A COUNTRY STUDY AND REPORT AND COMBINED SUMMARY OF SEMESTER IV WORK ON Different Industries and Sectors of Malaysia Submitted to Gujarat Technological University IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF THE AWARD FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION Submitted by Marwadi Education Foundation’s Group of Institutions MBA PROGRAMME Affiliated to Gujarat Technological University Ahmedabad May, 2012
SUMMARY OF AUTOMOBILE SECTOR OF MALAYSIA

Auto industry Malaysia is a flourishing industry which takes in areas of activities from car manufacturing to dealing auto business with foreign countries. Automobiles industry of Malaysia is one of major producers and exporters of vehicle parts, components and accessories, which are widely marketed to most of leading countries of world. Foreign countries like Japan, UK, Thailand, Taiwan, Singapore, Indonesia, are major importers of Malaysia's cars and automotive parts. Leading automotive manufacturing companies like Mercedes, Suzuki, Ford, General Motors, Mazda, Nissan and Mitsubishi are using Malaysian automotive products and accessories because of their high quality and competitive prices.

As per the market survey conducted by business times during 2009 suggests that, “sales of Malaysian vehicle reached 4,648 units with an overall growth of 13.8% and is expected to increase in coming years.”

During the period of global slowdown from 2008 to 2011, the Malaysian economy got through the other rival economies by keeping inflation under control through their effective banking system and constantly controlling manufacturing cost.

Realizing the cost advantage other competitive edge that Malaysian automobile industry possesses, the government of Malaysia is incessantly trying to reorganize their automobile industry by encouraging the manufacturers to produce more and more number of cars to meet constant growing demand of consumers. Many tax incentives are also provided. Such as, Government of Malaysia is also providing a 50% refund on excise tax for domestic automakers in order to induce them to produce in large numbers.

Leading automakers of auto industry Malaysia
Some of leading automakers in Malaysian auto industry are Perodua, Perusahaan Automobile National Bhd., Malaysia’s first national car project was Perusahaan Automobile National or PROTON. Malaysian car manufacturers are trying to meet demands of customers by providing reliable and competitive auto components and accessories.

MALAYSIAN AUTOMOTIVE ASSOCIATION

Malaysian Automotive Association was established in November 1960. It is commonly known as the Federation of Malaya Motor Traders Association or FMMTA. The founder members were Ampang Motors, Asia Motors, Borneo Motors, Champion Motors, Cycle & Carriage, Anglo-American Corporation, Orchard Motors, Tan Chong & Son Motor Co, Wearne Brothers and the East Asiatic Company.

Original and fundamental objective for establishing MAA was for members to discuss issues relating to the Motor Industry

The core objectives of this federation are as under:

Objectives

- To encourage, promote and protect the interest of the Automotive Industry in Malaysia.
- To consider and support or to oppose any proposed legislation or other measures affecting the interests of Members and to cooperate with and make representations to any Government Department and any Municipal or other Local Authority for the purpose of furthering or safeguarding the interests of the Automotive Industry and of benefiting road users.
To disseminate to its Ordinary Members information on matters affecting them in particular and the Automotive Industry in general and to that effect, to collect, compile, collate and thereafter to disseminate such information in the form of reports and/or statistics to its Members.

To act and be a medium of communication for its Ordinary Members for the furtherance and promotion of their mutual interests.

To assist and advise any Member who may be engaged in enforcing any principle considered by the Association to be for the benefit of the Automotive Industry or in resisting any action or proposal considered by the Association to be against the best interests of the Automotive Industry.

To promote and encourage the formulation of trade tests and standards in skilled and semi-skilled occupations in the Automotive Industry and to provide or assist in and the provisions of training to enable workers to achieve such standards.

To promote, encourage, and provide means for mutual consultation and cooperation between Members in dealing with industrial disputes and unrest, providing that the Association shall not pursue any of the objects of a Trade Union as defined in the Trade Union Ordinance 1959.

To assist and advise Members in regard to any matter connected with industrial relations and generally promote, foster and protect the interests of Members.

Activities

The federation arranges monthly council meetings.

In meeting, they compile, analyze and distribute the sales data and production data.

They have dialogue with government agencies as and when required during policy-making related to the industry

Hold Press Conferences and raise issues and resolve problems with relevant Governmental Agencies on matters relating to the Motor Vehicle Industry which affect the interest and business of Members.

Sponsor Technical Seminars in order to give push to innovation among the members.

Arranging Motor Shows and auto exhibitions in order to attract the world car market to the domestic industry.
Malaysia- National Automotive Policy

Introduction:

Since the establishment of Proton in 1985, Malaysia has succeeded in developing integrated capabilities in the automotive industry, which include local design and styling capability, full scale manufacturing operations and extensive local participation in the supply of components. Today, Malaysia is ASEAN’s largest passenger vehicle market with more than 500,000 vehicles sold annually with 90% of that manufactured or assembled domestically.

Nevertheless, much of the country’s success in developing the domestic automotive industry has been facilitated by policies that have promoted local vehicle manufacturers and moving forward, global and domestic challenges put the sustainability of this industry at risk.

Moving forward, Government policy and support will be focused towards automotive industry participants providing sustainable economic contribution. The key drivers for such contribution will be economic scale, industry linkage and competitive value added activities.

OBJECTIVES OF THE NATIONAL AUTOMOTIVE POLICY

The overall objective of the NAP is generating sustainable economic value creation. This
will maximize the long term contribution of the automotive sector to the national economy and at the same time ultimately benefit the Malaysian consumer. The need to create economic value entails that the industry will continue to require supportive Government policies in order to become fully competitive internationally.

The NAP therefore aims to facilitate the required transformation and optimal integration of the national industry into regional and global industry networks. The urgency of the transformation is driven by an increasingly liberalized and competitive global environment. Consequently, the Government has set out the following objectives for the national automotive sector:

1. To promote a competitive and viable domestic automotive sector, in particular the national car manufacturers
2. To promote Malaysia as an automotive regional hub, focusing on niche areas
3. To promote a sustainable level of economic value added and enhance domestic capabilities
4. To promote a higher level of exports of vehicles as well as components and parts that are competitive in the global market.
5. To promote competitive and broad based Bumiputera participation in the domestic automotive sector
6. To safeguard the interests of consumers in terms of value for money, safety and quality of products and services

1. Provide Government support and incentives based on sustainable economic contribution

The Government will continue to nurture and support the development of the domestic automotive sector via a comprehensive package of grants and incentives. Such Government support and incentives will be aimed at optimizing sustainable economic contribution, namely the scale of operations, extent of industry linkages, and the development of local and Bumiputera capabilities.
1. **A sustainable level of economic contribution must ultimately relate to the type and level of value added activities,** which will be competitive for the domestic market and for export in a fully liberalized environment. Thus, it would not be consistent with this policy to seek to maintain a level of value added activities which will not be viable and sustainable in the long run. The level of support will also be correlated to the level of economic contribution and value added. In this context, a large scale manufacturing concern with exports and high industry linkage will be favored relative to a pure assembly operation with little value added activities. Similarly, greater emphasis will be given to sales, distribution and after sales activities compared to pure importation of vehicles. Support for manufacturing will come principally in the form of access to the Industrial Adjustment Fund and research & development (R&D) grants. These grants and incentives will be given based on pre-agreed conditions and timely achievement of Key Performance Indicators (KPIs).

2. **Increase scale via rationalization to enhance competitiveness** For the industry at large, all participants across the value chain will be encouraged to focus on achieving a scale of operations that ensures their enduring competitive viability. The Government will encourage rationalization initiatives in the domestic automotive sector, in order to create a leaner and more sustainable industry structure. A leaner industry structure throughout the value chain will enable industry participants to achieve a sufficient level of scale to be competitive. In this respect, the Government will promote, through grants and incentives, two national manufacturers in the high-volume car segment to ensure sufficient scale and industry linkage. To enable achievement of required scale and industry linkage, these national manufacturers must be able to rationalize their models and platforms portfolio. The rationalization at the vehicle manufacturers’ level will consequently enable rationalization of the component sector that will lead to greater scale, skills and improved quality. The end result will be a smaller number of vendors, all of whom will be operating at a scale, cost and quality level that will allow them to remain competitive and be able to export.

