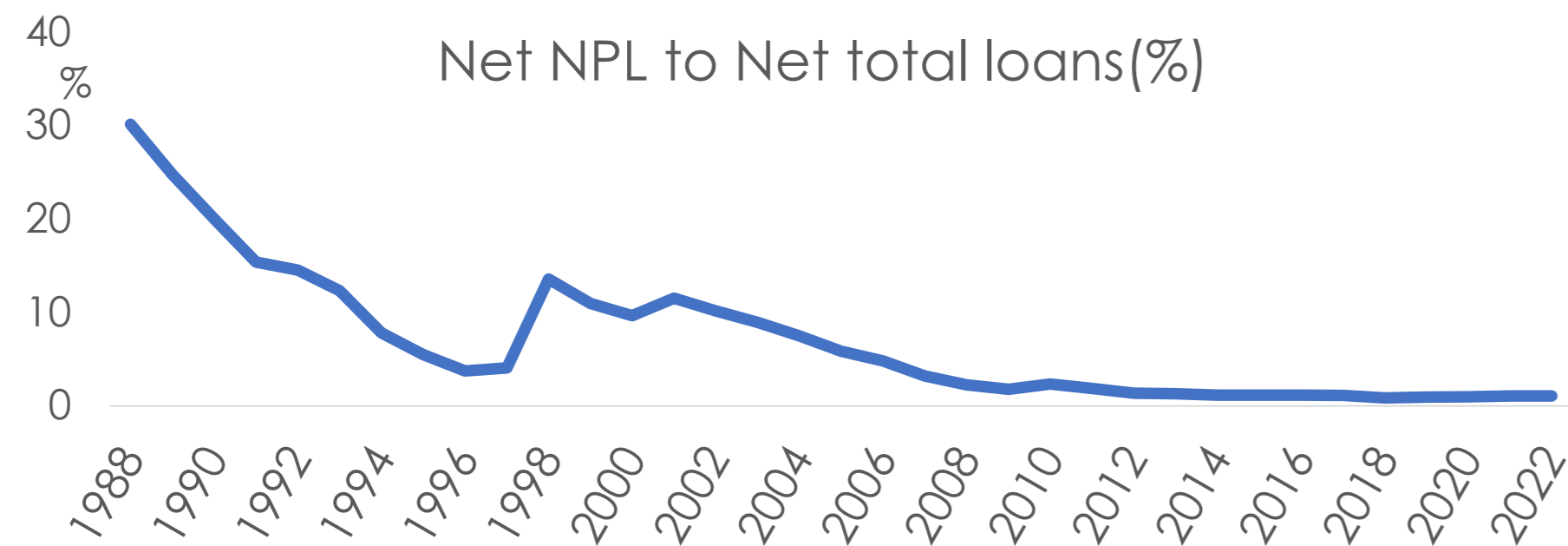


# Are the 'wide sources' of growth tailwinds or headwinds?

(1 of 2)

