

The Macroeconomic Features Of
Malaysia And Viet Nam
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Introduction

Malaysia and Viet Nam are 2 ASEAN countries with major differences when compared in terms of history, political system and economic development. Despite the differences, the 2 countries (as in other developing countries) have similar policy objectives of reducing poverty while maintaining stable domestic prices and sustainable economic growth.

This paper will seek to discuss the similarities and differences in the macroeconomic features of these 2 countries.

History and Political System

It is necessary to describe the history and political systems of Malaysia and Viet Nam which forms the basis for the 2 countries macroeconomic policies and objectives.

Malaysia is formerly a British colony and part of the British Empire until it gained Independence through peaceful negotiation in 1957. The country inherited the British political system of constitutional monarchy and the separation of powers between the executive, judiciary and administrative components of the government. Resulting from this inheritance, Malaysia was endowed with a well managed laissez-faire economy. This economy was in the beginning driven by the huge agriculture plantation sector and the mining industry. The 2 primary export commodities were rubber and tin. Malaysia was then the world's major producer of these 2 commodities.

The Malaysian economy is guided by 2 core national policies a) the New Economic Policy 1970-1990 and b) the National Development Policy 1991-2000, which underlined the importance of economic growth and equitable distribution of opportunities (Zagha, 2004).

Ramon (1997) fittingly described the Malaysian economy as “*a Mixed Economy, with a blend of some socialist ideals in the area of Income Distribution and Affirmative Action.*” According to Pramanik (1994), Malaysian macroeconomic policy focused on the delivery of high sustainable growth, low unemployment, stable domestic prices and foreign exchange.

The Socialist Republic of Viet Nam is a former French colony. The communist North and anti communist South were unified with the fall of Saigon in 1975. The post unification decade, was a period of stagnant economic growth due to the failure of agricultural and public sector reforms. The failure in the reforms resulted in hyperinflation which was at 775% in 1986 (Tran, 1998). This crisis led to the turning point of Viet Nam's economic history in 1986 when the Communist Party of Viet Nam formally abandoned Marxist Economic Planning in favour of adopting the ‘Doi Moi’ (renovation) which prescribed the introduction of market elements in a broad economic reform package.

Another contributing factor was the dissolution of COMECON – the Communist bloc economic organization who was a significant trading partner for Viet Nam in 1991. This dissolution resulted in the lost of trade for Viet Nam forcing it liberalize trade and seek new regional markets.

Viet Nam is looking forward to the benefits of becoming member of the WTO in 2006. To quote Prime Minister Phan Van Khai, “*We hope that, with our accession to the WTO, Vietnam’s reform and economic development will garner new resources and opportunities that will increase the pace and quality of socio-economic development.*”

Broad Economic Data

Up to 2004, Malaysian population stood at 25.5 million with almost full employment. Income Per Capita was USD\$3,033 while Annual Inflation Rate was 1.45%. Viet Nam population was more than 3.5 times bigger with negligible unemployment. However, Income Per Capita was only USD\$355 with higher Annual Inflation Rate. Take note that Viet Nam’s experience with hyperinflation in 1986 (refer Table 1)

Table 1: Broad Economic Data Malaysia & Viet Nam

historic - fixed year 2004 - current

	1986	1990	1995	2000	2001	2002	2003	2004
Malaysia								
Annual rates of inflation ^{S3} - % growth	0.74	2.62	3.45	1.53	1.42	1.81	1.06	1.45
Annual gross income ^{S7} - US\$ mn	-	21,427	40,069	63,177	65,615	70,571	72,591	77,586
Income Per capita - US\$	-	1,184	1,937	2,689	2,732	2,877	2,898	3,033
Male unemployment rate ^{S5} - %	2.6	2.7	2.9	2.9	3.3	3.2	3.6	3.8
Population: ^{S1} - Mil	16.33	18.10	20.69	23.50	24.01	24.53	25.05	25.58
Vietnam								
Annual rates of inflation ^{S3} - % growth	454	36	16.9	-1.6	-0.4	4	3.2	6
Annual gross income ^{S7} - US\$ mn	-	2,535	11,252	20,940	22,479	24,126	26,055	29,109
Income Per capita - US\$	-	39	156	270	286	303	322	355
Male unemployment rate ^{S5} - %	-	-	-	2.3	2.1	1.9	1.8	1.67
Population: ^{S1} - Mil	59.76	65.36	72.22	77.62	78.67	79.74	80.83	81.93

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Gross Domestic Product (GDP)

Malaysia’ GDP in 2003 was valued at USD103 Billion was almost 3 times bigger than Viet Nam’s GDP. The manufacturing sector was the biggest contributor to the Malaysian GDP (33%). Both Viet Nam’s agriculture and manufacturing sectors were equal in contribution to the GDP at 22% each (refer Table 2).

