



THOMAS WHITE - GLOBAL INVESTING
CAPTURING VALUE WORLDWIDESM



Country Profile: Malaysia

May 2010

It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in dark ink, reading "Greg S. White, Jr." in a cursive script.

Malaysia: Towering Tall over Asia



Built in the late 1890's in Kuala Lumpur during British rule, the Sultan Abdul Samad building stands in stark contrast to the modern swagger of the majestic Petronas Towers constructed nearly 100 years later.

Sandwiched between immense stretches of the South China Sea are the twin regions of Malaysia, with one peninsula bordering Thailand and Singapore in the east, and the other half neighboring Indonesia and Brunei.

One of Asia's most vibrant economies, Malaysia's 26.6 million populace is dominated by ethnic Malay who make up 60% of the population. The Chinese, one of the wealthiest communities in the nation, comprise around 23% of the population, with Indians forming a tinier section.

A tumultuous history

Most likely, Malays arrived on the peninsula in the first millennium BC. Their first cultural contact was with sea-faring Indians who left behind a permanent footprint on the country's shores. Centuries of Hindu-dominated Indian rule followed. Later, Indians also brought with them, the religion of Islam, which remains the dominant religion in this officially Islamic country.

The nation then was juggled by a series of colonial hands, with the Portuguese, Dutch and later the English staking claims on the riches of Malaysia. During the initial British rule, many Indians and Pakistanis were brought over to work in Malaysia's tin industry and plantations. Chinese migrants from southern China also arrived in droves to work in the tin mines of Perak and Selangor. Occupied by the Japanese during World War II, and then taken over by the British again, Malaysia finally claimed its independence in August 1957. The path to independence was not easy, although the nation has made rapid strides in improving the economic and social status of its people. War with Indonesia, coupled with the secession of Singapore, has caused teething pains for a growing nation.

Government Setup

With a constitutional monarchy, Malaysia's current head of state is Sultan Mizan Zainal Abidin, who became the country's 13th king in 2006. However, real authority is vested with the prime minister, who at present is Najib bin Abdul Razak. His predecessor, Mahathir Mohamad Badawi, unveiled Vision 2020, an ambitious plan calling for the globalization of Malaysia. With a goal to put Malaysia on the developed nation map, the plan envisions a Malaysian economy eightfold stronger than that of the early 1990s.

An ethnic divide

Malaysia's tumultuous history has created an ethnically fractured society. With the Chinese long viewed as the wealthier community, unrest has sparked among the more deprived Malays and indigenous peoples. Clashes between the Malay and Chinese reached their zenith in 1969, which witnessed large-scale rioting.

Today, the country's ethnic fusion of Chinese and South Asians has created a colorful and diverse culture. A rich kaleidoscope of Chinatowns, Little Indias, Confucian temples, and Mariamma temples stand amidst the mosques that dot this officially Islamic nation. On the surface, these communities exist in relative harmony, but racial undertones still smolder. The latest uprising by Indians earlier this year (2008) is a vivid reminder that diversity and harmony are often separated by a thin borderline.

Although English is one of the official languages, Chinese, Tamil, Malay and Malayalam are widely spoken.



The Leong San Tong Kongsai Temple in Penang is a beautifully ornamented Chinese clan house built in 1906.

Economic history: Tin and rubber giant diversifies

Described as a small and open economy, Malaysia grew to fame as a major producer of tin and rubber. The discovery of large deposits of tin in the 1840s led to Malaysia being responsible for nearly half of the world's tin output. The early 20th century saw the booming of the country's

agricultural sector, with rubber replacing tin as Malaysia's main export product.

The country has long since overthrown its dependence on these commodities and has diversified into an industrialized nation, with a gross domestic product (GDP) that has grown at a rate of almost 8% to 9% from 1991 to 1997. The post-war period saw the production of consumer items such as batteries, paints, tires, and pharmaceuticals. A range of industries emerged, from textiles, rubber and food products, chemicals, and telecommunications equipment, to electrical and electronic machinery/appliances, car assembly and some heavy industries, such as iron and steel.

