A nation on the move

Malaysia has witnessed notable economic and social prosperity over the past three decades – with its gross domestic product (GDP) rising from US$47 billion in 1990 to a significant US$365 billion in 2019, and per capita income growing by 168 per cent between 1990 and 2018. According to the World Bank, this historical performance has strongly positioned Malaysia to transition into a ‘high-income’ economy over the next ten years, despite the economic impact of COVID-19. Multiple factors have played a role in the nation’s rise – with trade-focused reforms, infrastructure development and a growing push towards higher value-added manufacturing making Malaysia a major destination for foreign direct investment (FDI) within Asia Pacific. More recently, a growing focus on technology adoption and enterprise transformation is also enabling Malaysia to further improve productivity and establish innovation as a new growth platform for the future.
Economic growth trends for Malaysia, compared to regional and global averages


Annual GDP Growth Rate

- World
- Asia Pacific
- Malaysia

Source: International Monetary Fund (October 2020)

Economic and Human Development Index (HDI) performance of key Asia Pacific markets

Source: International Monetary Fund (October 2020); United Nations

The need for change

While Malaysia has made notable progress in the past few decades, economic growth has slowed down in recent years, with sluggish global demand and geopolitical tensions impacting trade prospects. With the onset of the COVID-19 crisis, overcoming key growth challenges needs to be of utmost priority as Malaysia seeks to revive growth and design a stronger future trajectory – creating an urgency to act now.2

COVID-19 disruptions: The most immediate challenge for Malaysia is to minimise the economic and social fallouts of the pandemic. COVID-19 disruptions have significantly impacted the country, with economic output projected to decline by 6.0 per cent in 2020 – impacting the financial viability of businesses and the sustenance of livelihoods for the most vulnerable. These factors have already driven significant financial support from the government, which could impact spending in other development areas in the near term.3

Trade tensions: Rising trade uncertainties pose new growth risks for export-led economies such as Malaysia, with a trade to GDP ratio of more than 100 per cent. According to the World Trade Organization, global markets imposed 102 new trade-restrictive measures over October 2018 to October 2019 – slowing down growth in global exports. Consequently, Malaysia witnessed a 1.7 per cent decline in exports in 2019 – its first drop since 2009. Since then, COVID-19 disruptions have also sharply impacted global trade and expectations of rising protectionism could further restrict trade growth in the immediate future.4

Environmental sustainability: Warming temperatures, rising sea levels and more extreme weather patterns make climate change a key emerging challenge for Malaysia. With these changing environmental conditions, Malaysia faces the risk of more frequent natural hazards – which can lead to loss of life and property, and threaten food and water security in the future. Carbon emissions also remain a key concern area, driven mostly by Malaysia’s high dependence on fossil fuels for power generation.5
Tackling these growth challenges has become necessary to repair, redesign and rebuild the Malaysian economy for a post-COVID-19 future – while enabling a socially inclusive and environmentally sustainable growth trajectory. This requires all stakeholders (the government, businesses and the society) to shift from old conventional growth models and build new growth pillars for the future.

### Pillar 1: Advancing the digital economy
- Building digital value chains for resilience
- From digital risk to digital trust — collectively enabling the pathway

### Pillar 2: Enabling regional enterprise growth
- Propelling companies for growth within Asia Pacific
- Boosting regional trade in services as a new growth lever

### Pillar 3: Rebalancing supply chains and fostering innovation
- Developing balanced and resilient regional supply chains
- Fostering a collaborative innovation ecosystem

### Pillar 4: Expanding and future-proofing the labour force
- Upskilling today to be relevant tomorrow
- Preparing the employees of tomorrow

### Pillar 5: Building climate change resilience towards a net-zero future
- Building solutions for a net-zero circular economy
- Adopting technology to address food and agriculture concerns
Pillar 1 - Advancing the digital economy
Digitalisation has become a significant need for Malaysia to strengthen its market competitiveness. Digital solutions can help Malaysia in boosting productivity to further attract manufacturing investments, while digital channels can bolster domestic consumption by offering improved access, convenience and choice. This has become even more vital in the future, with COVID-19 related disruptions making resilience a key priority. Malaysian businesses now need to focus on digital adoption at the right points across their value chains while becoming more cyber resilient. The government is also required to extend greater support to transform small and medium-sized enterprises (SMEs) and take steps to strengthen the society’s trust in digital systems, to establish an advanced digital economy.

Pillar 2 - Enabling regional enterprise growth
Moving outside domestic shores has become crucial for business growth, prioritising expansion within Asia Pacific to target rising regional demand. Malaysian businesses will need to localise and be more agile in new regional markets, exploring alliances and acquisitions to lower entry barriers and growth risks. Government support will also be crucial to help businesses internationalise. Digitalised services offer new potential to grow cross-border trade, but will need national agencies to assist businesses in identifying target markets and building their brand presence overseas. Traditional manufacturers can also explore shifting to a product-as-a-service model for growth.

Pillar 3 - Rebalancing supply chains and fostering innovation
Leading Malaysian businesses need to rebalance their fragmented global operations with more integrated regional networks to improve resilience. They will also need to take a lead in fostering agile innovation – working with the government, funding bodies and academic institutions to build more specialised ecosystems suited to Malaysia’s and the broader region’s fast changing requirements. Malaysian suppliers will need to become future-ready by embracing the digital wave and transforming their business models to be more resilient in order to play a greater role regionally. They need to also build stronger propositions (e.g. engineering excellence or technology leadership) and participate in innovation initiatives to become preferred partners for global brands building regional supply chains in Asia Pacific.

Pillar 4 - Expanding and future-proofing the labour force
Aligned with Malaysia’s changing growth requirements, its workforce also needs to be equipped to foster digitalisation and drive higher value addition. The government needs to take a lead in this regard, highlighting its growth vision and driving more targeted engagement with other ecosystem participants, all across the education journey. Businesses need to build a more focused and agile talent development plan, in line with their industry’s growth trajectory and the evolution of specific roles – while helping SMEs in their supply chains to bridge key capability gaps.

Pillar 5 - Building climate change resilience towards a net-zero future
Facing growing sustainability risks, Malaysia needs to prioritise action on minimising the economic and social costs of climate change. There is a need to deliver positive Environmental, Social and Governance (ESG) impact through a combined effort from businesses, the government, and communities to drive improvements in environmental and social practices. Plans to build a circular economy need to also be better designed for more visible impact – creating incentives between businesses, the government and communities. Some effort in this area include a target set by the government to increase renewable energy consumption to 20 per cent by 2025 given Malaysia’s high dependence on fossil fuels. Malaysian businesses also need to prioritise the sustainability agenda to stay relevant to a more conscious consumer, adopting new growth strategies and operations models to move towards a net-zero economy.

The way forward
There is now an urgent need for action. The government needs to become more proactive in enabling change, businesses need to take a lead in driving new solutions and the society needs to become a more active collaborator to sustain long term impact. Regional collaboration has become a necessity to make Asia Pacific more resilient and future-ready, and will need key growth markets such as Malaysia to evolve into a regional role – serving as providers of an aspirational workforce, drivers of economic activity and testing grounds for consumer-focused innovation. Ranked amongst top 20 markets worldwide for ‘business dynamism’ in 2019, Malaysia can also share its expertise with various emerging markets in Asia Pacific – to help design business-friendly policies and strengthen the entrepreneurship culture across the region.

Much needs to be done. It’s now the ‘Time to Act’ and move together towards a stronger shared future.
Endnotes

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