Table 2: GDP Malaysia & Viet Nam (USD)

historic - US\$ mn - fixed year 2004 - current

	1986	1990	1995	2000	2001	2002	2003
Malaysia							
GDP by origin	18,841	31,337	58,546	89,659	87,540	98,841	103,064
GDP from agriculture, hunting, forestry and fishing	3,639	4,768	7,582	7,696	7,368	8,703	7,955
DP from mining and quarrying	2,727	3,713	3,648	9,144	8,680	9,654	11,218
GDP from manufacturing	3,147	7,591	15,443	30,741	28,095	29,176	34,034
GDP from electricity, gas and water	515	696	1,530	2,766	2,923	3,262	3,644
GDP from construction	729	1,223	3,618	3,705	3,756	3,871	4,011
GDP from wholesale and retail trade, restaurants and hotels	1,777	4,256	8,982	12,174	12,518	13,317	13,841
GDP from transport, storage and communications	1,246	1,849	3,938	5,863	6,100	6,814	7,142
GDP from finance, insurance, real estate and business services	1,433	2,818	6,778	10,197	10,052	10,440	10,718
GDP from community, social and personal services ^S	2,234	2,934	4,416	5,972	6,339	7,327	7,549
GDP from other origins	1,280	1,489	2,611	1,403	1,708	6,277	2,953
Vietnam							
GDP by origin	37	2,584	14,098	27,202	29,645	32,770	36,136
GDP from agriculture, hunting, forestry and fishing	14	1,001	3,832	6,674	6,890	7,457	7,948
GDP from mining and quarrying	1	135	678	2,624	2,731	3,482	4,147
GDP from manufacturing	8	317	2,114	5,049	5,864	6,703	7,699
GDP from electricity, gas and water	1	35	290	862	987	1,148	1,328
GDP from construction	1	99	973	1,456	1,720	1,689	1,785
GDP from wholesale and retail trade, restaurants and hotels	5	336	2,309	3,870	4,175	4,475	4,794
GDP from transport, storage and communications	1	89	562	1,068	1,197	1,317	1,462
GDP from finance, insurance, real estate and business services	0	30	284	502	540	599	661
GDP from community, social and personal services	3	222	1,409	2,329	2,519	2,668	2,844
GDP from other origins	4	319	1,648	2,768	3,021	3,232	3,467

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Malaysian GDP growth slowed down in 2003 in light of the negative growth in the agriculture sector and other contributing factors. The manufacturing sector however, continued to be Malaysia's engine of growth with its phenomenal growth of 17%.

The Viet Nam economy forged ahead in 2003 with both the Agriculture and Manufacturing sectors registering strong growth. The slower rate of growth in the Agriculture sector compared to the Manufacturing sector indicated the trend in the Viet Nam economy where the Manufacturing sector may have overtaken output from the Agriculture sector in possibly in 2004 (refer to Table 3). Similar to Malaysia, the

manufacturing sector was clearly driving the Viet Nam economy. Structurally it could be observed that Malaysia has transformed into an industrial economy while Viet Nam is currently experiencing the transformation.

Table 3: GDP Malaysia & Viet Nam (% Growth)

% Growth Year on Year	1986	1990	1995	2000	2001	2002	2003
Malaysia							
GDP by origin	-8%	13%	14%	13%	-2%	13%	4%
GDP from agriculture, hunting, forestry and fishing	21%	-5%	8%	-10%	-4%	18%	-9%
GDP from manufacturing	52%	15%	13%	23%	-9%	4%	17%
Vietnam							
GDP by origin	412%	49%	28%	10%	9%	11%	10%
GDP from agriculture, hunting, forestry and fishing	386%	38%	27%	7%	3%	8%	7%
GDP from manufacturing	457%	21%	29%	16%	16%	14%	15%

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Trade Balance

Malaysia's trade balance continues to be favorable and in surplus, while Viet Nam continues its trend of trade balance deficit (refer to Table 4).

