CHAPTER 2

General Information About the Malaysian Economy

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Malaysia, a developing and growing Asian country, has many economic dynamics. This study, which holds a general perspective on the Malaysian economy, has revealed the pros and cons of the Malaysian economy in many respects. In the study, the Malaysian economy was discussed over five questions. These questions are; Could You Give Information About Malaysia's Macroeconomic Data?, Could You Specify Malaysia's Sources of Income?, Could You Specify the Import and Export Structure of Malaysia?, How Does Malaysia's Central Bank Operate?, and What is the Position Malaysia Holds in Global Economy? For this reason, information about Malaysia's macroeconomic data (GDP, GDP Per Capita, unemployment rate, inflation, income inequality (gini index)) is given within the scope of the first question. Within the scope of the second question, the sources that provide income to Malaysia

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are discussed. For this reason, Malaysia's sources of income in each sector (manufacturing, industry, agriculture, service) are indicated. The third question explains Malaysia's most imported and exported products. Malaysia's foreign trade volume has been tried to be presented with data. In addition, the countries Malaysia imports and exports the most are specified and explained with data. In the fourth question, information about the functioning of the Central Bank of Malaysia (Bank Negara Malaysia) is given, and how it carries out the dual banking system is explained. In the fifth and last question, Malaysia's position in the world economy is discussed, and the world ranking is described in terms of many economic indicators. In addition, information is given about which economic dynamics it is ahead in the world.

Malaysia is a country located in the Southeast Asian region. The country is located on the Malay peninsula, the northern part of Borneo Island and two small islands. Its closest neighbors are Thailand, Brunei and Indonesia. The capital of Malaysia is Kuala Lumpur. Other important and large cities are Ipoh, Klang, Petaling Jaya, Subang Jaya, Johur Bahra and Shah Alam. Consisting of 13 states in total, Malaysia is a federal state governed by a parliamentary monarchy. According to 2021 data, the population of the country is 33,114 million (International Monetary Fund (IMF), 2021). Of this population, 55% are Malay, 25% Chinese, 10% Indian, and the remaining 10% are of another active origin. The Malaysian economy is generally dominated by Malaysians of Chinese descent. While Malaysians of Chinese origin dominate the country's trade, the Malays (Bumiputra), who have the majority of the population, are predominantly involved in the state administration. Although few in number, Malaysians of Chinese and Indian origin also take office in government positions. For this reason, it is beneficial to have Chinese-born Malaysians in private sector business and Malay partners in government tenders and procurements.

Approximately 80% of the population lives in West Malaysia, and the rest in East Malaysia. The official language of the country is Malay. However, almost all of the people in the country can speak English well. The official religion of the country is Islam, and the majority of the Muslim population is of Malay origin. On the other hand, Buddhism is the religion adopted by the Chinese living in Malaysia, while the Hindu religion is adopted by non-Muslim Indians. In addition, Christianity is among the religions believed by some other segments in Malaysia. For this reason, Malaysia is a country of various ethnic groups.

Malaysia's economy, where manufacturing, industry and service sectors are developed, is the third largest economy in Southeast Asia and the 35th largest in the world. It is one of the countries with the highest annual growth rate among Southeast Asian countries. Although Malaysia is among the economies of developing countries, it has a strong economy and a structure that can meet its own domestic demand. It has a stable economic profile with low inflation and attracts foreign capital investment. Malaysia has struggled to reduce poverty in the past 50 years and has significantly reduced poverty to the point we have reached today. In addition, the most important goal is to move to the status of a developed country and be a high-income country. For this reason, it has gradually increased its per capita income over time. According to 2020 data, the per capita income of Malaysia is 10,412 dollars, and the inflation rate in 2021 is 2.5% (Worldbank, 2022). The country is industrially developed. While it used to be an economy dependent on rubber and tin sales, it later became a country that exports many important products to the world with its developing agriculture and industry sectors. It is especially rich in products such as rubber, rice, coconut, corn, tea tobacco, dates, bananas and potatoes. It is also a country in a good position regarding mineral products. Malaysia is an important country in tin production and meets 70% of the world's tin production. Other important mines are iron, bauxite, petroleum, manganese, gold and titanium. Malaysia's main export products are; tin, rubber, iron ore, bauxite, timber, cans and palm oil.

Malaysia provides steady growth every year. Although the growth in 2020 was negative with the effect of the Covid-19 pandemic, the country has recovered economically with the decrease of the impact of the epidemic. For this reason, with the effect of the pandemic, the country shrank by -5.6% in 2020, while it grew by 3.1% in 2021 (IMF, 2022). The report published by the IMF for Malaysia in 2022 shows that the growth will continue steadily. The report shows that Malaysia's 2022 growth rate is estimated at 5.7%. Unemployment rates are also lower in Malaysia when compared to developing countries. Unemployment, around 3% before the pandemic, has risen to over 4% with the effect of the pandemic. Malaysia's unemployment rate announced in 2021 is 4.5% (IMF, 2022).

Although Malaysia is a developing country, its economic indicators are promising for the future. According to the forecasts of international organizations (IMF, WORLD BANK), Malaysia is expected to move from an upper-middle-income position to a high-income country between 2024 and 2028. This success is a result of the right policies implemented in the country. Although Malaysia is a country where people from various ethnic backgrounds live, it is one of the countries that have managed to live together. The main factor behind the social, political, economic and social success in the country is the right policies applied. Today, Malaysia also has an important position in terms of finance. It has taken very important steps, especially for the development of Islamic finance. Today it is referred to as the center of Islamic Finance. The right steps taken by the Malaysian government in the field of Islamic Finance and the interest-free products it has developed have greatly contributed to the development of Islamic Finance in the country. For this reason, there is a very well-functioning interest-free interbank money market and many interest-free banks in Malaysia today. The Malaysian government is one of the countries that successfully operates the dual banking system. The Central Bank of Malaysia (Bank Negara Malaysia) carries out its monetary policy according to the dual banking system and directs the economy in this way.

This study includes the analysis of the Malaysian economy located in the Southeast Asian region. In this part of the book, five questions about Malaysia were examined, and information was given on these issues. The first question provides information about Malaysia's macroeconomic data. The second question informs about the sources that contribute to Malaysia's income. The third question presented information about Malaysia's import and export data. The fourth question defines how Bank Negara Malaysia (Malaysia Central Bank) ensures the functioning of the dual banking system. And the final, fifth question describes Malaysia's place and importance in the global economy.

2.1. COULD YOU GIVE INFORMATION ABOUT MALAYSIA'S MACROECONOMIC DATA?

Shown as one of the successful economies of the Asian region, Malaysia had almost completely the characteristics of an agricultural and mining country when it gained independence from England in 1957. Like other countries in the region, it has a weak economy, and most of its economy depends on producing products such as Rubber and Tin. In Malaysia, the share of primary products such as rubber and tin in exports was 85%, while the share of industrial products in GDP was only 8%. After gaining its independence, Malaysia followed a policy of import-substitution goods between 1957 and 1969. It enacted a law to encourage foreign investors in 1968 to encourage foreign investors and attract foreign capital to the country. Later, with the New Economy Program (NEP), which was put into practice in 1920, it switched to the Export-Based growth model. Export-led growth policy has started to be implemented not only in Malaysia but also in many countries in the Asian region. Malaysia, with the support of international institutions, enacted the law to encourage foreign investors in 1968. Thus, with this law, the manufacturing sector was accepted as the leading sector in growth, and foreign direct investments were chosen as the key factor for the development of the manufacturing sector. Although Malaysia, like other Asian countries, has adopted an export-based growth model, it has actually tried to attract more foreign investments to the country and thus to provide economic development. Therefore, they have reduced the barriers to foreign investments to the lowest level. MIDA (Malaysian Industrial Development Authority) permits foreign investments. The policies followed to attract foreign investments to the country over the years have transformed the Malaysian economy into the most open economy in the Asian region. In the World Bank's 2020 ease of doing business ranking, Malaysia rose from 15th to 12th in the previous year.

As a result of the right policies implemented after Malaysia gained its independence, it has ceased to be a country's economy based on agriculture and mining. It has transformed into an economy dominated by mostly manufacturing and service sectors. Thus, the country has seen high growth rates and an impressive average income per capita increase. There has also been a rapid decrease in poverty.

Malaysia has aimed to improve and develop the country's economy by doing more than the many things mentioned above. The right policies have created the expected economic results, and these improvements are also reflected in Malaysia's macroeconomic data. Malaysia has achieved high growth rates over time, effectively increasing the average income. Between 1960 and 2019, Malaysia's GDP growth averaged 6.3% annually, and this growth rate moved the country from low income to upper middle-income level (World Bank, 2022: 11). In addition, the World Bank estimates that Malaysia will become a high-income economy in a few years. These positive developments in economic indicators reduced poverty and the poverty rate, which was 32% in 1984, decreased to 2.7% in 2015 (World Bank, 2022: 11).