## Financial conditions

**Sound and well-regulated banking sector...** Weathered 2009 GFC and 2020 Covid-19 pandemic well

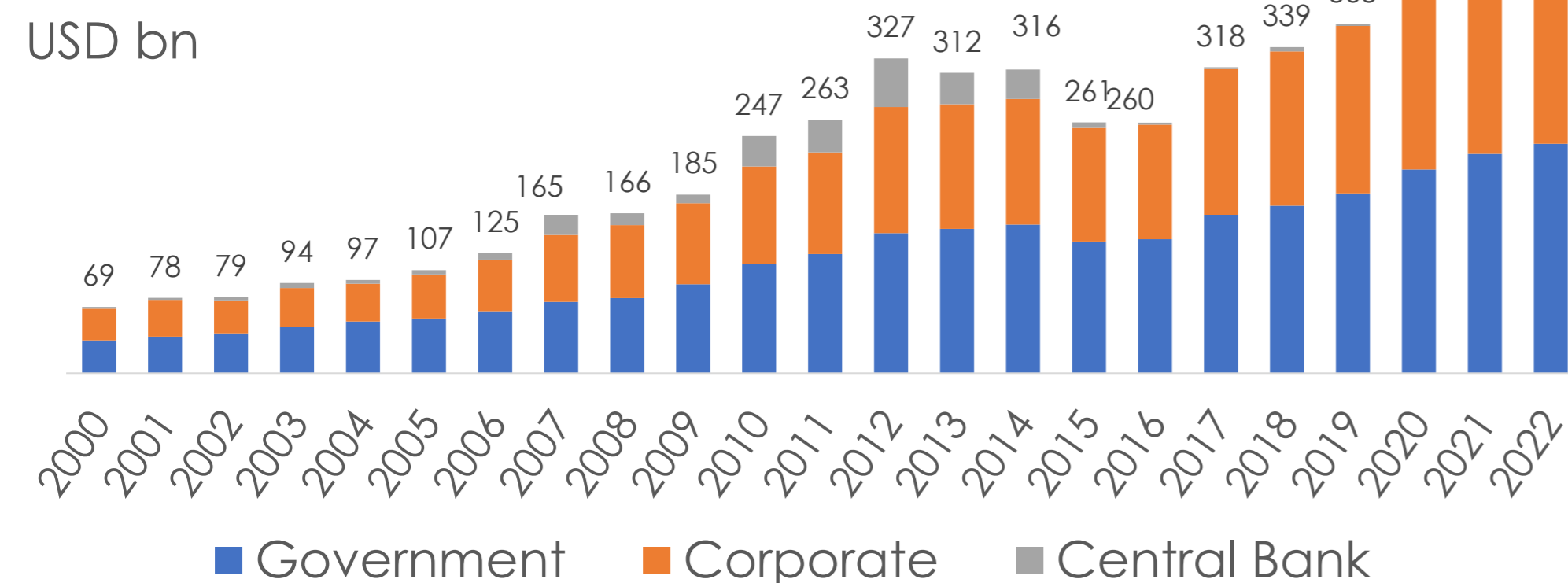


## Expected trends and developments

- **Prudent and conservative approach** to continue under new BNM Governor.
- **Central bank's independence**, especially in monetary policy decisions, safeguarded by Central Bank Act 2009.
- Focus on **inclusive banking** through digital banks, **green financing**, raise economic efficiency through **e-payments and digitalisation**, enhance financial market stability through close supervision.

**Deep debt capital markets:** Addressed currency and maturity mismatches during the 1998 AFC

Size of Malaysia's bond markets



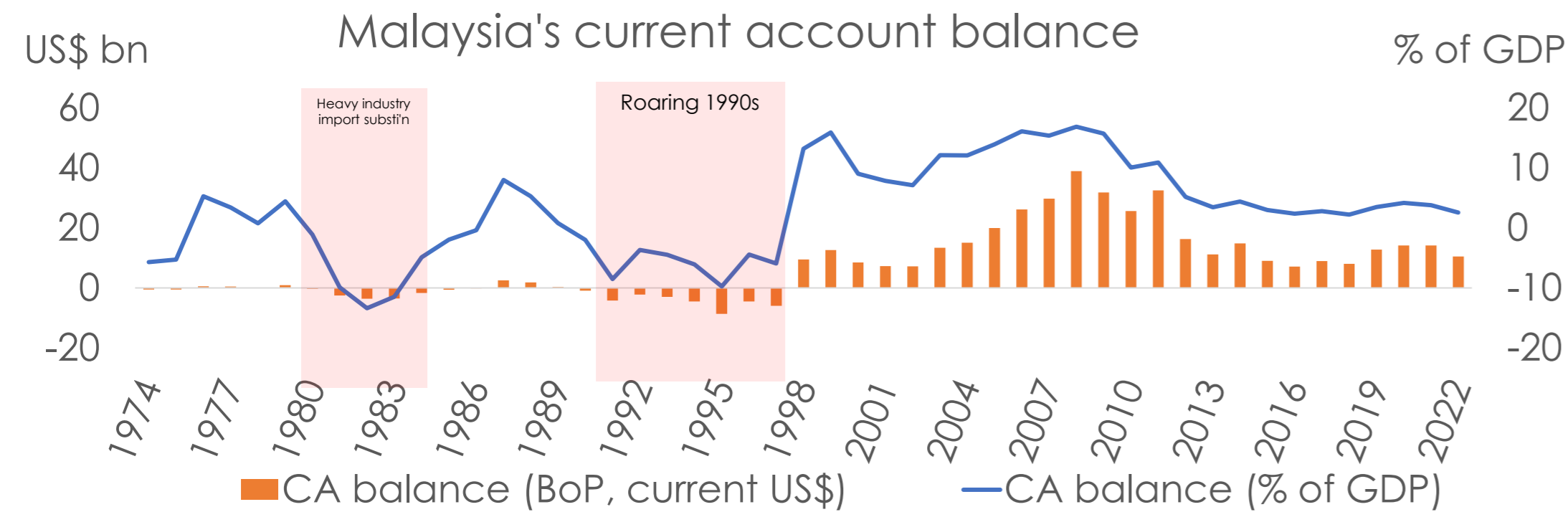
- **Sustainable financing** for clean energy transition, climate change mitigation and adaptation financing.
- **Private sector financing** of PPP projects especially for large scale, long term infrastructural and utilities projects (HSR, BRI projects, RE investments, etc).
- **Market deepening** for A-rated and below issuances (raise investors' risk appetite and widen risk-return profiles), including project finance, securitisation, CBOs and CLOs.

# Are the 'wide sources' of growth tailwinds or headwinds?

(2 of 2)