Table 4: Trade Balance - Malaysia and Viet Nam

historic - US\$ mn	1999	2000	2001	2002	2003
Malaysia					
Exports	84,621	98,229	88,005	93,265	99,369
Imports	65,389	81,963	73,866	79,869	81,948
Trade balance	19,232	16,266	14,139	13,396	17,421
Vietnam					
Exports	11,540	12,415	13,241	13,743	13,974
Imports	16,783	16,245	16,000	16,918	17,467
Trade balance	-5,243	-3,830	-2,759	-3,175	-3,493

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Asia Pacific and North America remained the most important export destination for Malaysian products with 58% and 21% share respectively. Similarly for Viet Nam, Asia Pacific was the most important export destination with 54% share. However, the 2nd most important export destination was Europe at 37% share. However, this picture was set to change with North America fast catching up to replace Europe (refer Table 5).

Table 5: Export Destinations for Malaysia & Viet Nam

historic - US\$ mn	1999	2000	2001	2002	2003
Malaysia					
Exports	84,621	98,229	88,005	93,265	99,369
Exports (fob) to Africa and the Middle East	2,380	2,505	2,586	3,048	3,877
Exports (fob) to Asia/Pacific	41,518	52,355	47,156	51,329	57,924
Exports (fob) to Australasia	2,332	2,782	2,349	2,434	2,971
Exports (fob) to Europe	14,171	14,283	13,258	12,589	14,175
Exports (fob) to Latin America	1,109	1,510	1,195	1,065	1,073
Exports (fob) to North America	19,161	20,963	18,363	19,393	21,145
Vietnam					
Exports	11,540	12,415	13,241	13,743	13,974
Exports (fob) to Africa and the Middle East	438	545	683	644	788
Exports (fob) to Asia/Pacific	5,665	7,493	7,290	6,153	7,555
Exports (fob) to Australasia	832	1,291	1,060	1,203	1,428
Exports (fob) to Europe	3,090	3,343	3,530	4,326	5,218
Exports (fob) to Latin America	120	131	163	115	141
Exports (fob) to North America	595	832	1,173	2,531	4,682

Sources

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In 2003, exports to USA accounted for 21% of total exports. Next in order of importance were Singapore (17%), Japan, China and Hong Kong (refer to Table 6). However, it is unlikely that Singapore and Hong Kong were the final destinations of our products because historically they served as entrepôts and gateways for our products to other destinations.

Table 6: Top 5 Export Destination for Malaysia

historic - US\$ mn	1999	2000	2001	2002	2003
Malaysia					
Exports	84,621	98,229	88,005	93,265	99,369
Exports (fob) to USA	18,533	20,162	17,816	18,826	20,540
Exports (fob) to Singapore	13,974	18,050	14,913	15,959	16,523
Exports (fob) to Japan	9,839	12,780	11,770	10,530	11,222
Exports (fob) to China	2,318	3,028	3,821	5,253	6,810
Exports (fob) to Hong Kong, China	3,775	4,440	4,063	5,307	6,784

Sources

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By country, USA has overtaken Japan to be Viet Nam's most biggest export market with 31% share of total exports (refer to Table 7). This over reliance on the American market, could adversely affect the Vietnamese economy when the American economy deflates.

Table 7: Top 5 Export Destination for Viet Nam

historic - US\$ mn	1999	2000	2001	2002	2003
Vietnam					
Exports (fob) to USA	504	733	1,066	2,350	4,463
Exports (fob) to Japan	1,786	2,575	2,510	2,299	2,808
Exports (fob) to Australia	815	1,272	1,042	1,172	1,390
Exports (fob) to China	746	1,536	1,417	1,013	1,323
Exports (fob) to Germany	654	730	722	1,001	1,181

Sources:

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Machinery and transport equipment (includes electrical and electronic goods) remained to be Malaysia's most important product for export. As such, the Malaysian economy is tied to the business cycle for these products. By contrast, Vietnamese exports were broadly based on the 3 main categories of Miscellaneous Manufactures Goods, Food and Live Animals and Mineral Fuels (refer to Table 8).

