

Malaysia

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that Medium to Large Enterprises (MLEs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent whilst MLEs in Malaysia are slightly less optimistic about 2008 (+38 per cent) than they were about 2007 (+41 per cent).

Optimism amongst businesses in East Asia² is in line with the global average, although levels of optimism do vary throughout the East Asian economies. Overall optimism has fallen from 2007. This year +39 per cent of all East Asian businesses are positive about their economy compared to a balance of +54 per cent in 2007. East Asia continues to present a very mixed picture, however, with optimism/pessimism balances ranging from +95 per cent in the Philippines to -49 per cent in Japan.

The Malaysian economy

During 2007, Malaysian economy has been resilient in facing up to the global economic slowdown. In fact, GDP growth accelerated to 7.3 per cent in the last quarter of 2007 up from 6.6 per cent in the 3rd quarter. Growth was driven by high commodity prices, strong private consumption and investment outlays, while being supported by continued strong fiscal spending. The services sector has expanded, by growth in trade, both wholesale and retail, and the financial sectors. In 2008, Malaysia has felt impact from the slowing US economy, mainly through slower export growth. The rise in petrol prices and electrical charges will have significant deceleration on growth for the second half of 2008.



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¹ the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

² for the purposes of IBR, the term 'East Asia' refers to those East Asian economies covered by our survey – mainland China, Hong Kong, Japan, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

Business expectations/revenue

- MLEs in Malaysia are less optimistic about their revenue prospects in 2008 (+68 per cent) compared to 2007 (+77 per cent).
- However, their levels of optimism regarding revenue performance are above both the East Asian regional average (+65 per cent) and the global average (+63 per cent).
- The level of optimism regarding exports (+43 per cent), is well above the East Asian (+6 per cent) and global (+18 per cent) averages.

Employment

- Expected employment growth in Malaysia has fallen marginally from +45 per cent in 2007 to +44 per cent in 2008.
- Businesses in East Asia (+20 per cent) are much less optimistic with regard to employment growth in 2008 than Malaysian businesses.
- Actual reported employment growth in Malaysia was slightly lower than expected in 2007.

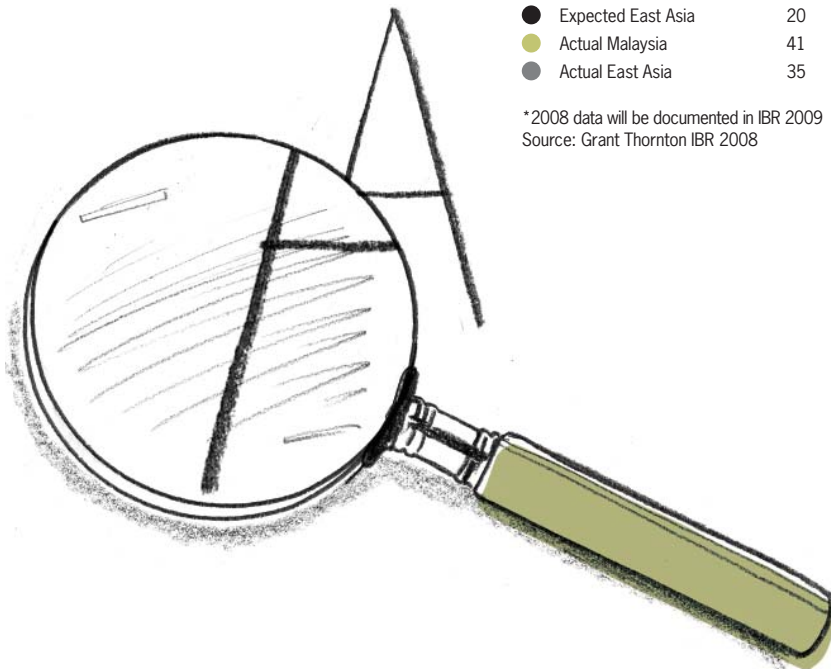
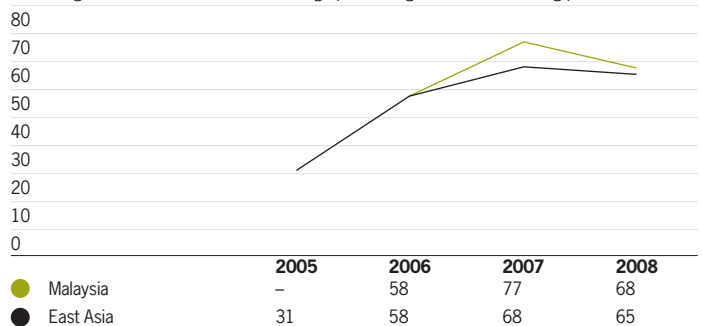
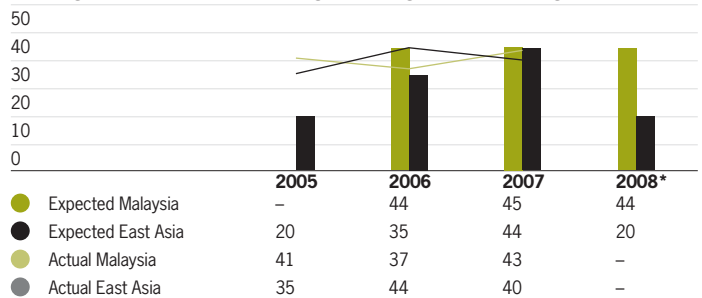