## External conditions

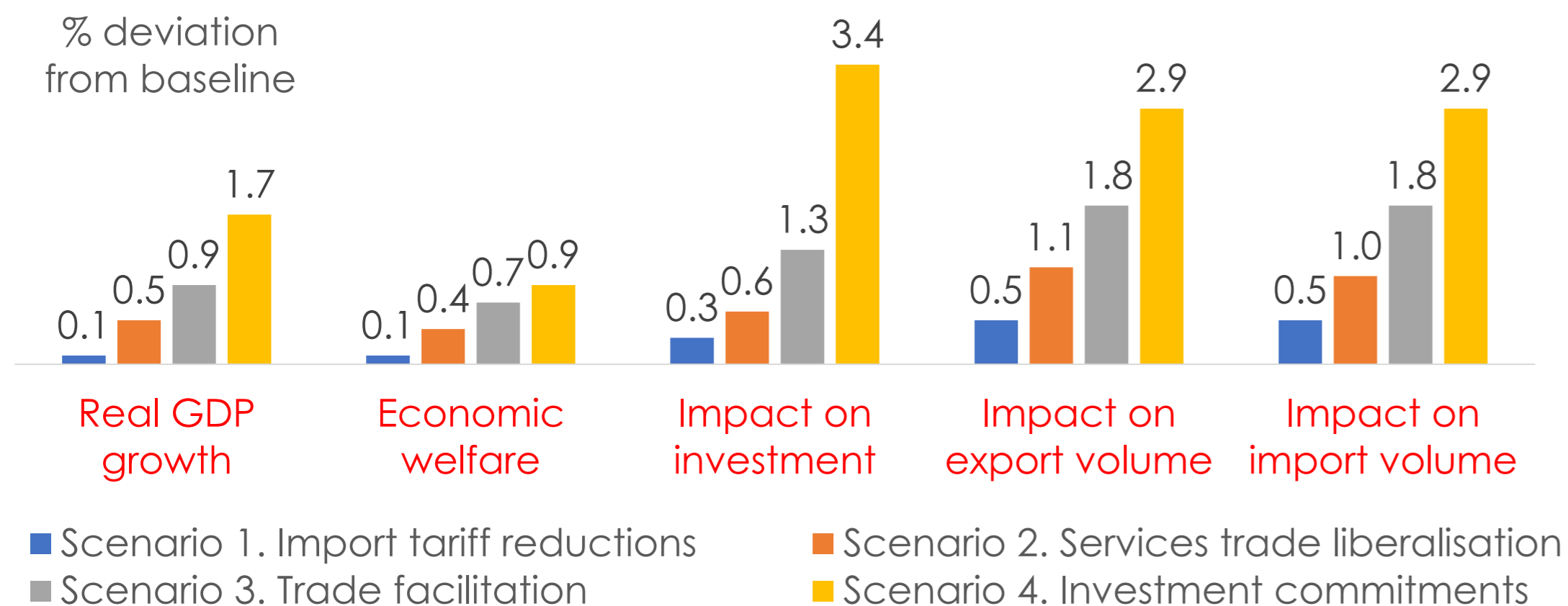
**Current account (CA) surplus:** Narrowing surplus is indicative of rising imports (investment)



## Expected trends and developments

- A **current account surplus** of 2-3% is projected to continue in short to medium term.
- **Temporary deficits may occur:** If private investment surge materialises as expected, the current account balance may turn negative due to lumpy capital imports but this should only be temporary as trend export volume exceeds import volume.

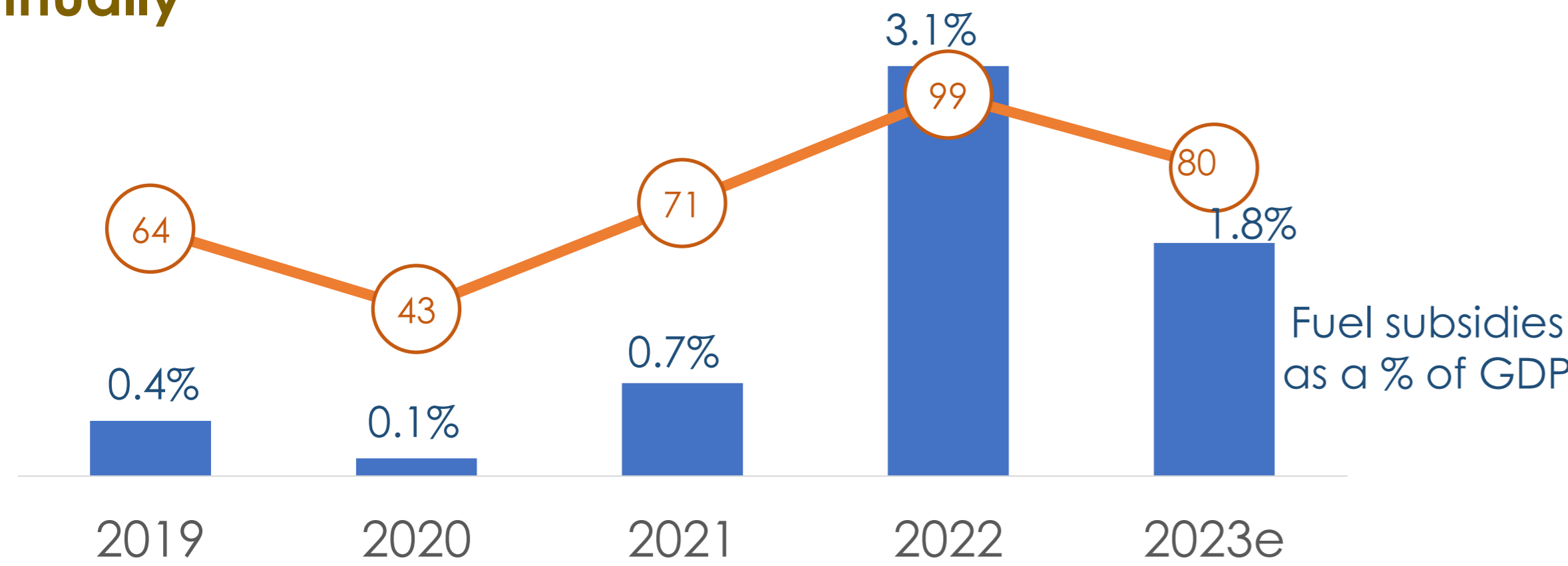
## Benefits from trade groupings, e.g. RCEP