3. **Promote strategic linkages with international partners** Scale and focus are necessary to achieve greater competitiveness but in themselves, they are not sufficient. In addition, global best practices and industry linkage are other important key success factors for the automotive industry. Therefore, the Government will continue to encourage industry
participants to collaborate with external parties to establish strategic tie-ups. Apart from sharing scale and resources, such strategic tie-ups open up opportunities and provide access for domestic industry participants to enter the global automotive supply chain and vice versa. Moreover, such strategic tie-ups also compel domestic industry participants to adopt best practice management, processes and procedures to deliver on higher quality standards that are necessary in accessing international markets.

4. **Become a regional hub focusing on niche areas and complementary activities**  
The Government aims to position Malaysia as a regional manufacturing and assembly hub by encouraging existing participants to deepen their commitment in Malaysia. The Government will encourage existing vehicle manufacturers to rationalize the models assembled in Malaysia, scale up focused production and deepen industry linkage, in order to export competitively. It is expected that they will not primarily compete with high-volume national manufacturers in terms of pricing or target market. The expansion of these participants and the deepening of industry linkages will also lead to greater scale and improved quality of the industry’s component vendor sector, thereby improving overall viability of the industry.

**SPECIFIC POLICY INSTRUMENTS**

**Excise Duty Structure**
The excise duty structure has been streamlined resulting in an overall reduction in the effective tax rate on most motor vehicles and a reduction in the tax differential between the different categories of motor vehicles (e.g. cars, MPVs, 4WD and between the different engine capacities). It is intended that the streamlining of the tax structure will promote greater transparency in pricing.

**Gazette Values of Imported Cars**

To further promote greater transparency, the Government will gazette the values of imported cars for the purposes of duty computation. With the cooperation of the industry and the general public, it is expected that the incidence of tax under declaration will be significantly addressed. At the same time, the Government will step up enforcement measures against tax under declaration.

**ASEAN CEPT Import Duty**

To promote greater integration with the ASEAN automotive industry, Malaysia will reduce the ASEAN CEPT import duty to 5% for qualifying vehicles. While this will expose the domestic industry to greater competition, it is consistent with the policy thrust for rationalization of models and increasing scale through exports.

**Industrial Adjustment Fund**

Grants from the Industrial Adjustment Fund will be made available to all companies – be they local, foreign or joint ventures – that create significant economic contribution. These grants will be awarded based on two main criteria: scale and industry linkage subject to a sustainable level of overall capacity. Grants will be given on a model-by-model basis, subject to minimum threshold levels on both the scale and industry linkage criteria.
Specific R&D grants will also be made available, based on the viability and economic contribution of the R&D project. Further consideration will be given to companies that promote sustainable and competitive Bumiputera participation.

**Manufacturing Licenses**

New manufacturing licenses will only be issued after over-capacity in the domestic automotive sector is resolved. In the meantime, vehicle assemblers will not be allowed to use or make available their existing excess capacity to third parties to assemble new makes or models that compete directly with those produced by national car manufacturers.

Where an increase in production capacity is required, companies in the high-volume and middle-volume segments will be encouraged to use existing excess capacity. New assembly facilities will only be allowed on a strictly case-by-case basis.

**Approved Permits**

The current system of Approved Permits (APs), primarily used as a monitoring and data collection measure, will be phased out by 31 December 2010.

In the interim, APs will be made available based on economic contribution. Priority will be given to vehicle assemblers that have committed to a significant increase in production volume (with significant exports) in a particular model and require APs to import models that complete their product range for the Malaysian market. APs will be made available for a limited number of vehicles not assembled in Malaysia in order to ensure a sufficient choice of products for Malaysian consumers. The importation of second hand cars (other than individual personal imports) will be progressively phased out culminating in a total ban in 2010, in order to stimulate demand for locally manufactured and assembled vehicles. The Government will encourage and support companies currently awarded open
APs (PEKEMA members) to transition into other related business activities e.g. sales and distribution or component manufacturers/vendors.

The vehicle assemblers and manufacturers have a total combined capacity of 570,000 units per annum. The capacity utilization of the industry is 67.2 per cent in year 2000. The national car manufacturers PROTON and PERODUA had 71.4 per cent and 84.7 per cent capacity utilization respectively in year 2000.

The introduction of the National Car Project has given a boost to the development of components and parts manufacturing. PROTON and PERODUA has successfully established their vendor programmers. The policy has brought certain definite advantages to the automotive industry, such as creating vendors totaling 350, investment amounting to M$ 4.6 billion, employment to 30,000 persons, substituting imports with M$ 2 billion with the production of 6,000 parts locally.

**PRESENT LEVEL OF PRODUCTION**

Even though the economic crisis has badly affected the automotive industry, one advantage that could be found was that the depreciation of local currency has made local productions cheaper than the imported ones. This has made local production a little bit more competitive and slightly favorable in the export market.

The improvements in sales have boosted the production of the automotive producers. Malaysia showed a dramatic increase in production as a direct result of increased sales. In 1998, although production tumbled by less than half that of 1997 to just 161,709 units, production exceeded that of Indonesia and the Philippines. Malaysia’s automotive production increased by 97.7 per cent in 1999 to 303,719 units from 161,711 in 1998. The production has shown an upward trend in year 2000 and 2001.

**SUMMARY OF NEW PASSENGER & COMMERCIAL VEHICLES PRODUCED AND REGISTERED IN MALAYSIA FOR THE YEAR 1980 TO 2011**
<table>
<thead>
<tr>
<th>Year</th>
<th>Passenger Cars</th>
<th>Commercial Vehicles</th>
<th>4x4 Vehicles</th>
<th>Total Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>80,420</td>
<td>16,842</td>
<td>-</td>
<td>97,262</td>
</tr>
<tr>
<td>1985</td>
<td>63,857</td>
<td>26,742</td>
<td>4,400</td>
<td>94,999</td>
</tr>
<tr>
<td>1990</td>
<td>106,454</td>
<td>51,420</td>
<td>7,987</td>
<td>165,861</td>
</tr>
<tr>
<td>1995</td>
<td>224,991</td>
<td>47,235</td>
<td>13,566</td>
<td>285,792</td>
</tr>
<tr>
<td>2000</td>
<td>282,103</td>
<td>33,732</td>
<td>27,338</td>
<td>343,173</td>
</tr>
<tr>
<td>2005</td>
<td>416,692</td>
<td>97,820</td>
<td>37,804</td>
<td>552,316</td>
</tr>
<tr>
<td>2006</td>
<td>366,738</td>
<td>90,471</td>
<td>33,559</td>
<td>490,768</td>
</tr>
<tr>
<td>2007</td>
<td>442,885</td>
<td>44,291</td>
<td>-</td>
<td>487,176</td>
</tr>
<tr>
<td>2008</td>
<td>497,459</td>
<td>50,656</td>
<td>-</td>
<td>548,115</td>
</tr>
<tr>
<td>2009</td>
<td>486,342</td>
<td>50,563</td>
<td>-</td>
<td>536,905</td>
</tr>
<tr>
<td>2010</td>
<td>543,594</td>
<td>61,562</td>
<td>-</td>
<td>605,156</td>
</tr>
<tr>
<td>2011</td>
<td>535,113</td>
<td>65,010</td>
<td>-</td>
<td>600,123</td>
</tr>
</tbody>
</table>

**Present Position of automobile industry in……….**

- **Malaysia**

Automobile industry Malaysia is a booming industry which encompasses areas of activities from car manufacturing to dealing auto business with foreign countries. Automobile industry in Malaysia is one of principal producers and exporters of vehicle parts, components and accessories, which are widely accepted to most of leading countries of world. Foreign countries like Japan, UK, Thailand, Taiwan, Singapore, Indonesia, are major importers of Malaysia's cars. Leading automotive manufacturing companies like Mercedes, Suzuki, Ford, General Motors, Mazda, Nissan and Mitsubishi are using Malaysian automotive products and accessories because of their high quality and competitive prices.