Figure 1: Revenue expectations for Malaysia and East Asian average 2005-2008
Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2008

Figure 2: Employment history of Malaysia and East Asian average 2005-2008
Percentage balance of businesses indicating optimism against those indicating pessimism



*2008 data will be documented in IBR 2009
Source: Grant Thornton IBR 2008

Constraints

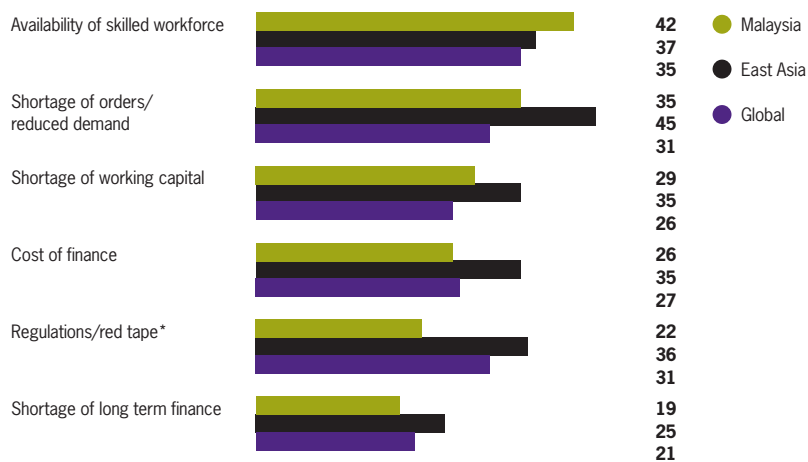
- The availability of a skilled workforce is the constraint, restricting expansion cited most by businesses in Malaysia (42 per cent).
- Shortage of orders/reduced demand is cited by 35 per cent of businesses in Malaysia, above the global business average (31 per cent) but well below the East Asian average (45 per cent).
- Just 22 per cent of Malaysian businesses cite regulations/red tape as a constraint compared to 36 per cent of all East Asian businesses, and 31 per cent of businesses globally.

Emerging markets

- The most important factor for Malaysian businesses when determining whether to invest internationally, as is the case for businesses globally, is market size and growth potential (62 per cent).
- The number of Malaysian businesses which export (61 per cent) is higher than the global average (39 per cent) and up from 44 per cent in 2007.
- 69 per cent of Malaysian businesses import, above the global average (39 per cent).
- Almost half of Malaysian businesses see their main competition coming internationally (46 per cent), above the global business average of 22 per cent.

Figure 3: Largest constraints on growth for Malaysia businesses compared to East Asian and global averages

