2 Recent Economic Developments in Malaysia

Vigorous economic growth, industrial diversification, the market orientation of the Malaysian government's economic policies and political stability all combine to make Malaysia an attractive investment destination and a valuable economic and trading partner for Canada.

While the Malaysian economy has traditionally been based on the extraction and export of primary resources, consumer and export-oriented industries have gradually assumed a greater responsibility for the economic development of the country. In this context, foreign investment has been an important factor in the industrialization of Malaysia.

The Malaysian economy grew at an average of close to 6 per cent annually in the period 1981 to 1985 before falling to -1 per cent during the worldwide recession experienced around 1985. The recovery in commodity prices as well as booming exports enabled the Malaysian economy to bounce back in 1987 with GDP growth surging to approximately 5 per cent. Strong domestic demand and foreign investment (up 33 per cent in 1989) contributed to further growth of the GDP in 1988 and 1989, reaching 8.7 per cent and approximately 8 per cent respectively in those years.

Malaysia is one of the world's leading exporters of tin, rubber and palm oil. However, crude oil is Malaysia's largest primary commodity export earner, accounting for 13 per cent of gross exports in 1989. Growth in the manufacturing sector since 1985 has been impressive (13 per cent in 1989) and continues to provide the main impetus to growth. The outstanding performance of this sector is mostly due to increased foreign investment (particularly in the electronics sector), favourable world prices for exports and the government's deliberate policy to maintain the ringgit comparatively low against the currencies of Malaysia's major trading partners. In 1987, manufacturing exceeded agriculture's share of the GDP for the first time (23 per cent against 21 per cent), although agriculture, forestry and fishing still rank first in terms of employment. The manufacturing sector accounted for approximately 25 per cent of the GDP in 1989. The agriculture sector, still second in importance, has grown at a much more modest pace, posting a 3 per cent increase in 1989, down from 5 per cent the previous year.

Imports (36 per cent) grew at a faster pace than exports (21per cent) in 1989 and contributed to a reduction in Malaysia's trade surplus. The deficit which continues to be recorded in the services sector, however, has had the effect of narrowing the current account surplus close to the point of balance in 1989. Surging imports have been associated with improved consumer confidence and increased spending as well as capital and infrastructure projects stemming from the dramatic economic improvements since 1987. This mood is also reflected in the surging Kuala Lumpur stock market which has been among the world's best performers since 1987.

In response to the economic recession which saw Malaysia's GDP fall by one percentage point in 1985 and increase only marginally in 1986, the government sharply increased its development expenditures. This move resulted in a large increase to the overall budget deficit (which stood at 18 per cent of the GDP in 1987) and required extensive commercial borrowing. Debt service charges increased