The players of the automobile industry in Malaysia are:

- Manufacturers - 4
- Assemblers - 15
- Composite body/sports car makers - 3
- Parts manufacturers – 350
The vehicle assemblers and manufacturers have a total combined capacity of 570,000 units per annum. The capacity utilisation of the industry is 67.2% in year 2000. The national car manufacturers PROTON and PERODUA had 71.4% and 84.7% capacity utilisation respectively in year 2000.

The introduction of the National Car Project has given a boost to the development of components and parts manufacturing. PROTON and PERODUA has successfully established their vendor programmes. The policy has brought certain definite advantages to the automotive industry, such as creating vendors totaling 350, investment amounting to M$ 4.6 billion, employment to 30,000 persons, substituting imports with M$ 2 billion with the production of 6,000 parts locally.

**Exports of the automobile industry**

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Passenger cars</strong></td>
<td>479.4</td>
<td>566.7</td>
<td>734.2</td>
<td>539.0</td>
<td>321.5</td>
<td>86.9</td>
</tr>
<tr>
<td><strong>Commercial vehicles</strong></td>
<td>19.4</td>
<td>283.1</td>
<td>512.1</td>
<td>87.7</td>
<td>56.8</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Components</strong></td>
<td>192.9</td>
<td>225.7</td>
<td>298.2</td>
<td>396.6</td>
<td>465.9</td>
<td>256.2</td>
</tr>
<tr>
<td><strong>Parts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>691.7</td>
<td>1075.5</td>
<td>1544.5</td>
<td>1023.3</td>
<td>844.2</td>
<td>3527.7</td>
</tr>
</tbody>
</table>

Malaysian total export has shown a steady increase from that year onwards until 1998. The economic slump had triggered a drop in the export figures. The automobile industry is basically domestic oriented. Between 85-90 per cent of the production of motor vehicles by PROTON and PERODUA are sold locally and only 10 per cent of commercial vehicles (assembled and manufactured) are exported.
During the economic dejection recently, only Malaysia showed a heavy decline in export figures while foreign manufacturers that heavily invested in Indonesia and Thailand changed their strategy from domestic sales to overseas exports. Malaysian manufacturers faced difficulties in exporting their products. In addition to the difficulty in export penetration, low production caused by high prices of imported components and parts also contributed to the low figures in exports.

According to the industry, the export market is increasingly competitive due to the following reasons:

• Existence of global over capacity of 20 million units;
• Consumers preference for cars that meet increasingly stringent standards on ergonomics, safety, pollution and performance;
• Increasing trend towards vehicles using environmentally friendly materials such as recyclable and biodegradable plastic materials;
• Introduction of new models and product enhancement more frequently; and
• High cost of production making local products not competitive.

**SUMMARY OF AVIATION SECTOR OF MALAYSIA**

Malaysia Airlines' origins began with a joint initiative between the Ocean Steamship Company of Liverpool, the Straits Steamship Company of Singapore and Imperial Airways to the incorporation of Malayan Airways Limited (MAL) on 12 October 1937.

In 1966, the Governments of Malaysia and Singapore jointly assume the control of MAL. In 1971, Malaysia Airlines System Berhad (MAS) was incorporated with an authorized capital of RM100 million. In 1976 MAS enter the information age when it computerized its whole operation.

In the 1980s, MAS became the first major government agency to be privatized and in 1985, MAS entered the corporate sector by offering 70 million shares for sale. This exercise raised Malaysian Airline System's paid-up capital to RM350 million and brought reserves up to RM227 million.
Today, apart from being a carrier, Malaysia Airlines has diversified its operations into human resource development, training, catering, property consultancy and technical ground support for aircrafts.

Malaysia Airlines is under review as a '5-star airline' by the research consultancy firm Skytrax. Malaysia Airlines is also listed among Skytrax's Quality Approved Airlines. Malaysia Airlines operates flights from its home base, Kuala Lumpur International Airport and with a secondary hub at Kuching. It has its headquarters on the grounds of Sultan Abdul Aziz Shah Airport in Subang, Selangor. The airline plans to relocate its headquarters from Sultan Abdul Aziz Shah Airport to KLIA in February 2012.

Apart from the airline the group also includes aircraft maintenance, repair and overhaul (MRO), and aircraft handling.

Malaysia Airlines has two airline subsidiaries:

**Firefly** and **MASwings**.

**Firefly** operates scheduled flights from its two home bases Penang International Airport and Subang International Airport. The airline focuses on tertiary cities.

**MASwings** focuses on inter-Borneo flights. Malaysia Airlines has a freighter fleet operated by MASKargo, which manages freighter flights and aircraft cargo-hold capacity for all Malaysia Airlines' passenger flights.

After recovering from past losses, Malaysia Airlines is keen on merger and acquisition (M&A) activities: particularly airlines in the Asia Pacific region. Malaysia Airlines was ranked second with score 88 in Aviation Week's Top Performing Companies which measures financial viability of an airline. since its inception in 1963, after Malayan Airways was separated into two parts, Malaysia Airlines has won awards for service and safety, coupled with awards from international bodies such as Skytrax. Malaysia Airlines is accredited by International Air Transport Association with IOSA (IATA Operational Safety Audit) for its operational safety practices.

**Government taken a steps for airline:** Government-owned entities are major players in some sectors, particularly plantations and financial institutions. In
1986, the government began privatizing many entities, including telecommunications, the national electricity company, the national airline and the government shipping firm. The government sold off its remaining shares in Malaysia Airlines Systems (MAS) in 1994.

2.3. Management structure of Malaysian airline

Malaysia Airlines today unveiled a management structure effective Jan 1, 2012, to rally its staff and steer the national carrier into a new era for the success of its business plan announced earlier. In new structure

Customer Experience: Malaysia Airlines is offering customers increased full-service weekly frequencies between Kuala Lumpur and the cities of Beijing, Manila, Phnom Penh, Los Angeles, Taipei, Bangkok, Medan and Jakarta to take advantage of anticipated increasing demand on these routes.

Operations, Human Capital Network: Malaysia Airlines, which kept a long silence after its share swap deal with AirAsia, has revealed a major network restructuring beginning in early 2012.

Alliance: In August 2011, Malaysia Airlines has agreed to make alliance with AirAsia by share swap. Strategy and Planning will now report directly to Group Chief Executive Officer (CEO), Ahmad Jauhari, who also takes on the role as CEO of Long-Haul.

Corporate structure:

Malaysia Airlines is listed on the stock exchange of Bursa Malaysia under the name Malaysian Airline System Berhad. The airline suffered high losses over the years due to poor management and fuel price increases. As a result of financial restructuring (Widespread Asset Unbundling) in 2002, led by BinaFikir, Penerbangan Malaysia Berhad became its parent company, incorporated in 2002, in exchange for assuming the airline's long-term liabilities. On the operational side, the Government of Malaysia appointed Idris Jala as the new CEO on 1 December 2005, to execute changes in operations and corporate culture. Under his leadership, Malaysia Airlines unveiled its Business Turnaround Plan (BTP) in February, 2006, which identified low yield, an inefficient network and low productivity (overstaffing). The airline headquarters building in downtown Kuala Lumpur
was sold. The new corporate headquarters is now at Sultan Abdul Aziz Shah Airport in Subang, Selangor.

**Financial highlights**

Malaysia Airlines experienced its worst loss in FY2005, with RM1.25 billion losses. Since then, the Business Turnaround Plan was introduced to revive the airline, in the year 2006. At the end of the airline's turnaround program, in financial year 2007, Malaysia Airlines gained RM851 million net profit: a swing of RM987 million compared to RM134 million in losses in FY2006, marking the national carrier’s highest-ever profit in its 60-year history. The achievement was recognised as the world’s best airline-turnaround story in 2007, with Malaysia Airlines being awarded the Phoenix award by Penton Media's Air Transport World: the leading monthly magazine covering the global airline industry.

