

Sharpening Malaysia's economic diplomacy edge

Malaysia has worked hard to improve its economy and, as shown by a number of global ranking indicators, these efforts are yielding the desired results.

In the World Competitiveness Yearbook ranking published by the Institute for Management Development, Malaysia improved from 19th position in 2008 to 14th in 2012. In the Ease of Doing Business ranking compiled by the World Bank, Malaysia jumped from 25th place in 2007 to 18th in 2012. The Foreign Direct Investment (FDI) Confidence Index of AT Kearney saw Malaysia improve from 16th spot to 10th over the same period.

These improvements are the culmination of efforts over a number of years. Public sector institutions have responded to private sector demands to facilitate private investments and do business by reducing bureaucracy, offering incentives and introducing new business facilities.

However, the Malaysian economy has now reached a stage where making domestic improvements alone will not produce the required high rates of growth. They have to be complemented with smart external economic strategies and proactive economic diplomacy.

Why? Although growth in the past decade has been mainly domestic-driven, Malaysia is still a very open economy that is deeply integrated into the global system. A significant part of growth will therefore come from external sources. It is unlikely that this external growth will come from only traditional sources like exports of goods and services and FDI. It will also come from our investments in other countries, capital flow, advanced technologies and access to new markets.

As we all know, the structure of the Malaysian economy has changed over the years. Until the late 1980s, our exports were concentrated on primary commodities and manufactured goods, mainly electronics. Now, exports of services are increasing, for example tourism, education, health and financial services.

If before Malaysia was a recipient of foreign investment, it now exports capital to other countries. Of course, Petronas is the most well-known Malaysian company with large investments abroad, some in sensitive regions or sectors. A case in point is its recent purchase of a Canadian gas company.

Likewise, before the Asian crisis in the 1997 to 2000 period, Malaysian construction companies kept their focus on the local market. Today, they are building infrastructure facilities in other countries such as India and Turkey.

In terms of migrant workers, Malaysia is not only host to foreign skilled and unskilled workers from many countries, but it also "exports" skilled Malaysians.

Another important aspect of economic globalisation is that Malaysia is vulnerable to international economic and other vagaries, including geo-political and social changes. These effects are ever more contagious and widespread and market confidence plays an important part in determining how severe their impact is on a country. So, even if a country is economically strong, it can still be, to



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some degree, adversely affected by strategic and geo-political developments.

In the main, the external economic strategy has primarily three components — maintain good relations with other countries for access to those markets, collect economic and business intelligence and explain developments in Malaysia to the rest of the world to preserve market confidence.

For this purpose, it is timely that we inject a greater economic dynamic into Malaysia's foreign policy.

Interestingly, Indonesian Foreign Minister Marty Natalegawa, in setting his nation's foreign policy focus for 2013, has included the promotion of economic development in the pursuit of justice and peace in the region. The protection of Indonesian migrant workers was among the country's economic diplomacy targets.

Free trade and economic partnership agreements are good for ensuring market access, but it is also important to maintain good relations with other countries that are not part of those agreements. The agreements are made to serve Malaysia's present economic structure and needs. Hence, they may exclude other countries that can be important markets or economic partners for Malaysia in the future. Those who draw up our

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foreign policy should have the foresight to nurture good relationships with countries that have not achieved their full economic potential.

Malaysia has developed an open economic system that is integrated with the global economy by joining international and regional economic groupings and trade bodies, such as the International Monetary Fund, the World Trade Organisation, Asean and others.

At the same time, Malaysia was far-sighted and savvy enough to build relationships with countries such as Sudan and Iran that have yet to fully join the international community. Malaysia was also early in establishing a relationship with China. These initiatives have placed us in a favourable position to tap the economic opportunities offered by these countries.

Information about markets (market intelligence) is crucial in penetrating, sustaining and expanding

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Perceptions can affect investors' views

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market share. We should maximise our facilities abroad to collect economic and business information that can help Malaysian companies market their products and services and for investment opportunities. In addition, our overseas facilities can help promote Malaysia's exports and investment and explain our economic progress.

In the present information-sensitive age, where perceptions of a country can significantly influence the views of investors and analysts, it is crucial that Malaysia explains developments in the country (and does it well), especially those that might create controversy, such as human rights, governance, multiracial society and politics. How these developments are explained can affect confidence and the international image of Malaysia, which in turn will affect the economy.

For example, any allegations of ill-treatment of foreign workers in Malaysia must be properly examined and explained expeditiously to the workers' country of origin. Inability to do so may

sour relationships and adversely affect Malaysia's other economic interests, such as investment, in that country.

Non-economic developments in Malaysia that can affect investors and business confidence must be explained quickly and well. Failure to do so may cause negative views about the country, capital outflow and unfavourable sovereign risk assessments and credit rating for the country. These negative views may also influence the competitiveness ranking that Malaysia has worked so hard to improve.

It is time we placed economic diplomacy alongside other efforts to improve the nation's economic competitiveness, governance and investment climate. In this complex and competitive world, economic diplomacy as part of foreign policy can give the country a valuable edge. **E**

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