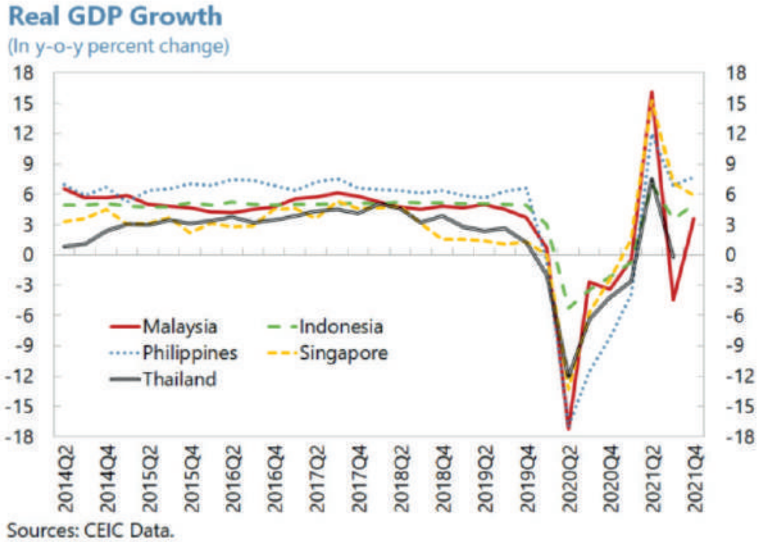

Figure 2.1.: Change in Malaysia's GDP

Source: CEIC Data

Figure 1 above shows Malaysia's GDP has increased steadily from 2014 to 2020Q2. However, with the effect of the pandemic, it was seen that there was a serious decrease in 2020Q2. As a result, it is understood from figure 2 below that the per capita income has decreased. However, in 2021, it was seen that the GDP started to rise again with the decrease of the effect of the pandemic and the positive developments in the world economy. It is also seen that Malaysia has a GDP above the average when compared to other countries in the region. Malaysia's GDP has grown at an annual average rate of 3.3% over the last 20 years (World Bank, 2021: 41). Malaysia, which was adversely affected by the Asian crisis in 1997 and the global financial crisis in 2009, has managed to double its GDP per capita in the last 15 years despite its low growth rates. The Malaysian government has announced that they aim to attain the status of a developed country in 2030 and continue their economic policies toward this vision. Although the Covid-19 pandemic seems to have prevented this goal from being achieved, the authorities emphasize that this can happen. Malaysia's per capita GDP was 11,230 dollars in 2019, and it decreased to 10,412 dollars in 2020 with the effect of the pandemic. However, the country quickly recovered from the pandemic and achieved 5% growth in the first quarter of 2022 (BNM, 2022). The World Bank expects Malaysian income to rise to $11,837 in 2022. Malaysia was selected as the world's 37th largest economy in terms of GDP in 2020. In terms of GDP per capita, it was the 69th economy (OECD, 2020).

The private sector covers the majority of investments in Malaysia. Although there has been a decrease in private investments with the Asian crisis, its effect on GDP in the last ten years is quite significant. It is observed that the contribution of public investments to GDP has been decreasing since 2012 (Worldbank, 2021:44). It is observed that the contribution of public investments to GDP decreased from 11 per cent to 7 per cent in 2018. (Worldbank, 2021:44). However, unlike public investments, private sector investments increased, and the contribution of private sector investments to GDP increased from 15% to 17%. These ratios show that Malaysia is an open economy and has foreign capital investments.

One of the most important reasons for Malaysia's increase in GDP and GDP per capita over the years is related to Malaysia's open economy. The fact that Malaysia is open to investment and has reached high export levels has brought the country to a prosperous level. The government was able to attract foreign capital to the country thanks to the right economic policies it developed. For this reason, Malaysia has become an important country among Asian countries today. Correctly implemented economic policies are also reflected in economic indicators. Figure 2 below shows Malaysia's GDP per capita relative to other Asian countries. It is seen that GDP per capita is higher than other countries in its region.

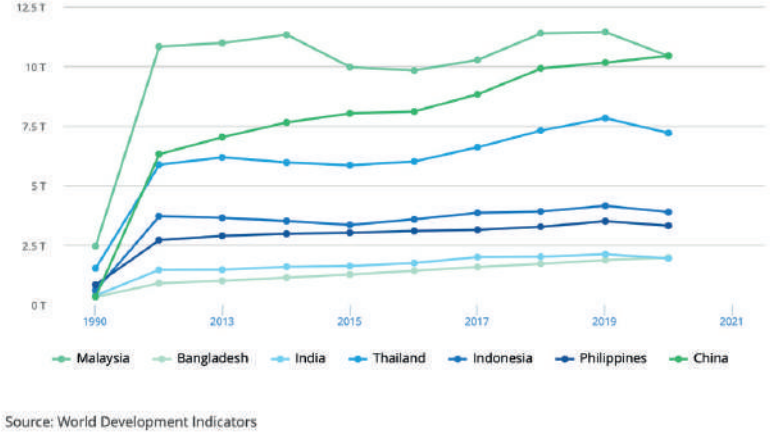

Figure 2.2.: GDP Per Capital in Malaysia

Source: World Development Indicators

In terms of the contribution of sectors to Malaysia's GDP, it is seen that the biggest contribution is provided by the production and service sectors. Likewise, although the share of these sectors in

GDP decreased in 2020 with the effect of the pandemic, it is seen that they started to rise again later on.

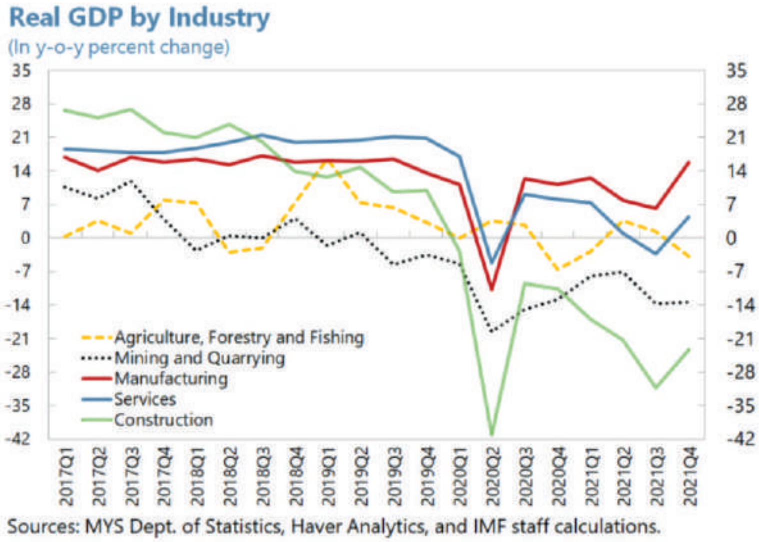

Figure 2.3.: Contribution of Sectors to Malaysia's GDP

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF Staff Calculations.

Figure 4 below shows the unemployment rates of Malaysia over the years. Malaysia is an Asian country where unemployment is not very high. It is seen that the unemployment figures, which were in the single digits in the past years, decreased even more. Unemployment rates, which increased with the pandemic's effect, again reduced due to the decrease of the epidemic's effect and improved economic conditions. In 2021, the unemployment rate in Malaysia was calculated as 4.6 per cent. This rate is higher than in many other countries in the region. The unemployment rate is expected to reach 3.5 per cent in 2022 (IMF, 2021)

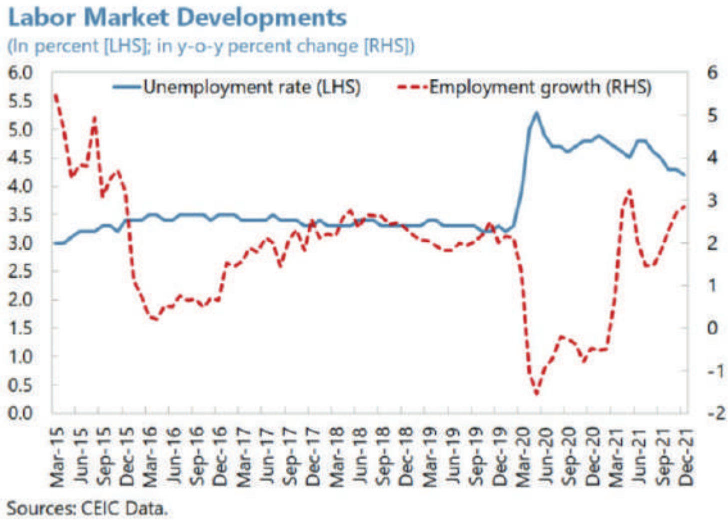

Figure 2.4.: Unemployment rates in Malaysia by year

Source: CEIC Data

Malaysia, which is among the status of developing countries, has a low unemployment rate compared to many countries in this position. However, compared to other countries in its region (Southeast Asia), it has a high unemployment rate. While Malaysia had an unemployment rate behind Indonesia, Singapore and the Philippines in the past, it has now reached an unemployment rate higher than the unemployment rates of these countries. The majority of the working population in Malaysia is employed in industry (35%) and services (56%). The remaining 9% work in the agricultural sector (World Bank, 2022).