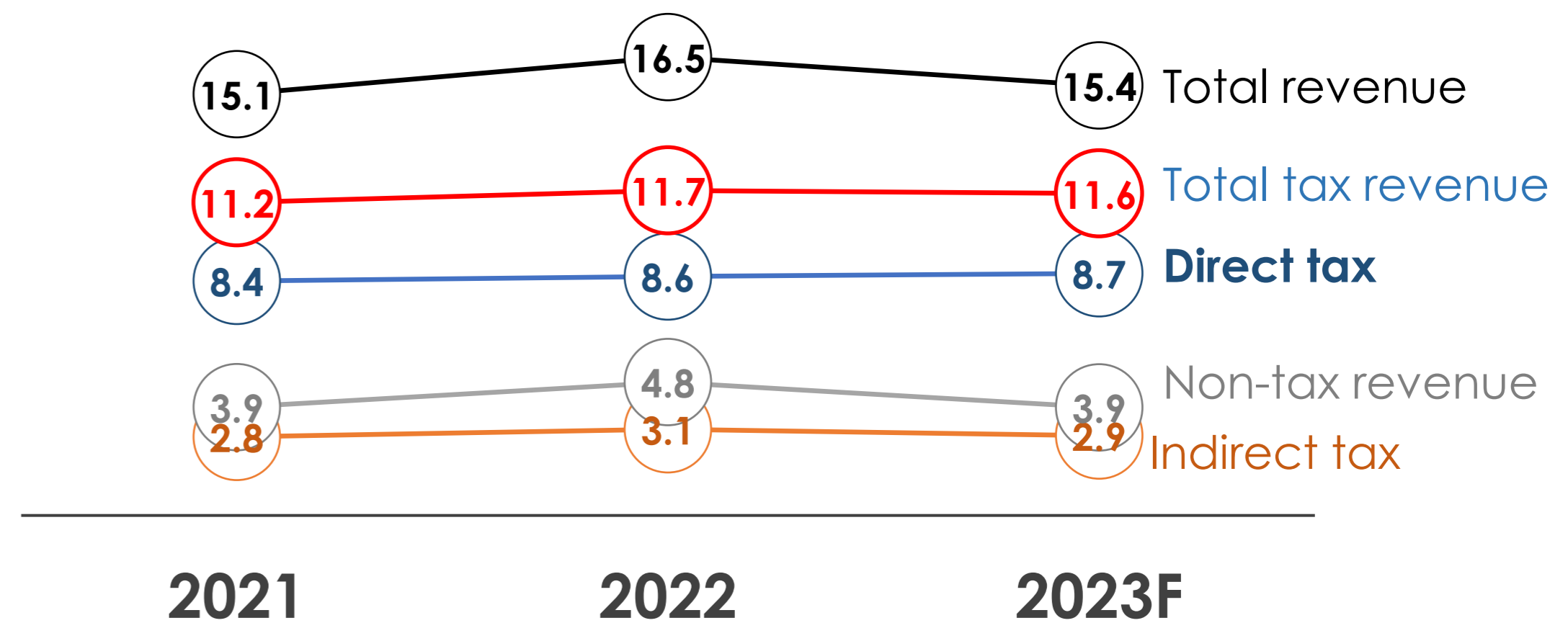
- **Strategic trade positioning:** As an open economy with a large export sector, Malaysia will benefit from improved market access under various bilateral and multilateral trade agreements, including being a partner of BRICs.
- Strategic trade positioning: Leverage on trade blocs on both sides of geo-political divide and Great Power competition.