Today, Malaysia is one of the biggest exporters of semiconductors and electronic goods and devices. The semiconductor industry contributes about 30% of Malaysia's total manufacturing sector output and there are 40 semiconductor companies currently operating in Malaysia. International multi-national companies have set up assembly and testing units in Malaysia.

Significant reserves of oil and gas have also been found, with current oil reserves estimated at around three million barrels. Oil production occurs near Peninsular Malaysia as well as the regions of Sabah in east Malaysia and Sarawak. Natural gas production has been steadily rising, with several companies engaged in its production.

Malaysia's main trading partners are the U.S, Japan and Singapore. The industries and services sector, which contributed around 51.6% and 40.1% of the country's GDP in 2006, remain the driving forces of the economy.

Moving into a knowledge economy

After its transformation from an agricultural to an industrial economy, the country is now poised to embrace the "knowledge economy." Keen to establish itself as the regional center of

Malaysia and the World	
Nominal GDP (\$)	221.7 billion
GDP Rank	37/185
Per Capita GNI (\$)	7250
Per Capita GNI Rank	84/209
Population Rank	46/224
Geographical Area Rank	65/250
Global Competitiveness Rank	24/133
Economic Freedom Index Rank	51/157
Human Development Index Rank	63/177
Major Industries	Electronics, Petroleum, Chemicals, Textiles, Palm Oil, Tourism

excellence in areas like information technology, insurance, tourism, and health and education, the Malaysian government is taking steps to develop the basis for a knowledge economy. Skilled labor, excellent infrastructure, strong science and technology, as well as a R&D base are laying the foundation to further this ambition.

A Multimedia Super Corridor (MSC) was launched in 1996 as a global IT hub for the global information and communication technology industry. Renamed MSC Malaysia in 2006, the corridor is a government-designated zone, originally an area of 15 by 50 square kilometers, which boasts of the latest technology in the information and knowledge age. It has now expanded to Malaysia's commercial capital, Klang Valley, and is targeted to cover the whole country by 2020.

The country has developed into a shared services and outsourcing (SSO) hub with several IT companies setting up their regional and global operations there. Home to more than 250 call centers, around 83 SSO companies operate in the MSC region.



Malaysia, along with Indonesia and Thailand, account for 72% of the world's natural rubber production.

Restructuring Agency in 1998 to rebuild the private banking sector, the pace of reform has been slow.

Emerging Asian power seeks global status

Today, Malaysia is an active participant in Southeast Asia. Well-endowed with natural resources, its rich tropical forests, endless beaches, and cultural diversity attract a wide number of tourists from around the world. Penang, Langkawi, Borneo and Kota Kinabalu remain prime destinations. Geographically, the country lies close to major world trade routes, bringing early exposure to a burgeoning global economy. Malaysian plantations cultivate cocoa, timber, pepper, pineapple and sugar cane, while rice paddies dot the northern reaches.

Its indigenous labor workforce has been supplemented by immigrants who continue to contribute to Malaysia's growth. The economy has always been exceptionally open to external influences such as globalization. Foreign capital has played a major role throughout.

Recession in 2009 hampers growth

As an export-dependent nation, Malaysia was severely affected by the global recession in the aftermath of the financial crisis of 2008. The country's export sector endured a torrid year in 2009, after overseas shipments slumped 16.6%, the first such annual decline for a predominantly strong area of growth. The government is hoping that 2010 will be different. International Trade and Industry Minister Mustapa Mohamed has stated that as the global economy picks up, he expects exports for the year to expand as much as 6% to 7%, topping the previous forecast of 3.5%. What dragged Malaysia's economy down even further was a 5.5% drop in fixed investment, as panicky firms canceled or deferred investment decisions. The Malaysian economy contracted 1.7% in 2009 amid the slump in the export sector.