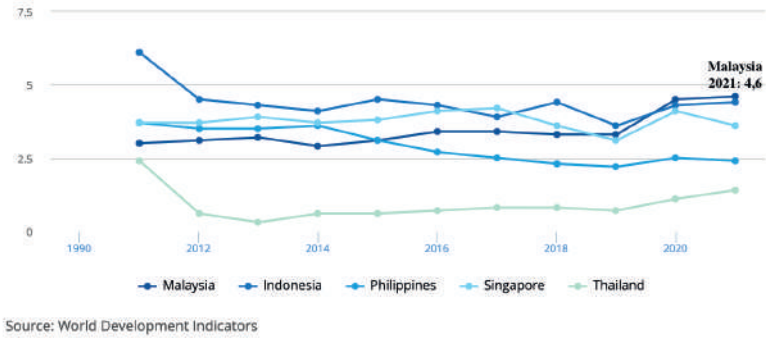

Figure 2.5.: Unemployment in Malaysia

Source: World Development Indicators

Malaysia has a high rate of development compared to many other countries in its region. The country is self-sufficient in many resources. For this reason, the country has always achieved stable growth (except during the Pandemic period), and adopted economic policies that support the welfare of the country. Inflation in Malaysia is also at low levels. The reason for this is the use of the right monetary policy tools by the Central Bank of Malaysia (Bank Negara) and the positive developments in the economy. The inflation rate in Malaysia in 2021 is 2.5 per cent. It seems to have a low inflation rate compared to many countries in the region. Low inflation rate supports the purchasing power of Malaysians and keeps them more prosperous. For Malaysia, inflation is expected to be 2.5 per cent on average in 2022, like the previous year. (BNM, 2022: 38; IMF, 2022).

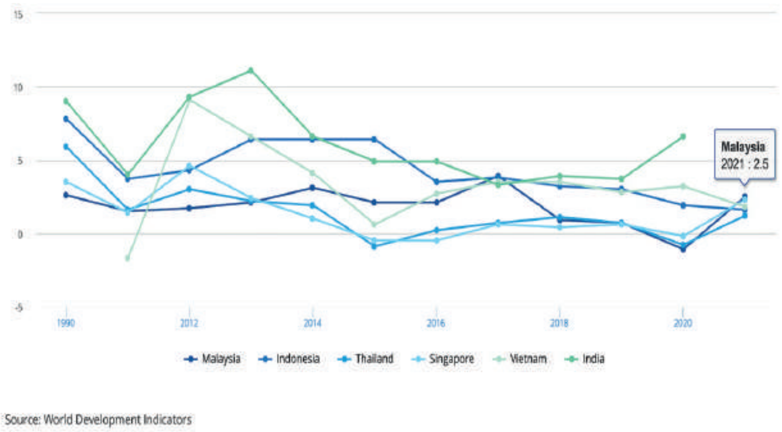

Figure 2.6.: Inflation Rate in Malaysia

Source: World Development Indicators

Figure 7 below shows the gini coefficients of Malaysia and the countries in its region. The gini coefficient, which measures the inequality in income distribution in a country, means that the inequality in income distribution decreases as it approaches zero, and the inequality of income increases as it gets farther away. When this coefficient is analyzed in terms of Malaysia, it is seen that important steps have been taken in the country. The gini coefficient, which has gradually approached zero over the years, shows that the efforts to reduce income inequality in the country have yielded results. In Malaysia, the gini coefficient was above 0.40 for 2020. One of the important factors in this rise is the worldwide Covid-19 epidemic (IMF, 2021: 8). The Covid-19 pandemic has disrupted the economic balance of many countries. The problems experienced in the supply chains caused the countries' production to be interrupted, which was reflected in the economic indicators. Also, many people are unemployed. The economic and social developments experienced during the epidemic affected individuals and companies. One of these effects was that people lost their income; on the other hand, some people increased their revenues more. This situation has led to an increase in income inequality during the epidemic process. These developments during the Covid-19 epidemic affected Malaysia as well as many countries in the world. However, with the decrease in the number of cases and the normalization of economic conditions, it is seen that the Gini coefficient is gradually improving. In this way, the increasing income inequality indicators worldwide have started to improve again.

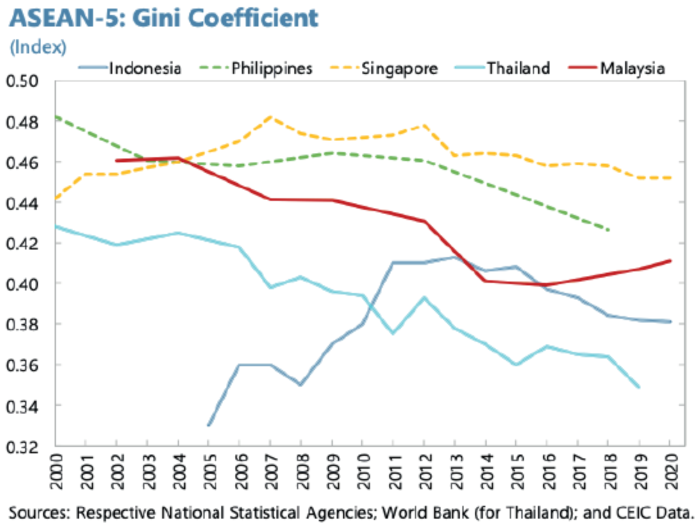

Figure 2.7.: Gini Coefficient of Malaysia and The Countries in Its Region

Source: Respective National Statistical Agencies; World Bank (for Thailand); and CEIC Data

When we look at the Southeast Asian countries, Thailand is seen as the country with the best Gini coefficient. When Malaysia is compared with the related countries, it is seen that this region is below the average gini coefficient. However, Malaysia also needs to implement policies to reduce income inequality further. These data remain high when compared to developed country data. For

Malaysia to reach the target of entering the high-income country group and to reach the position of being a developed country, it needs to provide economic balances between different social segments. In particular, the zakat system, which is implemented in the country through various state institutions, is very important in terms of reducing income injustice. Although Malaysia's economic growth increases yearly, income inequality between social groups has also increased. This growth does not appear to benefit everyone equally. Although GDP per capita increased in Malaysia between 1981 and 2017, the Gini coefficient decreased (World Bank, 2021: 36). In recent years, it has been seen that the growth rates in the country have become less inclusive. This is because the share of low-income households in total income is falling, and the absolute gap between households in the bottom group and those in the top group continues to widen. This situation causes the gini coefficient to increase gradually compared to Malaysia's peers.

After gaining independence, Malaysia has succeeded in many important areas such as economic growth, human capital and physical infrastructure. However, in terms of poverty reduction, a policy of reducing poverty based on specific ethnicities, not broad-based, has been adopted (World Bank, 2021: 36). This situation did not eliminate poverty but only reduced poverty.

To understand the financial structure of the Malaysian government, it is necessary to look at its different economic indicators. As shown in figure 8, It is seen that the majority of the country's expenses are wages (public personnel). Then the expenses for goods and services take the second place. Considering the tax revenues of the country, it is seen that the most income is obtained from the taxes collected on the incomes of individuals or institutions (IMF, 2022: 23).

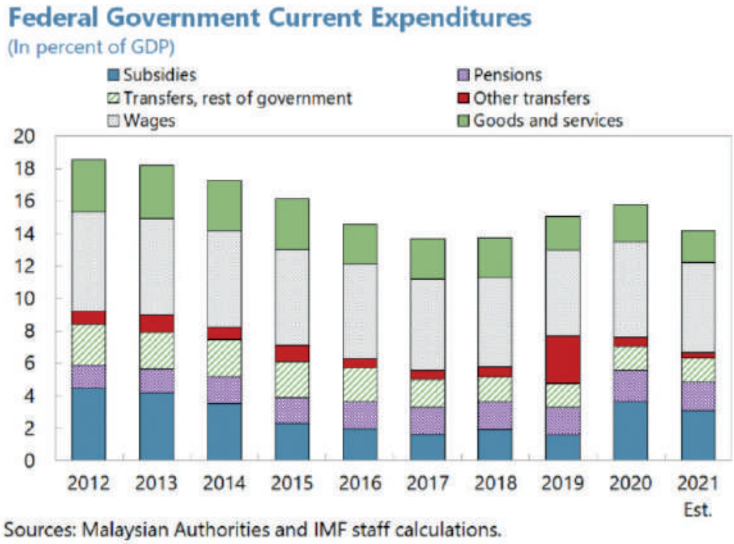

Figure 2.8.: Malaysia's Expenditure Items

Source: Malaysian Authorities and IMF Staff Calculations.

The second important source of income for the government in terms of taxes is the taxes it provides on goods and services. These revenues, in turn, consist of taxes, investment and interest revenues from international trade.