**Subsidiaries of Malaysian airline**

Malaysia Airlines has diversified in to related industries and sectors, including **aircraft ground handling**, **aircraft leasing**, **aviation engineering**, **air catering**, and **tour operator operations**. It has also restructured itself by spinning-off operational units as fully owned subsidiaries, to maintain its core business as a passenger airline. Malaysia Airlines has over 20 subsidiaries, with 13 of them fully owned by Malaysia Airlines.[28]

**2.4. INDUSTRY ENVIRONMENT – 5 Forces Model**
➤ **Threat of new entrants**

a. International Entrants: The threat comes from the competition with other international airlines such as Singapore Airlines and Thai Airlines. This exists because of an outdated regulatory system that guaranteed each sovereign country airlines to the world. As the government is really ambitious to set up and to increase usage for KLIA as the hub in this region, they have signed many MOUs with other players to grant landing on KLIA. This immediately gives threat to our national airlines.

b. Local Entrants: Air Asia, the Malaysia’s first no-frill budget airlines, Transmile Air (for Haj) and Pelangi Air are among competitors which are playing in local industry. Air Asia for example with their hard work efforts and promotions has attracted many local passengers to use their service in local destination.

➤ **Power of Customers**

This concern with price, quality of services, convenience, schedule and comfort. With plenty alternatives abound, customers are free to choose the airlines that suit to their needs. At international front, companies such as SIA and UAE they are competing to gain market segment in this region by providing quality services to their passengers. In the domestic market, airlines such as AirAsia have given inexpensive rate for its tickets.

➤ **Power of Supplier**

Boeing is the main supplier for MAS aircrafts and parts. It has dominated the supply of aircrafts in the world, though Airbus tries times and again to repartition the market pie. MAS has been using Boeing aircrafts and services for quite a long time. Thus, MAS maintenance people have been very familiar with Boeing crafts. Due to this, it is difficult for MAS to switch to another supplier. With no choice on part of MAS, Boeing could demand for a high price.

➤ **Substitutes**
For long-distance travel, where time is of essence, air travel has no ‘real’ alternative to it. Although, sea and land journey can be of substitutes, they can not match the convenience, time-efficient, and comfort of travel by air. Therefore, we found MAS would not have to worry on the existence of substitutes to air travel, specifically to long-distance, far-reached travel.

However, as to short distance journey, customers would prefer to use the modern land alternatives. For instance, trip within Peninsular Malaysia would be of much cheaper through land than that by air. This, land-travel, may pose as a viable option to what is offered by MAS.

- **Competitive Rivalry**

In the regional market, big and strong competitor such as Singapore Airlines (SIA) gives great impact on MAS. At global market, the event of Sept 11, which resulted to cost escalation and margin erosion, has made US and European airlines to merged, leading to existence of large dominant airlines groups.

**2.5. GLOBAL/EXTERNAL ENVIRONMENT – S T E P Analysis**

**Sociocultural**

Malaysia is composed of three major races where Islam is the official religion. Its richness in cultural diversity and could be used as the attracting factor for the tourists to travel to Malaysia, and indirectly helped MAS to improve its operation to include more foreign destinations.

**Economic**

The Asian economic crisis in the late 90s that has affected the South East Asian region was also a contributing factor that caused MAS to suffer 5 consecutive losses (refer to Appendix 1.1). This situation got worsens as the Malaysian Ringgit currency was devalued, which in turn led to high interest on foreign trade. Investments made by MAS to expand its business by purchasing more aircraft were highly affected by this. The devaluation of RM had also led to low spending power, which caused lesser people to travel by air.
The tragedy of September 11 has also contributed to the reported losses by MAS. Since then, the world economy was on its downturn and the world masses were getting ‘phobia’ to travel by air. MAS have to bear the losses as its main operation is based on the international network.

**Politics and Legal**

Due to the very bad economic recession, Malaysian Government through Bank Negara had to revise the foreign and monetary policies. As such, Ringgit Malaysia (RM) was pegged to RM 3.80 to 1 US dollar. The Government had to impose stricter and tighter policies for Malaysian to travel abroad to avoid currency outflow, which indirectly caused low rates of travellers for MAS. The situation worsens, when the regional economic recession was coupled with the instability in the political arena in Malaysia in 1998. As a result, the investors lost their confidence, being more cautious and prefer the attitude of ‘look and see’ and some of them have ceased their operations in Malaysia, resulting in more layoffs.

**Technology**

MAS has also invested in IT and telecommunications advancement to increase the efficiency of its operation. More people can have access to the MAS services just through the Internet where people can book and buy their ticket online. Besides that, more promotions and advertisements can be done through the Internet, which can attract more and more people to travel with MAS.

The growing demand in cargo services has resulted in more airlines opting to convert their passenger aircraft into cargo aircraft. This new trend provides an alternative for MAS to reduce some money on purchasing new cargo aircraft and perhaps enter into other possible profitable operations.

**Institutional**

MAS is fully supported by the government even though it reported losses for the last 5 consecutive years. The Ministry of Transportation and Ministry of Tourism could help MAS whether in terms of improving the public services and developing new infrastructure as well as promoting the national air carrier. The financial institutions have also show their support by providing MAS with loans, lenient debt settlement and restructuring.
Physical

New infrastructure like the Kuala Lumpur International Airport (KLIA), the speed train Expressway Rail Link (ERL), Light Railway Transit (LRT) and public transport were designed to give maximum access for user to the MAS services. Besides that, the cargo facilities infrastructure such as the international port has also helped MAS in providing an added value to its cargo service.

2.6. Comparative position of Malaysian airline with Indian airline

**SWOT ANALYSIS FOR MALAYSIA AIRLINES**

Malaysia Airlines (MAS) is the flag carrier of Malaysia. The airline starting the operating early in 1937 but only after 10 years they can really started the operating of airline. Their headquarters was located at Sultan Abdul Aziz Shah Airport in Subang.

**STRENGTH**

A) **Government Support:** MAS as a national flag carrier have a very important role to Malaysian reputation. The failure of MAS gives bad perception towards the Malaysian government. Hence, the government is giving attention and support to MAS as one of the Government Linked Companies (GLCs). Thus, MAS has the advantage of government support in order to protect it from financial distress or any other difficulties.

B) **Powerful Strategy:** In recent years, Malaysia Airlines has transformed itself into one of the world's most respected airlines. In 2006, the Business Turnaround Plan (BTP 1) was introduced to regain its profitability in 2007 and onwards, as a strategy to bring itself out of the financial crisis it had faced 2 years ago while maintaining the highest quality of products and services for its customers. In February 2008, Malaysia Airlines announced its Business Transformation Plan 2 (BTP 2) as a business plan that outlines the strategies that Malaysia Airlines will pursue in conquering the industry-wide challenges and transforming itself over the next five years to emerge as the World's Five Star Value Carrier and as a leading player in the global aviation industry.

C) **Strong Brand Name:** The national carrier is one of only 6 airlines worldwide to be accredited a 5-Star Airline status by Sky taxi for 4 years in a row from 2006 to 2009. Its highly commendable cabin crew has won World's Best Cabin Crew award in 2009, and
holds the record as the only cabin crew in any airline to have won this recognition 6 times since the award was introduced in 2001. In Malaysia itself, Malaysia Airline has been awarded Malaysia Top 30 Most Valuable Brands in 2008. Malaysia Airlines is also accredited by the International Air Transport Association with IOSA (IATA Operational Safety Audit) for its operational safety practices.

D) **Good Customer Service Capabilities:** Malaysia Airlines has always placed top priority on providing service excellence and warmth. It continues to be an award winning airline and holds a lengthy record of quality service and best practices excellence. Malaysia Airlines launched Malaysian Hospitality, at which the airline put a strong command on its employees to treat customers as guests in one's home.

E) **Network Improvement:** Malaysia Airline believes that their hub-and-spoke strategy is a way to maintain the profitability. In 2008, Malaysia Airline has signed a code share agreement with Airways and expanding their partnerships with Air Mauritius, Singapore Airlines and Silk Air. Then, in early 2009, Malaysia Airlines expand its hub-and-spoke network by signing a code share and frequent-flier partnership with Jet Airways to enable them to enhance passenger traffic between Malaysia and India. To date, Malaysia Airlines has served over 100 destinations worldwide. Malaysia Airline has developed a network plan in order to match its fleet’s replacements in order to minimize the number of aircraft types to achieve cost efficiency in the operation.