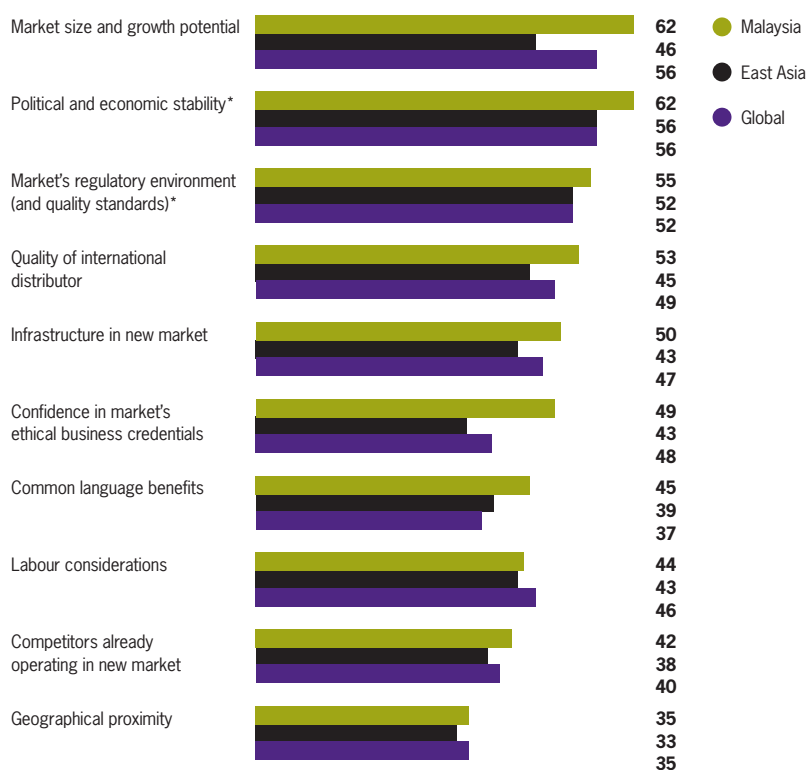
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is a not a constraint and 5 is a major constraint



*excluding mainland China
Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



*excluding mainland China
Source: Grant Thornton IBR 2008

Competitiveness

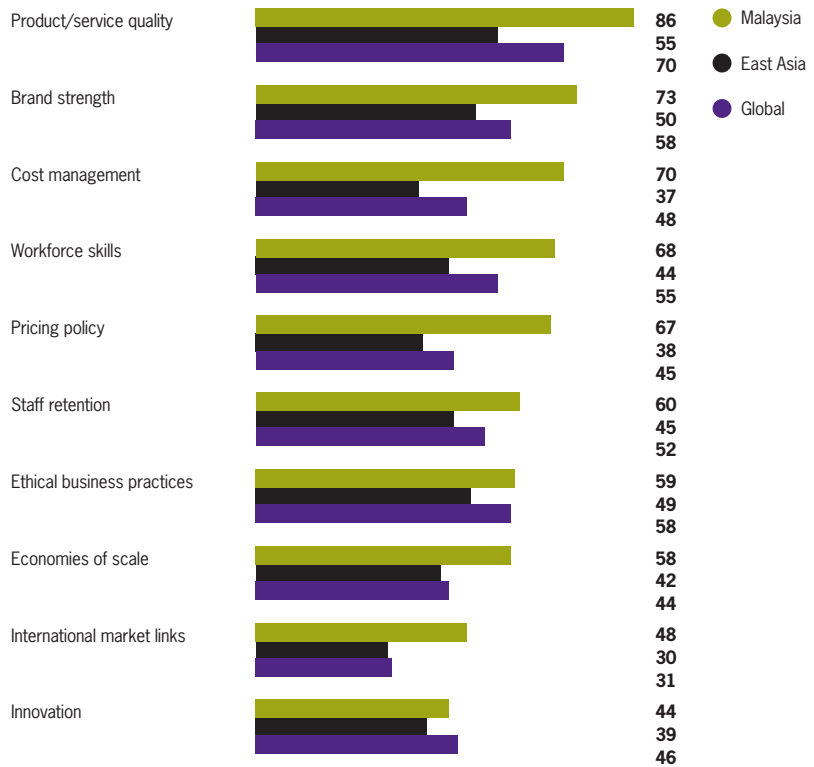
- MLEs in Malaysia see their greatest source of competitive advantage as product service quality (86 per cent), as is true of businesses globally.
- 73 per cent of Malaysian businesses see brand strength as a source of competitive advantage, above the global business average of 58 per cent.
- Cost management is cited by 70 per cent of Malaysian businesses but just 37 per cent of all East Asian businesses.

Corporate social responsibility (CSR)

- Cost management is viewed as the biggest driver towards more ethical practices by MLEs in Malaysia (75 per cent). This is higher than the East Asian (59 per cent) and global (63 per cent) averages.
- Over 80 per cent of Malaysian businesses improved energy efficiency and waste management in the past year, compared to fewer than 60 per cent of all businesses.
- 58 per cent of Malaysia businesses have incorporated their policies in to a written CSR document, which is slightly lower than the East Asia average at 61 per cent.