# Have institutional reforms become binding constraints?

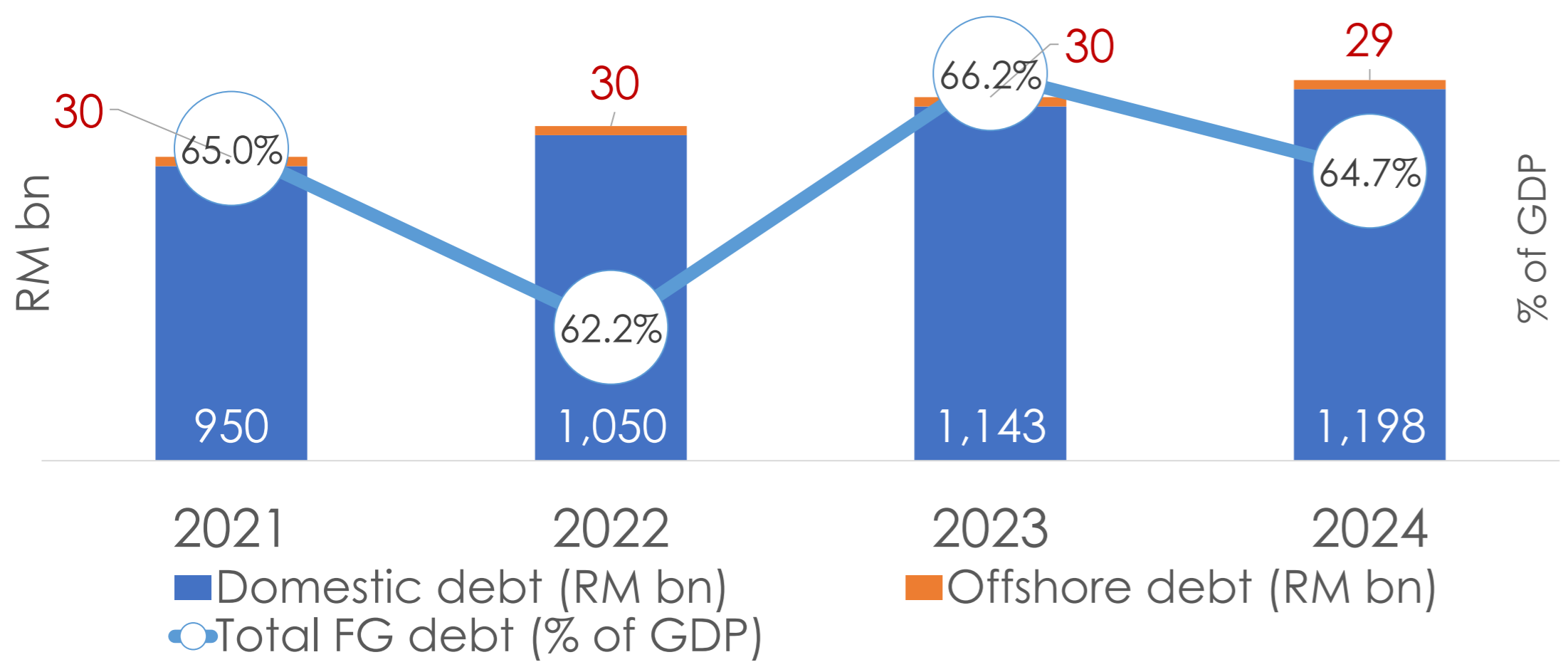
Inefficient and less productive subsidies need to be removed to save RM10-15 bn a year or 0.5-0.8% of GDP annually



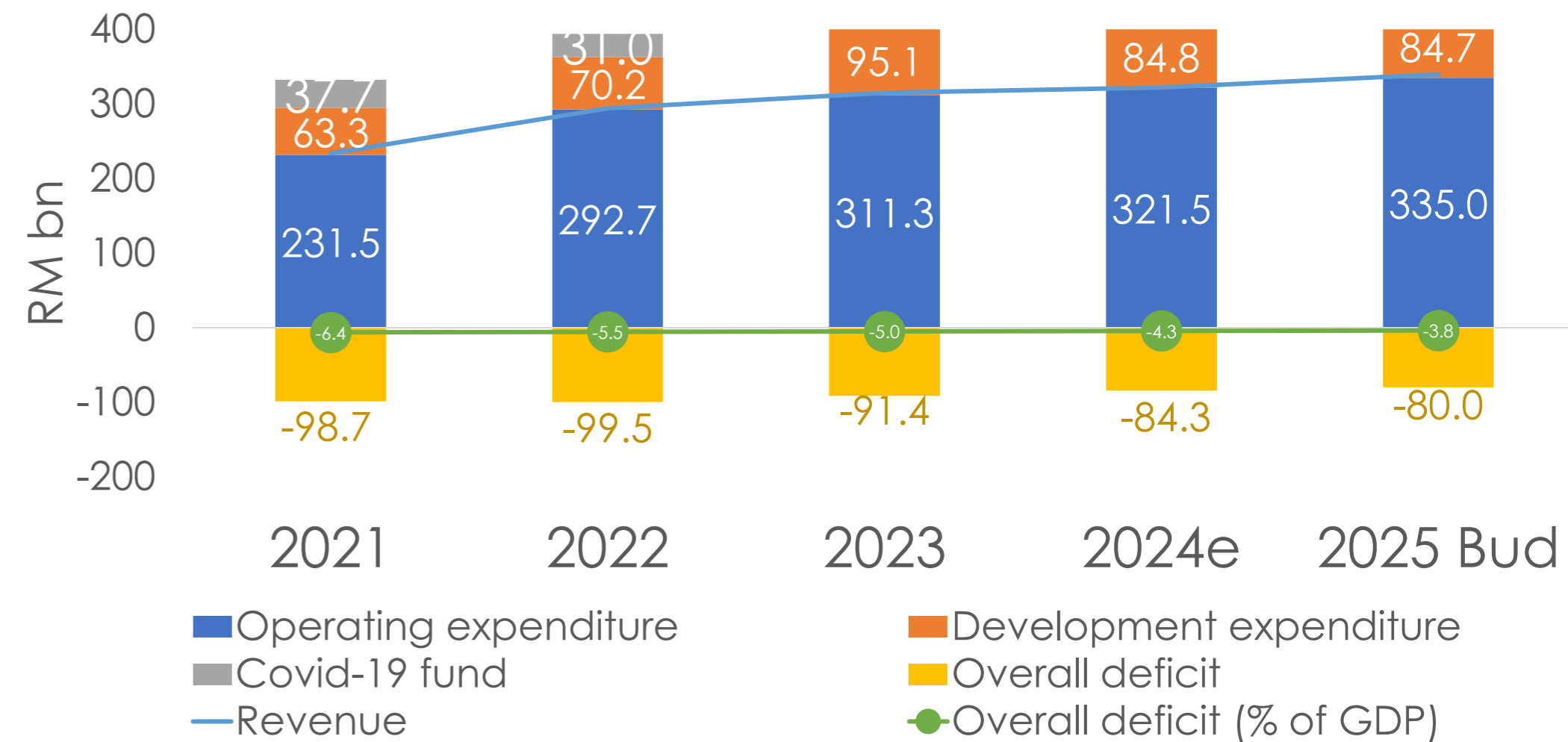
Government spending capped by low tax revenue which needs to rise from 11.8% to 14-15% of GDP