2.2. COULD YOU SPECIFY MALAYSIA'S SOURCES OF INCOME?

Positive economic developments in the past have enabled Malaysia to achieve high growth rates. High growth rates have stimulated the Malaysian economy, resulting in a significant increase in average income and, thus, a decrease in poverty. Looking at Malaysia's growth rates between 1960 and 2019, GDP increased by 6.3% annually on average. The World Bank estimates that Malaysia could transition to a high-income economy in the next few years due to sustained growth rates that increase average income. For Malaysia to be in the high-income country group, it should focus more on technological investments and have a knowledge-intensive, productivity-based growth target. However, in recent years, Malaysia's average growth rate has slowed down compared to previous years (World Bank, 2021:14). In addition, the covid-19 outbreak has affected key variables in the Malaysian economy as well as many economies. For this reason, the negativities experienced throughout the world in recent years have affected Malaysia as well as many countries. In order for Malaysia to be included in the high-income group it targets, it needs to develop new strategic goals and actions. In Malaysia, priority is given to certain groups or companies based on ethnicity in order to carry out some economic work (World Bank, 2021:31). This leads to inefficient allocation of resources without fair competition. For this reason, there is a weakness in economic productivity. Malaysia needs to take productivity-enhancing actions to generate better income and make better use of underutilized resources to generate income.

Malaysia is a country that has adopted the principle of export-based industrialization. It is also one of the countries that give importance to attracting foreign investors. It has minimized the barriers to investment in order to attract foreign investors. For these reasons, the contribution of foreign investment and capital to the country's economy is significant. Malaysia, a middle-upper-income country, has transformed its economy from a raw material producer to a multi-sectoral economy after the 1970s. It has started to play a major role in value-added production by attracting investments from high technology, knowledge-based industries and service sectors.

Malaysia, whose economic growth and development are based on mining and agricultural products, has rapidly industrialized attracting foreign capital to the country in the last 25 years, and the industrial sector's share has reached 23% in 2018. The services sector is the sector that provides the highest income in the country. Its share in GDP has reached 58%. The industrial sector is also one of the important locomotives of the country. The impact of the industrial sector on the country's income in 2018 was 23%. After 2019, while many sectors grew, the mining sector shrank. The service sector grew by 6.4%, the industry by 4.2%, the agriculture by 5.6%, the construction sector by 0.3%, while the mining sector shrank by 2.1%.

Many sectors have developed in Malaysia in recent years and have made significant contributions to both growth and employment. One of them is the manufacturing sector. The manufacturing industry in Malaysia has a diversified and high-value-added position. The manufacturing sector in Malaysia grew from RM 88 billion in 2000 to RM 294 billion in 2017. In addition, the number of people working in the manufacturing industry increased from 1.6 million to 2.2 million during these periods. This constitutes 15% of the number of people employed. Malaysia produces many products that provide superiority in the production sector and create an important source of income for the country, which are electronic product parts, rubber products, palm oil, wood products, office/accounting/computer machines, television, and radio. Apart from these, glass and other non-metallic mineral products, basic chemicals, household appliances, medical supplies and other electrical equipment are products that Malaysia produces and exports. As can be seen in Figure 9 below, the products and product groups, in which Malaysia provided production superiority, from 2007 to 2017 are listed.

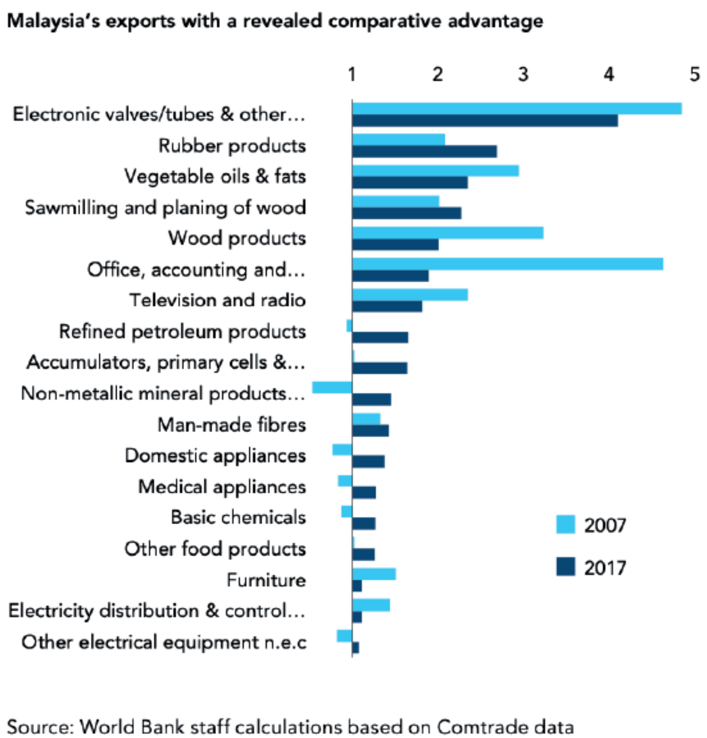

Figure 2.9.: Products for which Malaysia has a Competitive Manufacturing Advantage

Source: World Bank staff calculations based on Comtrade data

Malaysia produces in many sectors such as agriculture, industry, construction, mining and energy, maritime and exports its products to the world. The products that Malaysia produces in these sectors and that constitute the main source of income are as follows; Malaysia's agricultural products are palm, rubber, cocoa, coconut, tobacco, pepper, tropical fruits and vegetables, spices and rice. Among these products, especially rubber, cocoa and palm oil are the most important products in agricultural production. The vast majority of agricultural production is devoted to these products. Since the tropical climate prevails in the country, the diversity of agricultural products is quite low. While palm oil production is made on 6 million hectares of the lands allocated for agriculture, 1.2 million hectares are reserved for rubber production and only 0.6 million hectares are reserved for other agricultural production, including livestock (DEIK, 2021: 59). Malaysia is a very important country in world palm oil production. It is the second largest palm oil exporter in the world after Indonesia. Indonesia and Malaysia meet 90% of the world's palm oil demand. When the structure of the sectors in Malaysia's GDP is examined, it is seen that the share of the agricultural sector is gradually decreasing. For 2019, the share of agriculture in GDP, including livestock and aquaculture, was 8.2% (2020: 15). For this reason, since the production in the agricultural sector cannot meet the domestic demand, many products are imported from abroad.

Approximately 18% of the working population in Malaysia is employed in the industrial sector (DEIK, 2021: 60). In the industry sector, electrical and electronic equipment, durable consumer goods, textile, chemical and processed agricultural products are produced. Progress has also been made in the automotive industry in Malaysia. Proton and Perodua, which are domestic low-priced automobile companies, have come to a position where they can compete with other brands in the international market. As can be seen from Figure 9, electronic products have an important place in exports. However, mostly imported inputs are used for the production of these products.

The service sector in Malaysia is highly developed. As can be seen in Figure 10, the service sector provides the biggest contribution to the country's economy. The service sector supports 58% of the country's economy, including financial services (World Bank, 2021: 68). More than half of the workers in the country (about 62%) are in the service sector. The sub-sectors that create the most employment in the service sector are trade, finance and insurance. Tourism is one of the sectors that significantly contribute to the Malaysian economy. In 2019, 26 million tourists visited Malaysia. The tourism sector, which constitutes the largest share of service exports, is the country's third most important foreign exchange source (World Bank, 2022: 26). The majority of tourists visiting Malaysia come from Asian countries (especially Indonesia, Singapore and China). In recent years, especially health tourism has developed. The government has launched various tourism campaigns and allocated a significant budget to generate more tourism income.

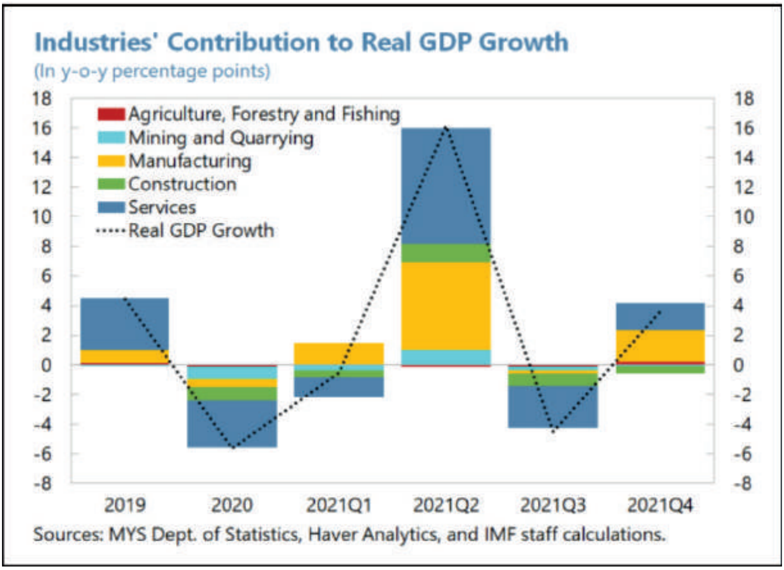

Figure 2.10.: Malaysia Trade Product

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF staff calculations.

Malaysia is a country where people of various ethnic backgrounds live. For this reason, different ethnic origins can dominate some sectors and areas, except for the Malays. One of them is the construction industry. Approximately 25% of the Malaysian population consists of Chinese-born Malaysians.