Also, for the first time in almost four years, the Malaysian central bank raised interest rates in 2010, stating that the nation's economic recovery was now firmly established. The central bank, like most other monetary authorities around the world, had reduced interest rates periodically during the recessionary period to stimulate economic growth.



In Kuala Lumpur, a city with a population of 1.6 million, the tallest twin buildings in the world, the Petronas Towers, represent Malaysia's soaring ambitions.

Even Prime Minister Najib Razak has expressed confidence that the Malaysian economy would grow by around 6% in 2010. The Malaysian Institute of Economic Research (MIER), the country's leading economic think-tank, is less optimistic. The Institute warned that although Malaysia has emerged from a technical recession (2009), the global economic recovery is proceeding at a slow pace, and might affect the export-oriented country's progress.

As an oil and gas exporter, Malaysia stands to profit from higher world energy prices. However, as the recession in 2009 showed, that can work against Malaysia too. If demand from some of its main export markets crumbles, especially the U.S. or European markets, then Malaysia will again struggle. In 2009, agriculture grew at a mere 0.9% (*Source: ADB*) as crashing palm oil and rubber prices led to a drop in production. After depreciating during the first three months of 2009, the ringgit has once again started to appreciate. The

ringgit gained 1.2% against the dollar in 2009, and further appreciated by 1% in the first two months of 2010. As Malaysia learned during the recent recessionary phase, dependency on a few export markets might stall its export growth and consequent economic progress.

Forecasts for growth and inflation

 The World Bank expects the Malaysian economy to grow 5.7% in 2010.

 The ADB anticipates a 5.3% rise in GDP for 2010 and 5% in 2011. Inflation to touch 2.4%.


 The IMF predicts 4.7% growth in 2010.

 MIER expects 3.7% growth in 2010 and 2.2% inflation rate

In its forecast, the World Bank warned that the Malaysian government would have to rapidly implement economic reforms announced last year, saying that growth would stall otherwise.

It appears that the government is listening. Prime Minister Najib Razak has repeatedly stressed that the downturn offered Malaysia an opportunity to adopt a new model that is based more on innovation, creativity and value-added activities. Among other ambitions, his goal is to increase domestic demand, making Malaysia more self-reliant. One way of increasing domestic demand is to boost consumers' spending power. And Najib offered exactly that by cutting income taxes for the second straight year in 2009. The Prime Minister also unveiled a New Economic Model, which advocates a change in Malaysia's old policies. This new model will act as the foundation for the 10th Malaysia Plan to be released in June 2010. Najib wants to privatize state-owned companies and improve their efficiency, remove subsidies, however popular they may be, and try to remove any hurdles that may hamper foreign investment.

The stage is set

Vision 2020 hoped for a strong and confident Malaysia, a country not only powerful in the ASEAN region, but ready to embrace the world stage. But neighboring Singapore has left Malaysia a little behind in the economic stakes. Now, it is up to Malaysia to prove that it can make that one important step up from an emerging economy to a developed one. After surviving the fallout the global recession, Malaysia is hoping that its New Economic Model and the 10th Malaysia Plan for 2011-2015 will show the way for a bright future. The past has laid the foundation. Now the future needs to be realized. 

Thomas White International, Ltd.

One Financial Place,
440 South LaSalle Street,
Suite 3900,
Chicago, Illinois 60605.
Email: feedback@thomaswhite.com

Thomas White India Pvt., Ltd.

Suite 300, 3rd Floor
Phoenix Towers
16/1 Museum Road
Bangalore 560001
Tel.: 91-80-40187777

The information contained in this publication does not, in any way, constitute investment advice and should not be considered a recommendation to buy or sell any security discussed herein. It should not be assumed that any investment will be profitable or will equal the performance of any security mentioned herein. Thomas White International, Ltd. may, from time to time, have a position or interest in, or may buy, sell or otherwise transact in, or with respect to, a particular security, issuer or market on our own behalf or on behalf of a client account.