Need to reduce government debt and liabilities to preserve sovereign credit ratings and increase fiscal resilience



High spending needs constrain government to a gradual approach to fiscal consolidation by reducing deficit to 3.5% by 2025



# Institutional reforms to deepen sources of growth

## Institutional development

### Institutional, fiscal and market reforms

- Fiscal Responsibility Act
- Subsidy rationalisation
- Progressive Wage Models; Foreign Workers' Multi-tiered Levy

## Expected trends and developments

- Continuing focus on raising institutional quality, good governance and integrity.
- Improve market efficiencies e.g. eliminate 'cartels' and reduce market power of oligopoly and oligopsony markets.

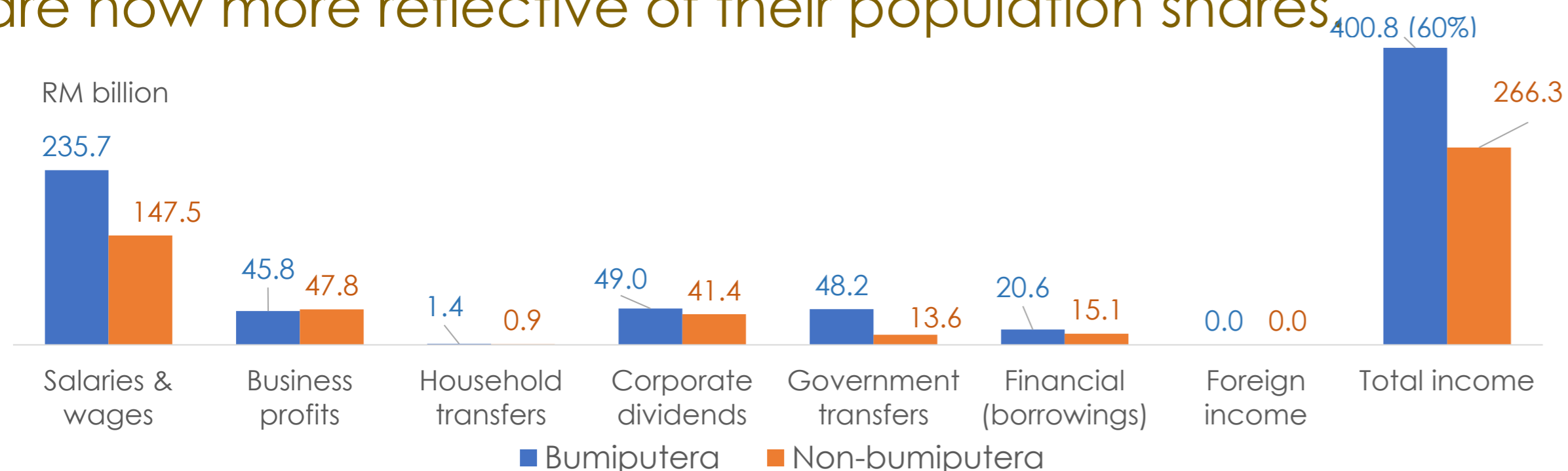
## National and sectoral development plans and strategies

- MADANI Economy Framework
- Mid-term Review of 12<sup>th</sup> Malaysia Plan
- New Industrial Master Plan
- New Energy Transition Roadmap

### In the works:

- 13<sup>th</sup> Malaysia Plan (2026-30)
- Malaysia Education Blueprint (2026-35)
- National Semiconductor Strategy