These groups dominate the construction and trade sectors in the country. Malaysia's proximity to China has effectively established an important trade partnership between both countries.

Malaysia is also an important country in terms of underground resources. For this reason, oil, natural gas, iron, bauxite and tin are the most important underground resources in Malaysia. Malaysia can meet more than 80% of its oil needs (DEIK, 2021: 62). It earns a significant income by exporting the oil it produces. While oil production has remained stable in Malaysia in recent years, there has been an increase in natural gas production. Malaysia ranks 14th in the world in terms of natural gas reserves and 23rd in terms of crude oil reserves (DEIK, 2021: 63). According to the Malaysian Ministry of Economy, it has been announced that there are a total of 6.7 billion barrels of natural gas and oil reserves. They stated that this reserve could be enough for them until 2029. Oil and gas exploration and production activities in Malaysia are carried out by state-owned Petronas. Petronas is the sole authorized company for oil and natural gas extraction in the country. For this reason, companies that want to invest in the field must first sign a production-sharing agreement with Petronas. Especially in natural gas production, Petronas is the sole authority and is a monopolist in all exploration and production operations. Apart from natural gas and oil reserves, Malaysia also has coal reserves. Especially the coal reserves in Sabah and Sarawak states have not made much progress since the coal obtained is not of the desired quality.

Basic metal products in Malaysia are also an important source of income for the country's economy. This industry is influential in the development of the manufacturing and construction sectors in the country. The iron and steel sub-sectors in Malaysia are estimated to contribute 6.5% to GDP. On the other hand, Malaysia can produce many manufacturing industry products such as electrical and electronic products, aviation, automotive, packaging, machinery and medical devices. 84.5% of the investments made by foreign investors in Malaysia in 2017 were made in the electricity and electronics sector (DEIK, 2021: 78).

Among the product groups traded in Malaysia, the group that provides the most income is the machinery, electrical and electronic materials group. The share of this group in trade is 43.51%. Another group is fuelling. The share of this group in trade is 14.48%. The shares of other product groups in trade are respectively, chemical products 4.43%, plastic and rubber 7.2%, food products 2.80%, minerals 0.83%, precious stones and glass 2.06%, animal products 0.57%, textile and clothing products 1.41%, forest products. 1.99%, transfers 1.96%, vegetable products 6.06% and miscellaneous 6.42% (World Integrated Trade Solution (WITS), 2022).

Malaysia is a country with high tax revenues. As can be seen in Figure 11, the most income is obtained from the incomes obtained from companies and individuals. Another important tax income is derived from the income obtained from goods and services. Other tax revenues include international trade taxes and interest taxes and investments.

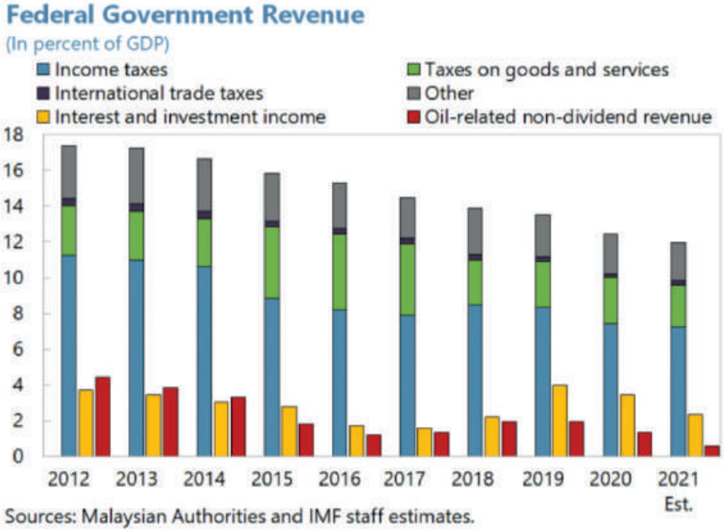

Figure 2.11.: Malaysian Government Tax Revenues

Source: Malaysian Authorities and IMF staff estimates.

Malaysia has adopted the export-led growth model. For this reason, while it provides income from within, especially the income from foreign trade contributes more. Industry, manufacturing and service sectors are the driving force of the country. In particular, exporting products such as electricity and electronics, oil and natural gas contributes significantly to the country's income. Malaysia's export-led growth model has had a positive impact over time. However, in today's conditions, Malaysia needs to develop new economic policies and find additional income-generating methods to reach the high-income country position it aims at. For this reason, it is possible to create more technology-intensive areas and export the products produced in these areas. In addition to improving economic indicators, it is necessary to create employment, increase productivity, ensure income equality and improve education as a goal.

2.3. COULD YOU SPECIFY THE IMPORT AND EXPORT STRUCTURE OF MALAYSIA?

Adopting the export-led growth model, Malaysia aims to achieve high-income country status like other Asian tigers. The rises in the oil, gas, electricity, and electronics industries were influential in Malaysia's high growth rates between 1967 and 1997. Malaysia has a highly developed market especially for electrical and electronic (E&E) products. Many leading companies - Intel, Broadcom, and Western Digital - have production facilities in Malaysia. For this reason, Malaysia is among the most open economies in the Asian region. Malaysia, whose most important export item is electronic products, imports the intermediate goods required for their production abroad. For this reason, global problems (such as pandemics and war) seriously affect this sector in Malaysia. In 2017, 85% of the investments made in the manufacturing sector in Malaysia were made in the electrical and electronics sector. Investments were mostly made by Singapore, the Netherlands, Japan and Germany. Malaysia, which is the 26th largest exporter in the world, also exports crude oil, liquefied natural gas, chemicals, machinery and equipment, palm oil and derivatives, metal, rubber, wood and wood products in addition to E&E products. These products are the driving force of the Malaysian economy. According to World Bank data, Malaysia's top 5 exporting countries are China 20.68%, Singapore 10.54, the United States (USA) 8.09% and Japan 7.49%. The most exported products are integrated circuits and digital products ($65 billion), petroleum oils ($15.9 billion), clothing and accessories ($8.25 billion), liquefied natural gas and palm oil ($10.6 billion), palm oil, machinery, optical and scientific equipment, metal, rubber, wood and wood products. Apart from these products, service exports also have an important place in Malaysia. Exports of traditional services such as travel and transportation are mostly concentrated. Apart from this, important economic developments are also experienced in other sub-sectors of the service sector. Malaysia's main trading partners in terms of service are Asia, North America and Europe. In 2018, Malaysia's service exports to the Asian region accounted for 69% of Malaysia's total service exports. In particular, 59.6% of this service exports were made to Singapore, Indonesia and Thailand. For this reason, in order for Malaysia to increase the share of service exports in total exports, especially exports should be offered to fast-growing markets such as India and China. Service exports to Europe constitute 12.3% of the total. The United Kingdom has the largest share of this rate. On the American continent, 13.6% of service exports are made to the USA. Malaysia meets 69.1% of its service imports from Asian countries, 15.3% from European countries and the remaining 11.7% from America.

Figure 2.12.: Malaysia's top 10 Service Trading Partners

Source: World Bank

Malaysia is the 26th largest Importer in the world. The country's largest import products are electrical, machinery, chemicals, petroleum, plastics, vehicles, metal, iron and steel. In addition, Malaysia, with a population of 32 million, is a net food importer and imports 70% of its total food needs. Malaysia's largest import partners are China with 15.1%, Singapore with 13.3%, Japan with 10.3%, the USA with 8.1%, Thailand with 6.0%, Indonesia with 5.1% and South Korea with 4.1.

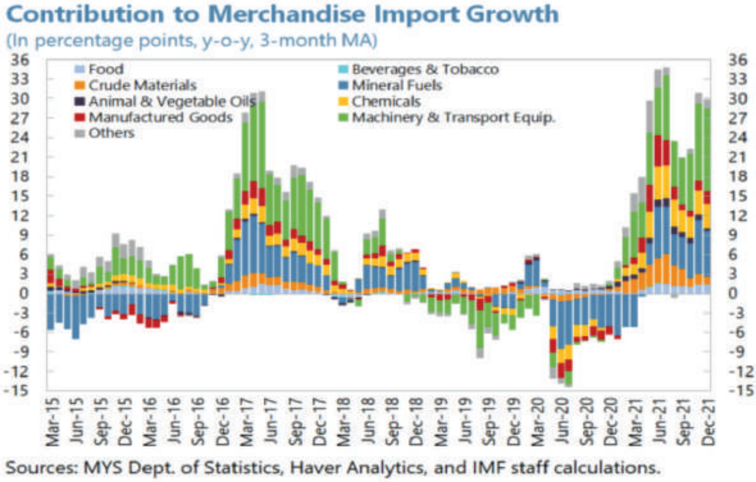

Figure 2.13.: Product Groups That Makeup Malaysia's Imports

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF staff calculations.

