

**Why M'sian economy is sluggish**  
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Absence of private investment, difficulties in doing business, low value-added industries, low-skilled jobs and low wages were among the factors identified that contributed to the country's sluggish growth since the 1997-1998 Asian financial crisis.

world stock market forex 141008 03Stagnating productivity growth, insufficient innovation and creativity as well as lack of appropriately skilled human capital were also slowing economic growth, the National Economic Advisory Council (NEAC) says in the New Economic Model (NEM) for Malaysia Part 1 Report released today.

The council says the Asian financial crisis caused significant outflows of foreign portfolio investments and foreign direct investment (FDI) as well as a fall in overall investment which has not recovered.

"The crisis was a watershed in Malaysia's growth. Since the crisis, Malaysia's position as an economic leader in the region has steadily eroded," it says.

The NEAC also says the contraction in aggregate investment in Malaysia was driven mostly by a decline in private investment which has stagnated.

Several factors had dragged the level of private investments in recent years, which among others, included the heavy presence of government and government-linked companies (GLCs).

Red tape

It says cumbersome and lengthy bureaucratic procedures affected both the cost of investing and the potential returns on investments while persistent shortage of skills has had an impact on investments as well.

housing flats 050405 new flats under constructionIn the meantime, the absence of private domestic investment is further evident by developments in the external accounts which saw increasing capital account outflow for financing Malaysian investments abroad.

While FDI inflows into Malaysia recovered comparatively well this, however did not translate into higher levels of aggregate investment.

Describing this as an unusual phenomenon, the NEAC says this suggests Malaysia simply did not take advantage of FDI inflows to augment domestic sources of investment, especially in innovative and technologically sophisticated areas.

In 2008, a large portion of FDIs went into the services sector with the bulk of it in the financial services and distributive trade sectors.

Both involves little need for physical capital outlays but requires a high degree of innovation and networking that domestic investors lack.

"We have to create conducive conditions that will boost domestic private investments in high-value added products and services in order to raise our income levels," the NEAC says.

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