## Social cohesiveness: Income shares by ethnic groups are now more reflective of their population shares



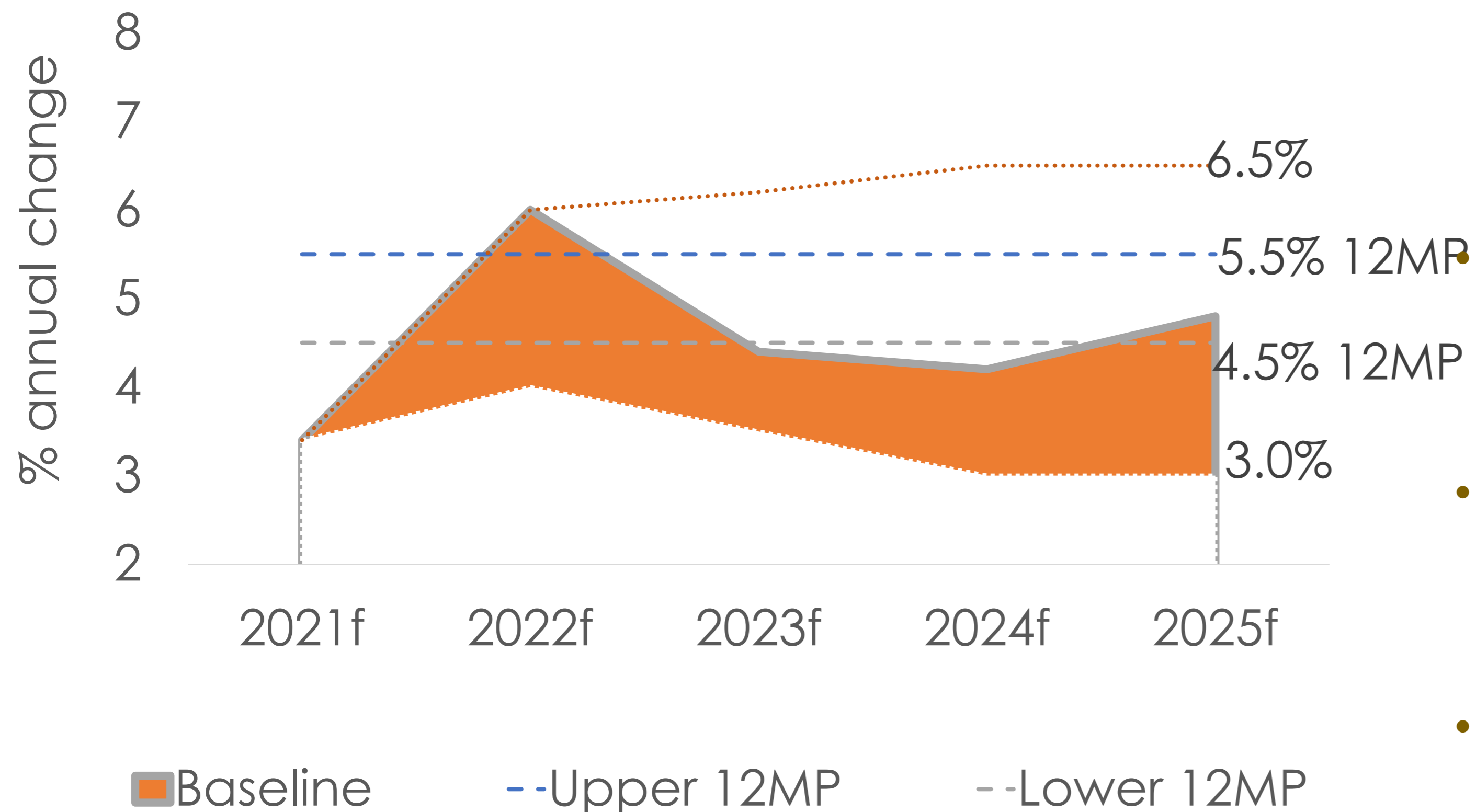
Source: Social Accounting Matrix of Malaysia, 2015 published by Department of Statistics Malaysia

### In the works:

- Gradual shift towards needs-based and quota-free policies.
- Ending Poverty Programmes

# Political uncertainties have eased significantly to shift focus to economic agenda and growth risks

Projected vs 12MP GDP growth targets



## Key growth risks

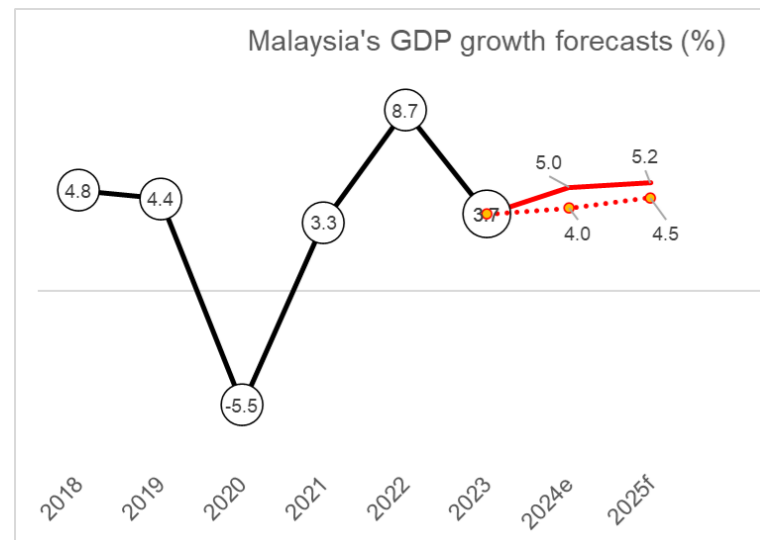
- **Slow economic restructuring** – lack of sustained focus on long term structural issues such as foreign worker dependency, low productivity, weak industrial upgrading, excessive involvement of government in business
- **Political and policy uncertainties** – trust in government, civil service integrity and good governance needed to sustain public and investor confidence
- **Technological gap** – low technological absorption, low readiness and inability to harness technology to increase productivity and competitiveness
- **Social capital corrosion** – declining social cohesiveness and national unity reduce ability to face external threats as well as impede optimal economic performance
- **Environmental quality deterioration** – higher long term costs and environmental risks