Malaysia has been a country with a constant foreign trade surplus since 1997. For this reason, Malaysia has high foreign exchange reserves. The increased foreign exchange reserves enable the Malaysian government to take measures towards the economy more quickly and effectively. According to World Bank data, the foreign trade volume of Malaysia continued to grow in 2019 and realized 238.1 billion dollars of exports and 204.9 billion dollars of imports (World Bank). Various product groups have been effective in the increase in Malaysia's foreign trade. Foreign demand, especially for pharmaceuticals and electrical equipment, supported exports. However, the covid-19 outbreak appears to have reduced the export of these products in the third quarter of 2021. On the other hand, the share of other products that contributed to Malaysia's exports in years is shown in Figure 14 below.

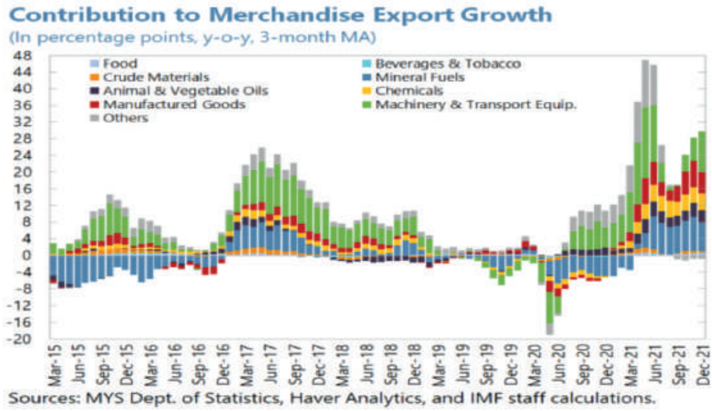

Figure 2.14.: Product groups that make up Malaysia's exports

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF staff calculations.

Import regulations applied in Malaysia are more liberal compared to other Asian countries. Many products can be freely imported under the "General Free License". However, as a policy of the country, import restrictions have been imposed on some products. These products are iron, steel, cement, automotive and automotive parts, and some agricultural products. The reason for this restriction is to encourage the production of some agricultural products. Products such as rice, meat, fruit and vegetables can be listed among these products. In products such as frozen chicken, milk, sugar and eggs, import restrictions can be imposed if the sufficient demand of the country is met.

Malaysia's exports have been at a higher level than its imports for many years. For this reason, it constantly gives a current account surplus. The country can take more effective decisions economically due to both the excess foreign exchange obtained from foreign trade and the foreign exchange obtained from the tourism sector. Malaysia, whose current account balance is positive yearly, increases its exports daily. Malaysia only increased its exports by 14.4% between 2019-2020 and decreased its imports by -3.4%. Relevant increases can be seen in Figure 15 below. The majority of this increase in exports is due to the increase in exports to China. According to the World Bank data, Malaysia realized 266 billion dollars of exports and 196 billion dollars of imports in 2020. Malaysian authorities implement policies to increase exports more and encourage domestic production for the products they are dependent on. In order to meet the needs of domestic demand and support the producers, especially for some agricultural and food products, various incentives are offered and some restrictions are imposed on imports. Due to its climate, Malaysia is a foreign-dependent country, especially for food products.

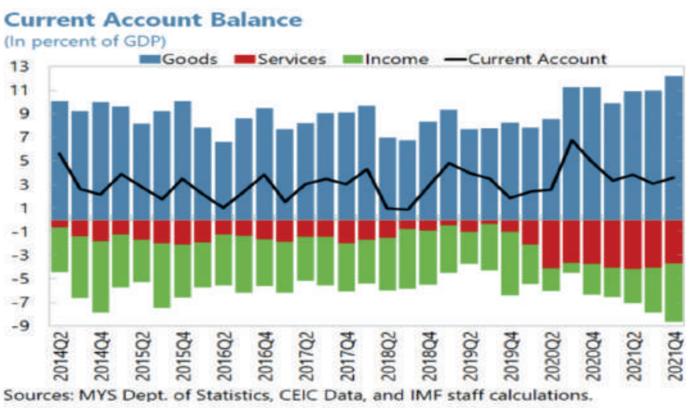

Figure 2.15: Malaysia's Current Account Deficit by Year

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF staff calculations.

The authority to set and implement policy on foreign trade and direct capital in Malaysia belongs to the Malaysian Ministry of International Trade and Industry (MITI). In addition, in customs disputes, it is necessary to apply to the Customs Dispute Court, which is an independent institution. Malaysia applies an export tax of 5-30% on products such as logs, palm oil and rubber, where it holds 15% of world production and 30% of trade. On the other hand, it also imposes taxes on wild animal exports in order to protect the environment and wildlife. In addition, a 20% tax is applied on crude oil exports. The average customs duty applied by Malaysia to the members of the World Trade Organization is 5.6% (DEIK, 2021: 49). Customs classification of a product in Malaysia is made according to the "International Harmonized Classification System". Customs duties have decreased in recent years. On the other hand, customs duties are higher for products with significant local production. Higher tax rates apply to luxury consumer goods, tobacco products, alcoholic beverages, expensive food products and automobiles.

In addition, there is a tax on crude oil exports. Malaysia keeps import tax rates high, especially in the automotive industry. Although it makes some discounts in order to fulfil its commitments with ASEAN, it compensates them with sales and consumption tax. However, it is aimed to make the sector more liberal under the National Automotive Plan (NAP). In addition, the measures taken in the iron and steel industry in 2002 were reviewed again, and taxes were reduced to 25% and 10%, respectively, on flat and long steel, as of August 2009. Gradual reductions are envisaged, effective from 2010. On the other hand, Malaysia's; There are regional and bilateral Free Trade Agreements (FTA) that it has signed or negotiated on investment, certificate of origin, and trade in goods. Malaysia has already signed Free Trade Agreements with Japan and Pakistan under the Japan Economic Partnership and with S. Korea, China and India under ASEAN, and within the scope of these agreements, there is a reduction or zero tariff in the customs tariffs of some products. In addition, the institutions authorized according to product groups in matters such as standardization, testing, inspection and certification of imported products are SIRIM, SIRIM QAS, CIDB, DVS, JAKIM and NPRA (DEIK, 2021:51). Malaysia is particularly sensitive about the import of meat and dairy products. For this reason, products that do not meet the required standards and quality are not imported. In addition, Malaysia often restricts imports in order to balance its own producer and domestic market.

2.4. HOW DOES MALAYSIA'S CENTRAL BANK OPERATE?

The Central Bank of Malaysia, called Bank Negara Malaysia (BNM), is a statutory body that became operational on January 26, 1959. BNM is governed by the Bank of Malaysia law enacted in 2009. The mandate of the Central Bank of Malaysia is to ensure monetary and financial stability to ensure sustainable growth.

BNM's monetary policy stance aims to maintain price stability while supporting growth. BNM is responsible for ensuring financial stability as well as price stability. It is also within the functions of BNM to deepen and strengthen the foreign exchange markets. In addition to these, it also has duties such as developing the infrastructure of the financial system and providing access to financial services for all economic stakeholders of the society.

BNM also acted as the government's banker and financial advisor. In this context, he advises the government on macroeconomic policies and the management of public debt. BNM is also the sole authorized institution responsible for printing the country's national currency and managing the country's international reserves.

BNM has always tried to implement correct monetary policy practices in order to protect the value of the national currency, the Ringit. For this reason, Malaysia has been living with low inflation for years. In addition to price stability, the Bank has not neglected establishing a sound and progressive financial system. For this reason, a well-diversified, comprehensive and flexible financial sector has been built to meet the increasing financial needs of individual investors and businesses.

In addition to establishing the country's secure payment systems in terms of banking, BNM also developed the financial system infrastructure by establishing the necessary institutions (Securities Commission, KLSE and Credit Guarantee Institution known as Bursa Malaysia). In this context, with the establishment of these institutions, a comprehensive, robust and flexible financial structure has been built. BNM carries out the necessary arrangements to ensure the functioning of financial markets. BNM established the Financial Services Ombudsman (Ombudsman for Financial Services-OFS) to resolve disputes between banks and consumers (BNM, 2022). In this way, financial disputes between the bank and its customers are resolved more quickly.

In addition, another important aim and vision of BNM is to make Malaysia an Islamic Finance Center. Necessary legal regulations and infrastructure have been established to achieve this goal. For this reason, the Sharia Advisory Council (SAC) was established within the BNM in May 1997. This council is the highest recognized sharia authority in the field of Islamic Finance in Malaysia. SAC has the power to examine Islamic banking and Finance, Takaful and other Sharia principles and their conformity with the meaning of Islamic Law in matters that need to be supervised and regulated by Sharia. SAC is a body and adviser of the Central Bank of Malaysia on Sharia issues. SAC is responsible for examining the compatibility of Islamic banking and takaful products with Shariah principles, and aligning any problematic areas with Sharia. Apart from the Central Bank of Malaysia, SAC also examines and advises on Islamic finance-related transactions of other financial institutions within the framework of Sharia rules. The Central Bank Act further strengthened the powers of the SAC, thus making the SAC the sole authorized body for Islamic Banking, Takaful and Sharia-related matters in Islamic finance. When comparing the decision of any other sharia council in the country with the decision of the SAC, the decision of the SAC is superior to the decisions of all other sharia boards. SAC consists of 9 members, including the chairman. SAC members are generally qualified individuals consisting of religious scholars, lawyers and market practitioners. These people are typically comprised of people who have knowledge of banking, finance, economics, law and Sharia and are especially competent in Islamic economics and finance.