F) **Strong Financial Condition:** MAS Airline had made significant improvements in the way they manage the costs over the last three years. In 2006, they managed to cut the operating expenses by more than RM 600 million in spite of higher fuel costs while in 2007, they had reduced their operational expenses by more than RM 700 million. Recently in 2008, despite a highly challenging operating environment with the increase in fuel prices and global economic slowdown, Malaysia Airlines recorded a profit of RM 244 million for the financial year 2008, sustaining 10 consecutive quarters of profits.

**Weaknesses**

A) **Poor Management:** Prior to the Asian Financial Crises in 2007, the airline suffered losses of as much as RM 260 million after earning a record-breaking of RM 319 million profits in the financial year of 1996/1997. For 5 consecutive years since 1997, MAS has suffered losses due to inefficient and incompetence of management. Poor revenue
and pricing management as well as late expansion decisions, poor sales and distribution strategy, bad brand presence in foreign markets and poor alliance base lead to the negative return of the business. As a result of these losses, the airline cut many unprofitable routes, such as Brussels, Darwin, Honolulu and Vancouver.

**B) Subpar profitability due to high operating costs:** Malaysia Airlines faced its worst financial crises ever with losses of RM 1.26 billion recorded for 9-month financial year of 2005. Several weaknesses in airline operations were identified as the causes of the RM1.3 billion loss. These included escalating fuel prices, increased maintenance and repair costs, staff costs, low yield per available seat kilometre via poor yield management, inefficient route network, increased handling and landing fees and overhaul charges.

**Opportunities**

**A) Product Line Expansion**

i) **FireFly and MAS Wings:** MAS Airline also expands its product and flight services for its customers like FireFly and MAS Wings. FireFly was launched in March 2007 as Malaysia's first community airline. FireFly currently operates 9 domestic and 5 regional destinations from 2 bases namely Penang International Airport and the Sultan Abdul Aziz Shah Airport. MAS Wings was launched in October 2007, serves as the rural areas in Sabah and Sarawak by providing affordable fares and convenient flight schedules within these two Borneo states.

ii) **Everyday Low Fares and All Inclusive Low Fares:** Malaysia Airlines was the first full service airline to introduce of the rock-bottom fares since the promotion was launched in May 2008. The Everyday Low Fares offers the customers discounted price on the remaining 30% seats from the 70% of the seat that were taken up. The All Inclusive Low Fares promotion was launched in October 2008 when they significantly reduced fuel surcharge by 50 to 73% for domestic travel.

**B) Online Sales**

In 2004, MAS announced the upgrading of its website, www.malaysiaairlines.com to incorporate an online booking facility while in December 2007; MAS Wings launched its
online booking facility. Due to its online booking facilities, their internet sales recorded an unprecedented growth of 173% to RM475 million compared to year 2007.

**THREATS**

A) **Terrorism:** Terrorism is leading to decrease tourism and confidence in the airlines. It might happen in many ways of terrorism either in certain countries or it might happen in the plane itself. As example, we know that Malaysia Airlines flies to 88 destinations. In cooperation with code-share partner airlines, the airline serves more than one hundred destinations worldwide. If there is terrorism happen in the area of Southeast Asia, Malaysia Airlines need to stop their flight destination to the Southeast Asia for a certain time. It is because it will be too dangerous to the people and the whole crew as well as the plane. At the same time it will decrease the confidence in the airlines.

B) **Competitors and overcapacity:** Air Asia, the Malaysia's first no-frill budget airlines and Asia's largest low-cost carriers is playing its vital role as MAS competitor. Air Asia for example with their hard work efforts and promotions has attracted many local passengers to use their service in local destination. Firefly, being a low cost community airline faced a strong competition from its local competitor which is Air Asia. Furthermore, the international low cost carriers (LCC) such as Oasis from Hong Kong are aggressively expanding its network with MAS Airline main competitor, the Air Asia. The latest trend in the airline industry is the emergency of many new airline providers globally which leads to overcapacity. Eventually, this situation would lead to lower price and will reduce the profit margin.

C) **Economic condition and rising cost:** The economic crisis would be another threat to the company, Malaysia Airlines, especially the fuel prices fluctuations, with the high fuel prices in 2008. The uncertainty of US economic growth due to a weakening housing sector may also spill over and impact Asia's economic growth. This would rather affect on the developments in aviation industry over the next couple of years. Moreover, The International Air Transport (IATA) had predicted that airlines will lose a further US$4.7 billion in 2009 and the situation is expected to slow down the economic growth. Moreover, the slimming profit margin caused by overcapacity is further overwhelmed by the increasing operating cost in terms of labour, fuel and airport charges.
D) Global Pandemic of Airborne diseases: The recent pandemic of Influenza AH1N1 virus has significantly affected the whole aviation industry as well as to Malaysia Airlines. The impact of the global pandemic force more people to reconsider their travel plans. As a result, the number of passengers dropped within the period when the flu was at its peak and therefore affects the company's revenue. The AH1N1 pandemic is just one of the examples of global health issue besides other illness such as SARS outbreak in 2003.

SWOT ANALYSIS FOR INDIAN AIRLINE INDUSTRY

STRENGTHS

- A major strength of any airline is the product itself (air travel). Despite downturns, over time air travel continues to grow, not only due to population growth, but also due to an increased propensity to fly.

- The entry of low-cost carriers pioneered by Air Deccan helped greatly reduce the costs involved in flying. This helped attract consumers for whom air travel was only a dream. Now a number of low-cost airlines are operating in India, namely Go Airways, Spice Jet, and Kingfisher Air, and they have a major share of the Indian aviation industry.

- Indian labour costs are an advantage, at $30-35 per man-hour. This compares with $55-60 in South-East Asia and Middle East and even higher in the USA and Europe.

- The change in lifestyle of people and growth in the disposable income has resulted in an increase in leisure travellers for the past few years; 5 years back 85% were business travellers.

WEAKNESS

- All the major players in the aviation industry focus on particular regions rather than focusing on India as a country. For example Air Deccan focuses exclusively on south Indian market while Go Air focuses on southern and western India.
• The unplanned location of airport and the lack of proper infrastructure facilities at the airport. Though the government has tied up with private companies such as GMR and has upgraded airports such Delhi and Bangalore but still there is a long way to go.

• Airlines have a high "spoilage" rate compared to most other industries. Once a flight leaves the gate, an empty seat is lost and non-revenue producing.

**OPPORTUNITIES**

Government allows 100% FDI via the automatic route for the green field airports. Also, foreign investment up to 74% is permissible through direct approvals while special permissions are required for 100% investment. Private investors are allowed to establish general airports and captive airstrips while keeping a distance of 150 km from the existing ones. About 49% FDI is allowed for investment in domestic airlines via the automatic route. However, this option is not available for foreign airline corporations. Complete equity ownership is granted to NRIs (Non Resident Indians). Foreign direct investment up to 74% is allowed for non-scheduled and cargo airlines. Thus, all these policies promote foreign investment in this industry.

Investment opportunities of US$ 110 billion are being envisaged up to 2020 with US$ 80 billion towards new aircraft and US$ 30 billion towards the development of airport infrastructure, according to the Investment Commission of India.

Technology advances can result in cost savings, from more fuel efficient aircraft to more automated processes on the ground. Technology can also result in increased revenue due to customer-friendly service enhancements like in-flight Internet access and other value-added products for which a customer will pay extra.

**THREATS**

One of the basic weaknesses in the aviation industry is the fuel costs which are 70% higher than International standards. The fuel bill is 40% of operating cost. Aviation Turbine Fuel (ATF) prices in India is around Rs. 37,800 per kilo litre against Rs.21,800 in the Average International Markets. Also 20% of the Operational Budget is spent on training pilots. Furthermore, landing and parking charges are 78% higher than the international average.
There is a shortage of skilled manpower which includes pilots, cabin crew and ground staff. Also there is high attrition rate among the skilled manpower within the aviation industry.

**Comparison:** India & Malaysia

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<td>- Government support</td>
<td>- Many low cost airline are there in India</td>
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<td>- Strong Recognitions in terms of its service in the world.</td>
<td>- Labour cost is less than the Malaysia</td>
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<td>- MAS also face a debt problem.</td>
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### 3.1. KEY ISSUES & PROBLEMS

Basically Malaysian aviation industry’s problems can be categorized into 3 key issues namely

- Financial issues.
- Operational issues
1. FINANCIAL ISSUES / PROBLEMS

Aviation industry is basically considered as heavy industry. So for any technological changes in airbuses bring lots of expenses to the companies and this directly resulted in the contribution to the GDP of the country.