# Malaysian Executives' Top 5 Risk Concerns, 2023-2024

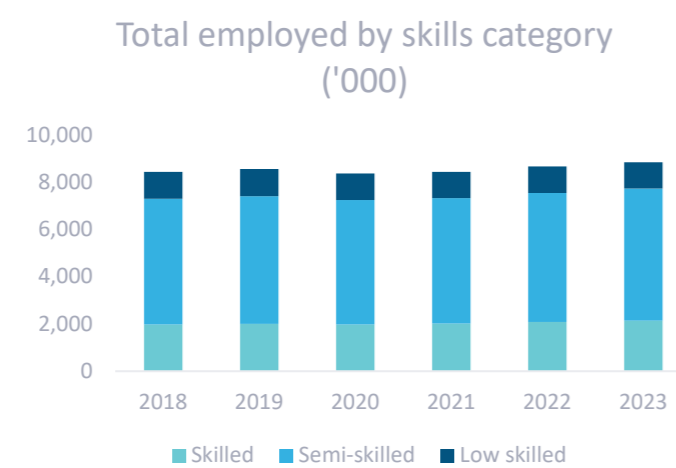
## Malaysia's top executives assessment

1. Economic downturn	2. Labour shortage	3. Food-supply shortage	4. Inflation	5. Erosion of social cohesiveness	5. Infectious diseases
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- Near term upside risk for Malaysia
- Fragile global environment
- 'Soft landing' global scenario
- Malaysia's twin growth engine

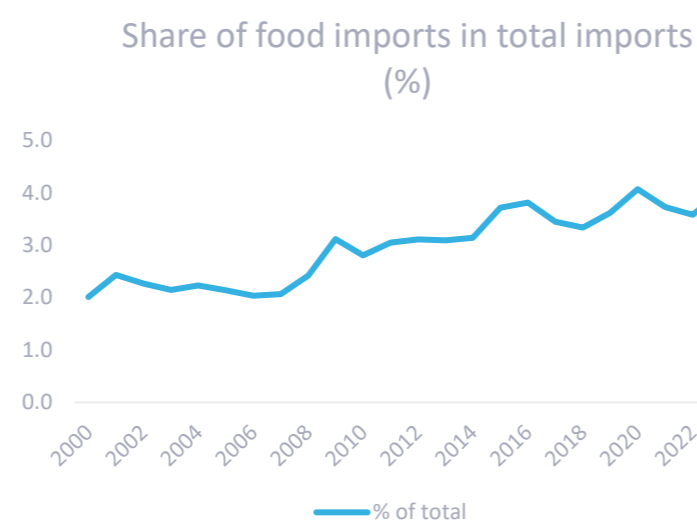


- Skills mismatch due to large low and semi-skilled labour-intensive sectors
- Skilled manpower and talent shortages

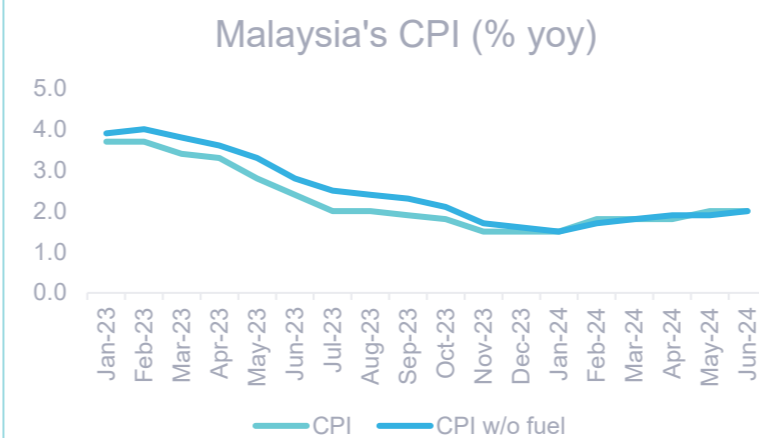


## Reality and current expectations

- High food import dependence
- Potential to raise food production and agricultural productivity



- Rise from a low inflation environment but expected to remain moderate as global inflation moderates.
- Cost-push factors – one-off or permanent?



- Key investors' concern
- Shift from identity-based to issues-based politics
- Change narrative from internal to external threats

- Pandemic readiness requires public-private partnership
- Shift from curative to preventive healthcare

# How should Malaysia position itself strategically in the fast-changing and uncertain global landscape?



Wide scope for Malaysian SMEs/Corporates to tap export potential, joint-ventures and supply chain opportunities created by rising foreign direct investments and regional trade agreements.

# Concluding thoughts

- **Increased optimism** that Malaysia will graduate to become a World Bank-defined high income nation over the next few years stemming largely from the uptick in investments and increased investor confidence.
- To catch up, it need to shift from 'catch-up' to 'frontier' growth through focus **on innovation capabilities** to stay on top of global challenges.
- Focus on **high quality investment** and **industrial upgrading** to overcome inter-dependent '*depressed wages – foreign worker dependency – talent outflow – low productivity*' conundrum.
- Capitalise on **modern services growth potential, services exports** and **tele-migration** opportunities while strengthening high value, advanced manufacturing.
- Malaysia's public and private sector, industries and workforce need to be **innovative, enterprising** and **digitally savvy**.





Thank you.

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