BNM sets interest and exchange rates, supports conventional banks, and regulates all financial institutions by controlling the Islamic banking system. It also manages interbank payment systems. In addition, it also takes initiatives for developing small and medium-sized enterprises throughout Malaysia, and prepares and implements monetary policy programs (Hossain, 2009: 39).

BNM primarily affects financial markets when it changes the policy rate. This is transmitted throughout the commodity and labor market, ultimately affecting aggregate output and prices. Current and planned output and inflation rates provide feedback to monetary policy decision-makers. BNM uses four main monetary policy transmission channels. These;

- Interest rate channel
- Exchange rate channel
- Bank credit channel
- Balance sheet channel

BNM does not conduct a monetary policy transmission through Islamic banks. The Islamic Interbank Money Market (IIMM) is used to manage the liquidity of Islamic banks. Therefore, the monetary policy transmission channels described above are only applicable to the conventional banking system. When Islamic banks had excess liquidity, they bought government investment certificates (GIC) from the Central Bank of Malaysia and sold them to the Central Bank of Malaysia when they needed liquidity. These certificates were used for Islamic banks but were insufficient in terms of their liquidity management. Therefore, there was a need for a full-fledged Islamic interbank money market in Malaysia. BNM did not have any precedent for establishing the Islamic money market. For this reason, BNM has developed a fiqh-appropriate example of the conventional money market by designing it for itself. In the newly established Islamic money market, financial products that are suitable in terms of fiqh started to be used. In the Islamic money market, BNM acts as an intermediary and helps Islamic banks manage their liquidity.

Before 1978, Malaysia used five main policy tools to control the money supply and the bank credit creation process. Conventional monetary policy tools used by BNM; include required reserves, minimum liquidity ratio, loan volume and direction, interest rate and discount transactions. The difference after 1978 is; the use of open market operations in monetary policy management and the use of interest rates as a policy indicator. The use of reserve requirements and discount transactions as policy instruments continued after 1978 as well. In addition, supporting priority sectors is also included in the monetary policy targets (Mulkiaman, 2016: 54). With the implementation of Islamic banking in the country in the following years, Islamic banks were included in this policy framework and a dual banking system started in Malaysia.

Major payments of the Islamic Banking sector in Malaysia are made through Islamic current accounts at BNM. The reason for making this distinction is the necessity of keeping funds belonging to conventional and Islamic banks separately in terms of fiqh. However, liquidity in both systems is linked to third-party payments between bank customers in both sectors.

The primary purpose of BNM's monetary operations in terms of Islamic money markets is to provide the liquidity necessary for the effective functioning of the Islamic interbank market. The monetary policy target applies only to the conventional money market, and the interest rate-based products in the conventional money market are primary funding products. BNM manages the liquidity of the Islamic interbank money market with products that are claimed to be Shariah-compliant. The most used product is qard acceptance. Through qard acceptance, BNM manages liquidity by accepting excess funds from Islamic banks. In addition to this product, the bank uses the commodity murabaha program in liquidity management. For this, transactions are made with crude palm oil-based contracts through the commodity trading platform in Bursa Suq Al-Sila, which is the Malaysian Stock Exchange.

All banks in Malaysia have reserve deposit accounts with BNM. This account is an interest-free deposit account. Banks are required to keep a balance of 4% as a liability base in this account. Profit and loss investment accounts are part of the obligations regarding calculating required reserves.

Malaysian banks are obliged to maintain sufficient excess liquidity and reserves against a sudden liquidity shock arising from their assets and liabilities. The liquidity profile of Islamic and conventional banks in Malaysia is quite similar as they operate in a dual banking system. Most deposits are accepted with the same value date, and although the deposit structure and designs are different, they target the same type of customers. Profit and loss accounts are subject to the calculation of both required reserves and liquid assets (Islamic Financial Services Board, 2008: 50-51).

The Central Bank of Malaysia aims for monetary policy tools and methods at conventional banks. While realizing its monetary policy, it acknowledges this over the policy interest rate it has determined. BNM offers many financial liquidity management tools to conventional banks. With these financial instruments, BNM can affect the money supply in the market. In other words, it can increase or decrease the amount of money in the market. It also assists in the liquidity management of conventional banks. With the start of Malaysia's dual banking system, Islamic banks have also been included in the banking system in Malaysia. In this new system, the Islamic interbank money market has been developed by BNM to help the liquidity management of Islamic banks and to affect the money supply in the market, and many products have been developed that can be used by Islamic banks. Fiqh analysis of the products was made, and they were made suitable for Islamic banking without interest. The Fiqh contracts that BNM has used interest-free banks in the Islamic money market today are as follows;

- The Mudharabah Interbank Instrument
- Wadiah Acceptance
- Commodity Murabahah Programme
- Wakalah Placement Agreement
- Ar-Rahnu Agreement

As can be seen, the Central Bank of Malaysia meets the liquidity needs of Islamic banks when they need liquidity. On the contrary, if Islamic banks have excess liquidity, these banks have the opportunity to earn income by keeping their excess liquidity in the central bank. With these products offered to Islamic banks, BNM can attract or give liquidity to the market. In this way, it can adjust the money supply through conventional and Islamic banks.

BNM has made many arrangements for the implementation and development of Islamic banking. Malaysia has a well-functioning financial system. It is especially known as the center of Islamic banking and has successfully attracted capital to the country. Islamic financial assets constitute 23% of the banking sector in Malaysia. In addition, this rate is increasing. However, the products offered by the Central Bank of Malaysia to Islamic banks have some Shariah drawbacks. There are fiqh drawbacks in many products called Islamic financial products. In particular, many processes are carried out as fitting into the sheath. This situation casts a shadow on the innovations that Malaysia has made in the field of Islamic finance. As a criticism, BNM has to adhere to Sharia rules more in this sense and is responsible for eliminating the drawbacks in its current products. If done this way, Malaysia will be seen as the true center of Islamic finance.

Bank Negara Malaysia (BNM) uses policy interest rates to influence the interest rates earned by depositors, individuals, or institutions borrowing from banks. BNM raises interest rates by withdrawing funds from the banking system during periods of high money supply and inflation in the economy, thus implementing a tight monetary policy. Thus, high-interest rates encourage market participants to save more and spend less. In addition, an increase in the interest rate will increase the cost of borrowing. With the policy of rising interest rates, consumption and investment reach a more predictable level, and the possibility of high inflation is eliminated. When the opposite situation occurs, that is, when economic conditions are weak, funds will be injected into the banking system to reduce interest rates, and expenditures and borrowings will be increased. This will result in an increase in consumption and investment. In addition, economic vitality will be ensured, and higher income, employment and economic growth will be realized. BNM uses various monetary policy tools according to the course of the economy. However, BNM supports low-interest rates due to both the support of Islamic banking in the country and the various benefits of low-interest rates to the country's economy. However, the interest rate is determined as low or high according to certain economic conditions, provided that it remains true to the science of economics. The low-interest policy is adopted by BNM as long as there are no extraordinary circumstances, as it supports economic vitality, reduces income inequality, and makes employment and growth sustainable. People's response to monetary policy changes in Malaysia remains very weak. This is because BNM has not made a very serious interest rate change for a long time. Contrary to expectations, at the July 2022 monetary policy meeting, BNM increased the overnight policy rate by 25 basis points to 2.25%. The statement defines that economic activities in Malaysia have strengthened and domestic demand will support growth. However, it was stated that inflation was suppressed upwards due to global developments. It has been noted that borrowing costs are at their highest level since 2020 and that interest rate increases will be measured and gradual at the next meetings.

2.5. WHAT IS THE POSITION MALAYSIA HOLDS IN GLOBAL ECONOMY?

Malaysia, one of the successful economies of Southeast Asia, has made significant economic breakthroughs, especially after its independence struggle in 1957. It had an economy based on agriculture and commodities. Now it is an important exporter of electrical and electronic products. It is the leader in the manufacturing and service sectors in the Asian region. Malaysia, which has a diversified economy, has achieved middle and high-income status and aims to have the label of a high-income country in 2024. In the past, Malaysia has achieved continuous growth and managed to attract attention. In order for Malaysia to sustain this growth and achieve the high income it targets; it needs to develop policies different from the economic breakthroughs it has made in the past. Because the world economy is changing rapidly, the factors that enabled Malaysia's growth in the past may not be valid today. For this reason, Malaysia needs to create more heterogeneous dynamics that will provide a driving force for growth. In the report of the World Bank, which lists the things that Malaysia needs to do to reach the status of a high-income country, the following is revealed (World Bank, 2021: 18);

- **Stimulating Long-Term Growth:** Malaysia's GDP is expected to decline or slow over the next 30 years compared to high-income countries. In order to reduce the decline in growth rates, it is necessary to increase the quality of education, employ more women and increase productivity.
- **Increasing Competitiveness:** Going forward, efforts should be made to increase innovation and productivity in the private sector. Better economic results will be achieved by eliminating economic problems, encouraging innovation and digitalization, improving the competitive environment, improving the investment climate and better integrating with other countries in the region.