The purchases of the aircraft were made in US Dollar and no hedging method was used at that time because of the stable currency between Ringgit Malaysia against U.S Dollar. Unfortunately in 1997, Asian countries including Malaysia incurred economic down turned which, has resulted the devaluation of Ringgit Malaysia and an increased of interest rate. Consequently, cost of purchase increased tremendously.

Due to the above scenario, there was huge effect on big players like MAS, the key player in aviation industry of Malaysia. They have accrued heavy losses in 2008-09.

2. OPERATIONAL ISSUES / PROBLEMS

There are so many operating expenses that is;

- Fuel
- Labour
- Maintenance
- Depreciation

If we see current trend then there is high price rise in fuel and labour. So the effect of it lies highly on aviation industry. And Malaysia is tourism based country, so for attracting the visitors they cannot increases the prices of tektites. And it decreases the GDP.

And new technology is must but it needed lots of maintenance so it increases cost of carries.

3.2. SOLUTIONS

To address the above mentioned issues, government can take several steps. Followings are those actions that have been taken or planned:

1. FINANCIAL SOLUTIONS
First of all there should be policies like plough back of profits in the company. And it should be make compulsory by the government of Malaysia.

Then the airline companies of Malaysia should go for strategic alliance more and more so for everybody it can be generates win-win situation.

And government also should help Air Company in this contemporary era.

2. OPERATIONAL SOLUTIONS

By doing strategic alliances companies should exclude less attractive destination and save the operational cost.

In Malaysia there is not available skilled air labour so government should try to establish training canter and should provide training.

New destinations to be developed which to penetrate markets that will provide high yield. Air companies should increase flight frequencies to those destinations.

In addition, association of Malaysia aviation industry is also planned for aggressive global advert campaign and trying to seek a strategic alliance with other reputable airlines.
3.4. RECOMMENDATIONS

Having gone quite thoroughly with the analysis, we would like to make several recommendations to the Malaysian aviation management team. These recommendations and proposed solutions shall enable the management to have some ideas from the viewpoint of a third, independent party. Our recommendations and proposed solutions are as follows:

NEW BUSINESS MODEL

Malaysian aviation industry is entering into a very high-risk kind of business where they are subject to external factors such as economic downturn and global political scenario. In this event, government of Malaysia should be more cautious in undertaking their long-term investment.

Amongst the recommendations that we would like to propose with regard the new business model are as follows:

- To pursue more opportunities in some other destinations perhaps by spreading their wings to the third world country.
- To further review its route rationalisation by focusing on more profitable routes. In this instance, such routes may not be high volume but yet profitable. This is base on the principle of differentiation and niche market.
- To initiate a regional training base for say, Southeast Asian region.
- To convert some of its aircraft to airfreight due to high demand of airfreight services.

STRATEGIC MANAGEMENT

We would also like to make recommendations in regards to the strategic management. We are of the view that the management should try to focus on the following issues:

- Malaysia is tourism base country so they should me more focus on customer services and customization in services.
- Malaysian aviation association should try to make all to gather air companies and try to make win-win situation.
Management team should also show their managerial competencies and train all the staff to improve their performances. This can be done by allowing the staffs to participate in decision making process, wherever appropriate.

We would also recommend that MAI should introduce the decentralized management structure as this model has been widely accepted in United States and Europe

OTHER RECOMMENDATIONS

Foreign Equity Participation

We strongly recommend that the Government of Malaysia to allow Foreign Equity ownership in the companies. This strategic alliance works very well such as that happened when Port of Tantung Pelepas in Johor has managed to secure the participation of one of the giant shipping company, MAERSK as their strategic partner. With this alliance, Port of Tanjung Pelepas has managed to secure more business opportunities earlier on enjoyed by Singapore Port Authority when MAERSK was using their port facilities.

Implement Efficient Financial System

To introduce an efficient accounting and financial system for monitoring funds flow and for preparing a proper budgetary system.

New Fare Structure

To introduce a reasonable charge structure that would enable companies to achieve full cost recovery. Please take note that normally users are prepared to accept higher level of charges provided that corresponding improvements in qualities are offered. The quality improvements should cover time and cost benefits namely direct routings and elimination of holdings during arrival and en-route phases.

For instance, MAS’ local competitor Air Asia has introduced the no-frills flights for domestic destinations. This has been accepted well by the local consumers. Not to be left behind, MAS has follow suit by introducing an offer discounts of 50% on its airfares for up to 14,000 seats a week for domestic destinations. Although this is quiet an improvement, MAS should continuously improve the fare rate.
SUMMARY OF BANKING SECTOR OF MALAYSIA

As a central bank in an emerging economy, Bank Negara Malaysia has an important developmental role. This role ranges from developing the necessary institutions and market infrastructure for the development of a modern and strong financial system to contributing to the establishment of the foundation of the economy. In strengthening the financial market infrastructure, Bank Negara Malaysia has built a strong payment systems. These systems are regularly "upgraded" to address the impact of technology on the banking system. To promote a good credit culture among banking institutions, Bank Negara Malaysia also operates the Central Credit Reference Information System. The first of its kind in this region, this system collects and distributes credit information on all borrowers. This allows banking institutions to make informed decisions on loan applications. On the
in institutional front, Bank Negara Malaysia plays a significant role in establishing new institutions.

**Role of economic adviser**

In its role as the economic and financial adviser to the Government, Bank Negara Malaysia analyses and assesses the developments in the international and domestic economy and highlights the areas that need to be addressed. Bank Negara Malaysia undertakes economic intelligence and investigation and carries out forecasts on the economic condition of the country. Based on these assessments, Bank Negara Malaysia presents policy recommendations at regular briefings to the Minister of Finance as well as at various economic policy making forums at the national level.

**Role of financial adviser**

Bank Negara Malaysia does not provide financing to the Government. However, as the financial adviser to the Government, Bank Negara Malaysia gives regular advice to the Government on the management of its domestic and external debts and the terms and timing of Government loan programmes. Bank Negara Malaysia also acts as the agent for the Government in negotiations and ending of loan agreements. Bank Negara Malaysia is also responsible for trading, registering, settlement and redemption of Government securities through its computerised systems.

**International Relations**

Bank Negara Malaysia also participates in a number of international meetings. Amongst them are the meetings of the South-East Asian Nations (ASEAN), ASEAN +3 (which includes China, Korea and Japan), South-East Asian Central Banks (SEACEN), Executive Meeting of East Asia and Pacific (EMEAP), the Asia-Pacific Economic Co-operation (APEC) and the international agencies including the Bank for International Settlements. The participation in the meetings are to strengthen co-operation with the international and financial community in key areas such as surveillance, macroeconomic management and measures to enhance financial stability. It is to bring key issues which are important from a national or regional perspective to the forefront in order that Malaysian interests and interests of emerging market economies are given due consideration.

**FUNCTIONS OF BANKING SECTOR**
Deposit banking

By the seventeenth century English bankers had begun to develop a deposit banking business, and the techniques evolved there and in Scotland were in due course to prove highly influential elsewhere. As men of wealth and reputation, the London goldsmiths already kept money and other valuables in safe custody for customers. They also dealt in bullion and foreign exchange and this led to their acquiring and sorting coin for profit. In order to attract coin for sorting, they offered to pay a rate of interest and, in this way, began to supplant as deposit bankers their great rivals the “money scriveners.” These were notaries who had come to specialize in bringing together borrowers and lenders and had themselves been accepting deposits.

Bank credit

In Britain the check proved to be such a convenient means of payment that gradually the public came to prefer the use of checks for the larger part of their monetary transactions, using coin (and, later, notes) for the smaller kinds of payments. In consequence of this development, the banks grew bold and accorded their borrowers the right to draw checks far in excess of the amount of cash actually held. In other words, the banks were then creating “money”—claims that were generally accepted as means of payment. This money came to be known as “bank money” or “credit.” If bank notes are excluded, this money consists of figures in bank ledgers and is money only because of confidence in the ability of the banks to honor their liabilities when called upon to do so.