Figure 5: Main sources of competitive advantage for Malaysian businesses compared to East Asian and global averages

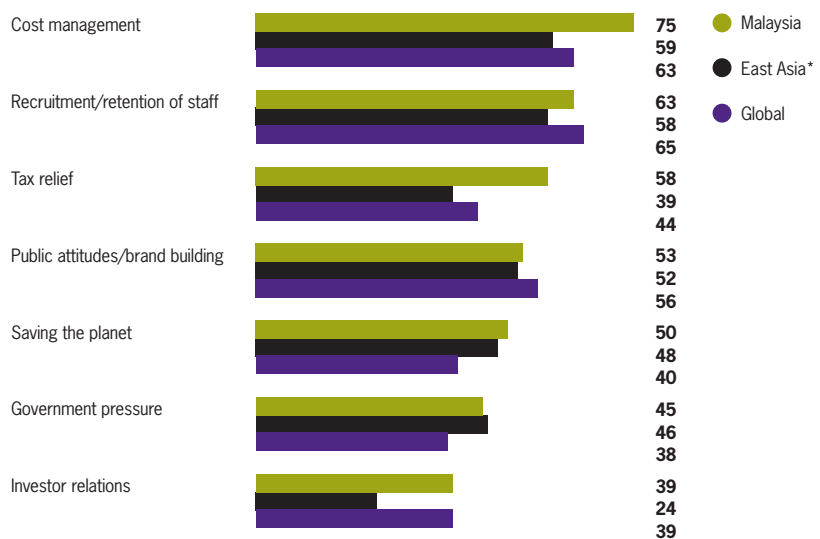
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for Malaysian businesses compared to East Asian and global averages

Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is a not very important and 5 is very important



*excluding mainland China

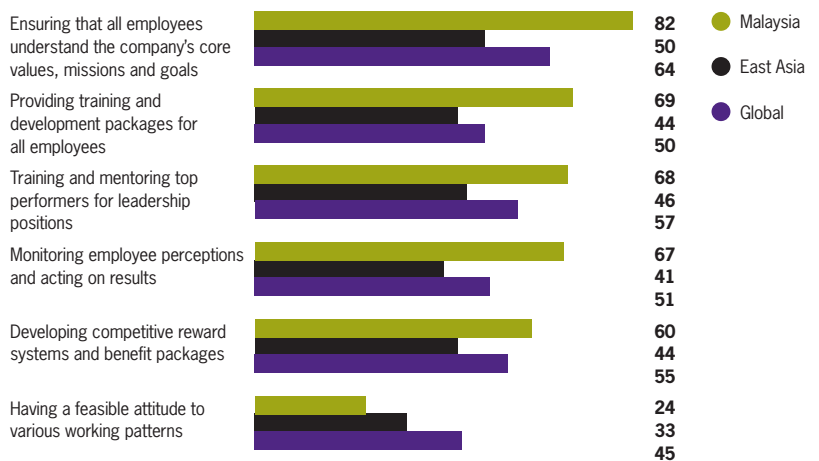
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of MLEs in Malaysia more focused on retention than those one year ago is 55 per cent. This is slightly lower than both the East Asian business average (58 per cent) and global business average (59 per cent).
- 82 per cent of Malaysian businesses ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention, this is higher than the global average of 64 per cent.
- Cited by 39 per cent of Malaysian businesses, increased operating costs is viewed as the major problem staff retention issues have caused.
- It is costing 74 per cent of Malaysian businesses significantly more to pay their staff than it was 12 months ago, above both the East Asian (68 per cent) and global (63 per cent) averages.

Figure 7: Usage of recruitment and retention tools for Malaysian businesses compared to East Asian and global averages

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is a not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the Malaysia economy

The Malaysian economy is expected to moderately expand in 2008, with real GDP growth projected at between 5 per cent and 5.5 per cent.

Inflation is projected to rise, as a result of substantial increase in petrol prices, electricity tariffs and food costs. Although global inflation has been cushioned by a weaker US dollar, higher productivity growth and proactive measures, strong inflationary pressures still persist. This year, Malaysian GDP growth is projected to be lower than 2007.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 Medium to Large Enterprises in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and 6-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating countries, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against MLEs around the world by industry, size and geographical location.

Participating economies

| | | |
|----------------|-------------|----------------|
| Argentina | Hong Kong | Singapore |
| Armenia | India | South Africa |
| Australia | Ireland | Spain |
| Belgium | Italy | Sweden |
| Botswana | Japan | Taiwan |
| Brazil | Malaysia | Thailand |
| Canada | Mexico | Turkey |
| Mainland China | Netherlands | United Kingdom |
| Denmark | New Zealand | United States |
| France | Philippines | Vietnam |
| Germany | Poland | |
| Greece | Russia | |

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