Table 8: Exports by Category - Malaysia and Viet Nam

historic - US\$ mn	1999	2000	2001	2002	2003	Share of 2003 Total
Malaysia						
Exports (fob) by commodity	84,512	98,230	88,004	94,058	104,969	100%
Exports (fob) of food and live animals	1,639	1,703	1,736	1,968	2,222	2%
Exports (fob) of beverages and tobacco	275	320	344	341	390	0%
Exports (fob) of crude materials exc. Fuels	2,601	2,708	1,990	2,215	2,673	3%
Exports (fob) of mineral fuels	5,747	9,448	8,554	8,064	10,576	10%
Exports (fob) of oils and fats	4,812	3,405	3,243	4,717	6,387	6%
Exports (fob) of chemicals	2,702	3,757	3,783	4,387	5,417	5%
Exports (fob) of basic manufactures	6,415	6,786	6,367	6,538	7,383	7%
Exports (fob) of machinery and transport equipment	52,664	61,416	53,351	56,655	59,673	57%
Exports (fob) of miscellaneous manufactured goods	6,917	7,875	7,704	8,014	8,815	8%
Exports (fob) of other goods	741	813	932	1,160	1,434	1%
Viet Nam						
Exports (fob) by commodity	11,541	14,483	15,029	16,706	17,132	100%
Exports (fob) of food and live animals	3,208	3,536	4,021	4,094	4,181	24%
Exports (fob) of beverages and tobacco	12	18	45	74	79	0%
Exports (fob) of crude materials exc. Fuels	282	380	410	513	545	3%
Exports (fob) of mineral fuels	2,365	3,825	3,442	3,548	3,670	21%
Exports (fob) of oils and fats	15	62	31	12	12	0%
Exports (fob) of chemicals	141	139	220	257	270	2%
Exports (fob) of basic manufactures	860	781	982	1,113	1,163	7%
Exports (fob) of machinery and transport equipment	973	1,256	1,389	1,324	1,365	8%
Exports (fob) of miscellaneous manufactured goods	3,531	4,022	4,375	5,657	5,735	33%
Exports (fob) of other goods	154	465	114	113	113	1%

Sources:

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Malaysia mainly imported machinery and transport equipment which contributed to 61% of total imports in 2003. These were actually feedstock and intermediate goods and components for Malaysia's large manufacturing and assembly industry. Viet Nam was already manifesting similar symptoms of rising imports of intermediate goods to feed its expanding manufacturing sector (refer to Table 9).

Table 9: Imports by Type - Malaysia and Viet Nam

historic - US\$ mn

	1999	2000	2001	2002	2003	Share of 2003 Total
Malaysia						
Imports (cif) by commodity	64,939	81,290	73,079	78,674	82,741	100%
Imports (cif) of food and live animals	2,860	2,996	3,231	3,252	3,345	4%
Imports (cif) of beverages and tobacco	179	185	240	298	297	0%
Imports (cif) of crude materials exc. fuels	1,627	1,867	1,818	1,793	1,944	2%
Imports (cif) of mineral fuels	2,020	3,940	3,868	3,781	4,610	6%
Imports (cif) of oils and fats	278	158	207	332	357	0%
Imports (cif) of chemicals	4,778	5,880	5,439	5,709	5,941	7%
Imports (cif) of basic manufactures	7,609	8,568	7,782	7,957	8,183	10%
Imports (cif) of machinery and transport equipment	40,078	50,921	44,076	48,529	50,739	61%
Imports (cif) of miscellaneous manufactured goods	3,426	4,609	4,181	4,472	4,705	6%
Imports (cif) of other goods	2,082	2,166	2,236	2,551	2,620	3%
Vietnam						
Imports (cif) by commodity	11,742	15,637	16,218	19,746	20,369	100%
Imports (cif) of food and live animals	502	624	820	930	957	5%
Imports (cif) of beverages and tobacco	85	102	108	149	158	1%
Imports (cif) of crude materials exc. fuels	449	589	690	816	829	4%
Imports (cif) of mineral fuels	1,112	2,113	1,970	2,166	2,247	11%
Imports (cif) of oils and fats	99	86	83	130	137	1%
Imports (cif) of chemicals	2,015	2,392	2,490	2,909	3,006	15%
Imports (cif) of basic manufactures	2,725	3,389	3,729	5,364	5,588	27%
Imports (cif) of machinery and transport equipment	3,426	4,693	4,865	5,708	5,827	29%
Imports (cif) of miscellaneous manufactured goods	1,231	1,136	1,319	1,400	1,443	7%
Imports (cif) of other goods	98	513	142	174	178	1%

Foreign Direct Investment (FDI)

FDI is an important macroeconomic feature because it bridges the "Saving Investment Gap" that impacts GDP growth through the Harrod-Domar Growth Model. This model uses the Incremental Capital Output Ratio (ICOR) as the basis of determining the required investment to effect growth.

Malaysia received a substantial amount of FDI. In 2003 this amounted to US\$34 Billion at 33% of GDP (refer to Table 10). This was the result of Malaysia's ability to attract FDI given its favorable investment climate. However, it must be noted that Malaysia's attractiveness to FDI has been eroded by the gains made by China and our neighbors notably Thailand and Indonesia. Comparatively, Viet Nam received less

FDI both in absolute terms and as percentage of GDP. This was due to Viet Nam being less attractive when compared to other destinations with regards to factors such as infrastructure, educated workforce and judiciary. However, this situation may change for the better with Viet Nam's (World Trade Organization) WTO membership in 2006.

