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Matthews Asia Snapshot

Postcard From Malaysia

Week of 19 July 2017



Construction is progressing on the 106-story Signature Tower skyscraper in Kuala Lumpur.

Malaysia looks to be a very different place than it was just three years ago. A definite “feel good” factor that had been missing is now evident. Exports have roared back to life, not just in commodities but also in electronic and electrical products. This has been accompanied by a steady pickup in investment, which now accounts for 26.5% of GDP.

Foreign investors are back in force, with net foreign inflows totaling US\$2.5 billion year to date. Even local investors are getting in on the action. Local acquaintances and taxi drivers, for instance, are sharing stock tips. At a dinner gathering I attended, the usual chatter was replaced by discussions of sectors with the best investment returns, as well as talk of ways to spend the gains made so far. This is a classic example of the wealth effect that is resulting from the stock market’s uptrend after several subdued years.

Another striking difference compared with the past three years is the amount of construction activity under way across the city with the expansion of the monorail and new light rail transit (LRT) system. The traffic congestion caused by the construction work resulted in a nearly two-hour car ride into the city from the suburbs at rush hour. This left plenty of time to view Kuala Lumpur’s new “national bird,” the construction crane, at close quarters along the way.

Malaysia also has benefited from the tailwinds provided by the external demand recovery, while increased government support has boosted consumer spending. This has been balanced by policy reforms, primarily the implementation of the Goods and Services Tax in April 2015, which helped to offset the fiscal impact of lower oil prices.

As the external demand impulse eases and government support to consumers fades, current robust growth momentum is also likely to ease back into the mid-4% GDP growth range in 2018. Closer ties with China, however, are fostering new growth stimuli in the form of significant infrastructure and manufacturing investment as well as a rise in tourism. Walking around in shopping malls and sampling the local street food, I could hear Mandarin speakers everywhere, a testament to the increasing flow of Chinese arrivals.

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