When a check is drawn and passed to another party in payment for goods or services, the check will usually be paid into another bank account, although certain checks may be cashed by direct presentation. If the check has been drawn by a borrower (and assuming that the overdraft technique is employed), the mere act of drawing and passing the check will create a loan as soon as the check is paid by the borrower’s banker. Because every loan so made tends to return to the banking system as a deposit, deposits will tend, for the system as a whole, to increase (and to decrease) approximately to the same extent as loans. If the money lent has been debited to a loan account and the amount of the loan has been credited to the customer’s current account, a deposit will be created immediately.
Bank deposits

Deposit banks, as their name suggests, operate largely on the basis of their deposits. These consist of borrowed money (and therefore liabilities), but insofar as an increase in deposits provides a banker with additional cash (an asset), this increase in cash will supplement his loanable resources. Capital and reserve accounts, which are the other important liability item, now serve primarily as the ultimate cover against losses (for example, on loans and investments). But they usually represent only a small part of the total liabilities of deposit banks. In the United States, the capital accounts are also significant as they provide the statutory basis of a bank’s lending limit to the individual borrower. However, those institutions concerned with investment banking (for example, the French banques d’affaires), a proportion of whose loans and industrial investment is likely to be long-term and therefore less liquid, must necessarily depend to a rather greater extent on their own capital resources.

Bank investments

The commercial banks rightly regard their investments (often consisting largely of medium-term government securities, but also sometimes including industrial shares and participations) as rather less liquid than money-market assets (such as call money and treasury bills). Nevertheless, by staggering their maturities, they are able to ensure that a portion of their holdings is regularly approaching redemption, thereby constituting a secondary liquid reserve. Following redemption at maturity, the banks usually reinvest all or most of this money by purchasing longer-term securities that in due course themselves become increasingly shorter-term. (In Britain, the average maturity of a bank investment portfolio is about five years; it is usually rather less in the United States.) But selling before maturity is also quite common—in order to vary the spread of maturities, or to restore a bank’s liquidity, or to expand loans. Because market conditions may be variable and longer maturity dates give less opportunity to avoid loss by holding securities to maturity, banks tend for balance-sheet purposes to “write down” the value of their investments (and other assets) and thereby to create “hidden reserve.

FINDINGS
➢ Lack of competition due to the closed system is reflected in the lack of dynamism in the financial market.

➢ The liabilities of Banking Institutions are sources of banking business. The availability of attractive deposit instruments and services is as crucial as the soundness of Banking Institutions for operation. In the case of Malaysia, if the amount due to other financial institutions is excluded, deposits are virtually the only source of funds.

➢ In Malaysia, the relative shares of M1 and M2 in M3 are stable. This indirectly proves not only BNM’s tight control on Banking Institutions, but lack of competition among financial assets.

➢ When the time comes to open up the financial market to foreigners, either by external pressure or by an internal voluntary decision after the soundness of Banking Institutions is secured, primary competition among Banking Institutions will occur in deposit taking. In this context, financial innovation surrounding deposits has to be encouraged far in advance.

➢ Currently, many Banking Institutions do not realize the importance of financial innovation and some even worry about the adverse effects on their profits. However, competition needs to be encouraged for customers’ sake.

➢ An inner stimulus is not sufficient for a fundamental structural change. Financial institutions cannot be competitive enough without allowing foreign competition, even though they agree on the importance of competitiveness.

SUGGESTIONS

➢ The domestic inflation rate, as well as the inflation rate of the trade partners is another relevant factor. In this case, the strategy is not straightforward. If the country remains with the fixed rate it can stop the inflationary tendencies in the economy.

➢ Banking Institutions can invent good saving instruments, providing greater variety and profits to depositors, by linking commercial banking business with securities business. Fortunately, the current universal banking system is better than a universal banking system that allows one entity to engage in various businesses in terms of securing the stability of the banking system and reducing the cost of supervision.

➢ In order to avoid the excessively passive attitude of Banking Institutions towards lending, BNM needs to prepare a guideline that credit examiners should be exempted
from punishment when the loan turns nonperforming. Their performance needs to be evaluated based on achievement for a certain period, for example, three years.

- The Government needs to increase the funds of CGC to promote access to institutional credit for small-scale enterprises.
- The burden to fulfill the Banking Institution’s capital adequacy ratio needs to be lightened by allowing them to have a lower capital adequacy ratio than the international standard of 8 percent, if they give up riskier businesses such as foreign exchange trades and derivatives.

CONCLUSION

- There is a strong confidence in the country's future performance. Therefore, we find Malaysia capable of revitalizing its economy to become one of the few strong economies in Southeast Asia.
- This can be attributed to its well sounded financial and monetary policies as well as the confidence the Malaysian people and surrounding country governments have in the Malaysian administration.
- The regulators have performed commendably well to ensure the stability of the financial sector.

SUMMARY OF ELECTRIC AND ELECTRONIC SECTOR OF MALAYSIA

IntroductiontotheElectric&ElectronicIndustry

The Electric &Electronic (E&E) Industry is Malaysia’s leading and most liberalized industry. Over the last three decades, Malaysia has developed to amajor global manufacturingbasefortheelectronicsindustry. The E&E industry in Malaysia started in theearly1970saasaresultoftheGovernment’sinitiativesstopromotelaubor-intensiveandexport-orientedindustries. With the establishment of the first semiconductor plant in Penang
in 1972, the electronics industry has developed rapidly to become the largest industry within the manufacturing sector and contributes significantly to the country’s exports and employment. In this context, total employment chances created by the industry amount to 296,870 people. Based on the Malaysian Industry Growth Authority’s (MIDA) records, from a total of just four units with 577 employees and a total output value of RM25 million in 1970, today the E&E industry has expanded to more than 1.695 units with total investment of RM108 billion and a workforce of more than 600,000 people. Global Trade and Industry Minister Datuk Seri Mustapa Mohamed said upon realization of the already signed memorandum following the 10th Malaysian plan, the partnership had the potential of generating RM1.9 billion investment over the next five years and creating 6,500 new jobs by 2020.

**Performance of the Electric & Electronic Industry**

“A market-oriented economy combined with a young, educated workforce, an excellent infrastructure, and a government committed to maintaining a business-friendly environment, has been Malaysia’s formula for success in attracting investments into the country’s electronics sector. Malaysia is now home to MNCs from the USA, Japan, Europe, Taiwan and Korea, manufacturing goods ranging from semiconductor devices to consumer and industrial electronics.” Says the Malaysian Industrial Growth Authority (MIDA).

The electronics industry is the strongest sector in Malaysia’s manufacturing sector with remarkable effects on the country’s manufacturing output (29.3%), exports (55.9%) and employment (28.8%). In 2008, the gross output of the industry totaled RM167.2 billion (US$53.9 billion), exports amounted to RM233.8 billion (US$75.4 billion) and the industry created employment chances for 296,870 people. Over the years, Malaysia’s electronics industry has developed significant capabilities and skills for the manufacture of a wider range of semiconductor devices, high-end consumer electronics and information and communication technology (ICT) goods. Electronic manufacturers in the country have continued to move up the value chain to produce high-value-added goods. These include intensification of research and growth efforts and outsourcing non-core activities domestically.
Siemens, Bosch and Infineon are just some of the well-known units who have moved their production to Malaysia. Based on a statement by The German Electrical and Electronic Manufacturers’ Association (ZVEI), Asia will stay the growth region of the future, with China leading the pack. Small nations like Malaysia will get their fair share of this growth if they continue to offer economic and political stability.

Malaysia has developed the Multimedia Super Corridor (MSC), which brings together a legislative framework, a high capacity of global telecommunications and a logistics framework, and eco-friendly surrounding to create the ideal environment for the growth of multimedia industries. The industry has moved up the value chain into the manufacture of high-end goods and has moved away from labor-intensive to more capital-intensive operations. The capital investment per employee (CIPE) ratio showed a growth from RM79,149 per employee in 1995 to RM333,830 per employee in 2000 and RM578,469 per employee in 2007.