Malaysia has a high ICOR factor ratio suggesting that marginal contribution of capital investment to GDP growth was diminishing. Viet Nam's low ICOR factor suggested that the economy was undergoing the stage where there were increasing returns to capital investment. Therefore, Viet Nam's GDP could grow with the benefit of more FDI.

Table 10: Net Foreign Direct Investment - Malaysia & Viet Nam

historic - US\$ mn	1999	2000	2001	2002	2003
Malaysia					
Net FDI - US\$ mn	34,981	33,553	34,559	29,933	33,998
GDP by origin	79,037	89,659	87,540	98,841	103,064
% of GDP	44%	37%	39%	30%	33%
GDP Growth %	6%	13%	-2%	13%	4%
ICOR Factor	7	3	-16	3	7
Vietnam					
Net FDI - US\$ mn	3,086	2,616	2,608	2,412	2,928
GDP by origin	24,634	27,202	29,645	32,770	36,136
% of GDP	13%	10%	9%	7%	8%
GDP Growth %	11%	10%	9%	11%	10%
ICOR Factor	1.42	1.20	1.07	0.83	0.72

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Inflation Rate

Malaysia has successfully maintained a low inflation rate which rarely rose above 2% per annum (refer to Table 11). This was in stark contrast with Viet Nam which had to manage a runaway hyperinflation situation in 1986. During the period 1999-2003, Viet Nam's inflation ranged between -1.6% to 6%. This could be due to the overheating economy and imported inflation. Fortunately, throughout this period Viet Nam was able to sustain a high GDP growth to offset the high inflation rate.

Table 11: Inflation Rate - Malaysia and Viet Nam

historic - year on year - current	1999	2000	2001	2002	2003	2004
Malaysia						
Annual rates of inflation - % growth	2.7%	1.5%	1.4%	1.8%	1.1%	1.5%
GDP Growth %	6.0%	13.4%	-2.4%	12.9%	4.3%	
Vietnam						
Annual rates of inflation - % growth	4.2%	-1.6%	-0.4%	4.0%	3.2%	6.0%
GDP Growth %	10.8%	10.4%	9.0%	10.5%	10.3%	
Sources:						
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Exchange Rate

Malaysia had a freely floating exchange rate regime which was superseded by a fixed exchange rate regime (pegged to the US\$ at RM3.80) in 1998 to overcome the Asian Financial Crisis. This action was complemented by the policy of selective exchange controls to safeguard its success. This policy has been reversed and the Ringgit has since been taken off the peg and it is on a managed float since July 2005. The exchange rate is US\$1=RM3.72 circa 13 September, 2005.

The Viet Nam maintains a fixed exchange rate. Before the Asian financial crisis, the Viet Nam currency was kept stable at approximately VND 11,000 per dollar. To maintain competitiveness for Vietnamese exports, the dong has been devalued to VND 14,000 per dollar, in 1998. The exchange rate is US\$1=15,788 Dong circa January, 2005.

Poverty Eradication

Both countries have managed poverty successfully, according to a World Bank report in 2004. Notably, Viet Nam has seen a sharp decline in poverty to 51% in 2004 from 64% in 2000 (refer to Table 12). However, much need to be done so that Viet Nam's economic success is equally distributed broadly across all economic sectors, bridging the rural-urban divide in line with their socialist heritage.

Table 12: Poverty \$2 Per Day - Malaysia & Viet Nam

	Vietnam	Malaysia
1999	65.9%	12.6%
2000	63.5%	9.7%
2001	61.8%	9.7%
2002	58.2%	9.2%
2003	54.4%	8.1%
2004	51.2%	6.3%

Source: World Bank

Conclusion

Malaysia and Viet Nam are 2 countries with different yet similar macroeconomic features. Similar to Malaysia is Viet Nam's push towards industrialization, in both broad policy and implementation. When everything is equal, the discriminatory factor for success must certainly lie in the quality of the countries' leadership and human capital.

Malaysia have been blessed with visionary leaders in the form of former Prime Minister Tun Dr Mahathir Mohamad, an efficient Civil Service and hardworking citizens to achieve economic success. It is the responsibility of the current and future generations to build upon this legacy to secure the future.

Viet Nam is emerging from the backwaters of the world economy. The economy is vibrant and the Vietnamese population anticipates a bright future. The responsibility is heavy upon the government to deliver the benefits of the emerging economy. It requires prudent as well as pragmatic economic management so that their socialist objectives are achieved through economic expansion.

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