- **Creating Jobs:** As Malaysia approaches high-income status, it will need more educated and talented people. For this reason, it is important to train people with the skills required by increased automation. In particular, lifelong learning and digital literacy need to be promoted. In addition, necessary reforms need to be made to attract talented people to the country.
- **Ensuring Inclusive Economic Developments:** Although Malaysia has achieved growth from the past to the present, this growth has not provided the same welfare to all segments of society. It was more beneficial to certain features. This situation caused discontent in the country. For this reason, economic growth should be used in a way that will benefit all segments. In particular, lower-level households need to be supported and poverty reduced.

Malaysia has increased its trade by 130%, especially since 2010, and has the status of the world's most open economy. The economic policies that followed made the country available for trade and investment. The positive developments experienced led to an increase in employment and income. However, the COVID-19 (coronavirus) pandemic that has emerged in recent years has affected the Malaysian economy as well as the global economy. Especially low-income households have been the group most affected by the economy. Sharing the poverty line data in 2020, Malaysia stated that 5.6% of the population lives within the poverty line (World Bank, 2022). For this reason, the government should strive to improve the welfare of the lowest 40 per cent of the population, especially to combat poverty. This sub-section remains weak, especially in the face of economic fluctuations and financial liabilities.

Income inequality in Malaysia remains high when compared to other East Asian countries. However, when the past and current data are compared, it can be said that Malaysia has experienced positive developments in terms of income inequality. In this sense, the government especially tries to provide cash support to low-income households and relieve the poor through many other practices.

According to the World Bank's Human Capital Index, Malaysia ranks 55th out of 57 countries (World Bank, 2022). Malaysia is making significant efforts to fully use its human capital and move the country to the best levels of human development. First of all, to achieve progress in this sense, Malaysia needs to improve education, health and nutrition. Especially by the social state understanding, these improvements should be made starting from the lowest households and the income should be shared equally.

Malaysia, which has the status of upper- and middle-income countries, also contributes to the development of low- and middle-income countries. It also takes important economic steps to achieve its vision of high-income country status. In this sense, Malaysia has realized the following innovations;

- With the joint work of Bank Negara Malaysia (BNM) and the World Bank Group, a new asset class was introduced to the world with the Green Sukuk, which is called Islamic green bonds by the Securities Commission.
- Various legal regulations facilitated capital inflows into the country and various exemptions were provided for doing business in the country.
- Various incentives have been provided to employers in women's employment in order to ensure women's participation in the labor force in the country.

While Malaysia has various resources and opportunities to be at the top of the world economy, it has also moved its economy to the top thanks to the government's own economic policies. Malaysia, the first in the Southeast Asian region and the fifth largest exporter of liquefied natural gas (LNG) in the world, is one of the countries that benefit from various opportunities in the energy sector.

Petroliam Nasional Berhad (Petronas) is responsible for all oil and gas exploration and production projects in Malaysia. Petronas owns most of the oil and gas resources in Malaysia. Petronas' contribution to government revenues – in the form of taxes, dividends and cash payments – accounted for approximately 35% of total government revenue in 2019 (U.S. Energy Information Administration (Eia), 2021: 1). ExxonMobil, ConocoPhillips Energy and Shell are the oil companies that perform the most oil production activities in Malaysia. In addition, when analyzed as a reserve, Malaysia ranks 14th in the world in terms of natural gas reserves and 23rd in terms of crude oil reserves.

Malaysia's economy is the third largest in Southeast Asia and the 37th largest in the world. Increases in private consumption expenditures in Malaysia, especially in the period of 2019-2022, supported the growth. The low special consumption taxes and the increase in the minimum wage in 2022 increased the purchasing power. In the same period, rubber and palm oil production, which has an important place in the agricultural sector in Malaysia, increased. In this way, a 2.7% growth is expected in palm oil and rubber production. Malaysia is one of the most important suppliers of world palm oil and rubber production. Malaysian agricultural production is palm oil, rubber, coconut, tropical fruits and vegetables, spices and rice. Malaysia meets the majority of its food needs from other countries. However, most of the world's rubber, palm oil and cocoa needs are met by Malaysia. Malaysia ranks second in world palm oil production. In addition, Malaysia is an important country in the export of electrical and electronic products. Likewise, in 2020, Malaysia became the world's largest clothing and accessories exporter.

According to 2020 World Bank data, Malaysia was the 20th economy in total exports, 25th in total imports, and 69th in terms of GDP per capita (USD) (OEC, 2022). According to the 2021 Global competitiveness report, Malaysia has become the 25th most competitive country globally. According to this data, Malaysia is seen as more competitive than countries such as France, Japan and

Israel (https://www.wikiwand.com/en/Economy_of_Malaysia). According to 2020 data, Malaysia ranked 12th in the ease of doing business index, which is an indicator that investors who want to invest in another country pay attention to.

Malaysia is seen as a wealthy country when compared to other ASEAN (Association of Southeast Asian Nations) countries. This is because it has a rapidly growing export economy. Other reasons why Malaysia has an affluent lifestyle are low taxes, reasonably priced food, cheap transport, and government-subsidized health expenditures. Malaysia is an open economy country. According to 2020 data, the export value of high-tech products is 92 billion USD. This value is the second highest among ASEAN countries. In addition, Malaysia is the second largest exporter of palm oil products globally, after Indonesia. Besides, Malaysia is also the world's largest Islamic banking and finance centre. Islamic financial services have grown significantly since the establishment of the first Islamic bank in 1983. Malaysia, where Islamic finance is concentrated, is the global leader in this sector today. Services offered by Malaysia within the scope of Islamic finance; include mutual funds, takaful (Islamic insurance), interest-free capital market activities, crowdfunding, use of financial technologies, and central bank interest-free money market instruments. Although Malaysia has 2% of the world's Muslim population, it accounts for 20% of global Islamic finance assets. The Islamic finance sector in Malaysia is considered among the best in the world in terms of the number and diversity of institutions, profitability and resilience, and level of sophistication.

In the report prepared by HSBC in 2012, it was stated that Malaysia will be the 21st largest economy in the world in 2050, with a GDP of 1.2 trillion dollars and a GDP per capita of 29,247 dollars. The report also stated that there would be a significant increase in per capita income due to electrical equipment, petroleum and liquefied natural gas products. "Malaysia has all the right ingredients to become a developed nation," said Viktor Shvets, managing director of Credit Suisse. All these indicate that Malaysia will reach higher GDP in the future, and GDP per capita will increase even more. It also indicates that it will be one of the emerging economies of the future. However, according to OECD data, another important international organization, Malaysia has an income between middle-income countries and OECD countries. OECD measures economic development using hundreds of indicators. As a result of the measurements, Malaysia is above the average for most middle-income countries. However, it performs poorly compared to the average of OECD countries. These measurements on the economic structures of the countries reveal the weak and strong aspects of the countries. Malaysia has taken important steps in terms of poverty and welfare and has made progress in this regard. However, when compared to the countries in its region (Southwest and Southeast Asia), it is seen that it is behind them in this sense (World Bank, 2021:16). In the economic measurements made by the OECD for the countries, the following topics have emerged for the Malaysian economy (World Bank, 2021:16);

- **Poverty and shared wealth**: Malaysia outperforms OECD and middle-income countries in terms of poverty and shared wealth. Malaysia has a poverty line just below the international poverty line. Also, in Malaysia, GDP per capita is increasing every year. This means that people's welfare increases due to economic indicators (such as inflation) that do not show much variability.
- **Infrastructure, Industry and Innovation:** Apart from renewable energy, Malaysia outperforms the average of middle-income countries in terms of indicators such as industry and infrastructure. Compared to OECD countries, the manufacturing sector is in a better position regarding employment and value creation. However, it lags behind the average of OECD countries regarding the number of researchers and research and development expenditures.

- **Environment:** Malaysia performs worse than the OECD average for all other environmental protection indicators except biodiversity conservation.
- **Health, Nutrition and Education:** Spending on health, nutrition and education in Malaysia is worse than the average of OECD countries (World Bank, 2021: 17). However, it is doing better than in middle-income countries. In addition, the proportion of overweight children is higher than the OECD average. Diseases such as cardiovascular, cancer, diabetes or chronic respiratory disorders are more common in Malaysia than in OECD.

Equality and Accountability: Malaysia met only two of the six indicators selected by the OECD to measure equity and accountability. The number of women working in managerial positions is worse than in OECD and middle-income countries. Malaysia does better than middle-income countries in terms of the number of prisons and detainees but performs worse than the OECD average. Malaysia is open to trade with more than 90 per cent of the countries in the world (World Bank, 2021:22). In Malaysia, especially the manufacturing sector is in a strong position and trade in goods is higher than its peers in the region. This situation is also seen in the export of electrical and electronic products, which constitute 38% of exports. Many major digital companies (Intel, Western Digital and Broadcom) have production facilities in Malaysia.

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