The presence of many large multinational corporations (MNCs) has created a very sizeable local market for the components and supporting industry. The presence of leading electronic manufacturing services (EMS) units such as Electronics, Solectron, Celestica, Jabil, Plexus and Sanmina-SCI provides chances for local units to be part of the supply chain in the supply of equipment, materials, parts and components, and dedicated services such as contract design, burn-in testing, failure analysis and rapid prototyping. Other local supporting industries focus on activities such as moulds, tools and dies, metal stamping, surface treatment, plastic injection molding and M&E (Mechanical & Electrical). Nowadays, there are more than 50 units operating as contract manufacturing services (CMS) or EMS units. Major sub-sectors of the E&E industry include:

- Electronic components
- Industrialelectronics
- Consumerelectronics
- Electrical goods

**Electronic Components**
Goodsand activitieswhichfallunderthissub-sectorrangefromsemiconductordevices (which include fabricated wafers, ICs and IC design) to passive components (such as capacitors, resistors, connectors, inductors, crystalquartz and oscillators); printed circuits and other components (such as storage media, substrates and connectors, disk drive parts, PCBs and metal and plastic parts/components for E&E applications). Electronics components are the most important sub-sector and accounted for 58.7% of the total investment approved in the electronics sector in 2008. Majority of the investments were from foreign sources. The sub-sector is dominated by the semiconductor players, mainly undertaking packaging, assembly and test.

In fact, semiconductor devices make up the largest share of the electronic component sub-sector and have attracted leading semiconductor units in microprocessors, microchips, power ICs, linear ICs, opto-electronics devices and other logic and discrete devices. These units include MNCs such as Intel, AMD, Free scale Semiconductor, Avago, Infineon, Qimonda, Toshiba, STMicroelectronics, Texas Instruments, STATS ChipPAC, Spansion, National Semiconductor, Fairchild, Renesas and NEC, and Malaysian-owned units such as Carsem, Globaltronic, Omega, Unisem, AIC Semiconductor and Ids Electronics.

**Industrial Electronics**

This is a fast-growing sub-sector driven by rapid growths in digital and wireless technologies. The market growth for ICT is expected to be driven by the trend towards mobile technology for communications and data transfers. The markets for more matured goods such as PCs and software are also expected to register significant growth. The Eastern European and Asian markets for ICT are expected to register double-digit growth.

Presently, there are more than 150 manufacturers of industrial electronic goods, including 52 in computers and computer peripherals, 80 in telecommunication equipment and 19 in optics and photonics goods. The majority of the manufacturers in these segments are multinational units (MNC). Most of the MNCs are world-leading technology units and undertake integrated manufacturing and service activities. The presence of the MNC has led to the establishment of local supporting activities such as specialized machinery and equipment, moulds and dies and metal and plastic parts.

**Consumer Electronics**
“The time when manufacturers introduced more and more features to their goods to capture sales is over. 2009 and 2010 are the years when many new product growths provided not only good features, but also attractive designs.” This trend will, according to Euromonitor Global, “set new standard for product growth in the year to come”. Besides this general statement there are further key trends in the consumer electronics branches such as the arrival of the broadband internet in rural regions, the production of “green technology”, multi-functional smartphones and digital music.

All these trends have three main driving forces: the enlargement of the consumer electronics market towards the rural regions, the governmental “Energy Efficiency Incentives” which grants tax redemptions up to10% for new goods that meet the defined terms of the incentive, and the young people “going business”. Judged by the company share in 2009 according to Euromonitor Global, main players in the consumer electronics market are Samsung (10.3%), Nokia (7.3%), Logi Computer Peripherals (6.5%) and Acer Technologies (6.2%). Hewlett-Packard, Sony, Dell, Microsoft and Sony Ericsson are replaced in the midfield (4-6%), Apple, Panasonic, Canon, Motorola and others following with distance (<3%). The strongest volume growth rate from 2004 to 2009 was registered for in-car entertainment (123.4%), followed by computers and peripherals (112.5%). Further fast-growing groups are reportable as well as in-home consumer electronics. Goods were mostly sold at store-based retailers as well as through non-grocery retailers. Mixed retailers register a growth of %6. Retail volume of three % meanwhile specialist retailers report a fall of the same amount.

**Electrical Goods**

The electrical goods sub-sector can be categorized into three segments, namely industrial electrical equipment, electrical components and electrical household appliances. There are presently more than 400 Units producing a wide range of goods such as household electrical appliances, wires and cables and electrical industrial equipment and other electrical goods.

The major electrical goods produced in Malaysia are household appliances such as air-conditioners, refrigerators, washing machines, vacuum cleaners and other electrical appliances.
Manufacturing activities in the electrical industry have evolved from mere assembly to design and marketing of local brands for the regional and global markets.

The solar industry is growing in this sub-sector. Malaysiarecognizesthe enormous growth potential of the solar energy sector and is putting in place attractive incentives and support facilities to realize its growth. Malaysia is ready to create a globally competitive solar industry cluster. To date, Malaysia has attracted five foreign direct investments, worth up to RM13.8 billion, to set up solar PV manufacturing facilities in Malaysia. These include US-based UnitsFirst Solar Incatthe Kulim HiTech Park (KHTP) and US-based SunPower Corp in Malacca, the China-based Rene Solain Johor Baru, the German company Q-Cells in Selangor Science Park 2, and the Japanese firm Tokuyama Corp in Sarawak.

With the current unprecedented increase in fuel costs and the impact of global warming, the demand for renewable energy and also energy efficient goods and systems is booming. With an estimated growth of 20-25% per annum, a bright future exists for this sector of the industry. Realizing the potential, the Ministry of Energy, Green Technology and Water is putting special efforts in the solar energy sector in the country and has launched several programs such as Malaysian Energy Efficiency Improvement Program (MIEEIP) and Centre for Education and Training in Renewable Energy and Energy Efficiency (CETREE). This project is aimed at intensifying the usage of renewable energy or solar energy as an alternative source of electricity as well as to jumpstart local capabilities and growth of the solar industry in Malaysia. Since its launching, MIDA and Malaysian Energy Centre have been collaborating to further promote the industry by identifying major players to invest in the country.

**Towards greener technology**

“Replacement of existing older equipment and the use of performance contracting are considered particularly under the current...”
In this current environment, more efforts are required in order to ensure a sustainable environment for our future generations”, states Dr. F.C. Chan. With the world establishing a never stronger eco-consciousness and the government launching plans to head Malaysian economy towards green technology; it is undisputed where the electric & electronics industry’s future will be shaped.

However, the industry is facing two major risks today that are unfortunately also opposing each other: “the climate change and the financial tsunami” (Dr. F.C. Chan, 2009). One hand, the existing equipment needs to be replaced, further investments in sustainable and eco-friendly research and growth need to be done. Other hand, the money for that need to be raised. Malaysian units have found two approaches to that dilemma: Credit based or internal financing through the saved energy costs and performance contracting.

The first approach is the most intuitive. Larger searches show that there are energy saving potentials up to 80% in lighting, 30% in ventilation, 10% in lifts and escalators, 70% in water and space heating, and 80% in cooking equipment (TEEAM, June 2010, and S.57). With the ever-growing energy costs, this is not only a question of time until the investment capital is outpaced by the amount of saved energy costs. In this context, such initial investments can face both risks at once and contribute to both an economic and ecological advancement.

Performance contracting is an alternative that may help to overcome the barriers of the capital investment and therefore minimizing the associated risks; it leverages the energy saved for installing energy-efficient equipment and throughout that pays for the capital investment. The charged energy service company measures and verifies the saved energy costs, which will be shared between the owner and the company to pay back the project costs. The performance contract runs until the total payback of the initial project costs. These two ways underline the growing possibility and ability of Malaysian electrical & electronics units to face two contrasting problems at once. But besides facing difficulties, they create understanding and experience for the growing global key market in the future.

**Economic Transformation Programme (ETP)**
Malaysia has launched the Economic Transformation Programme (ETP) on 25th October 2010, which aims to strengthen Malaysia’s capabilities across the value chain, particularly in high-value-added upstream activities. Our focus will also be on attracting more leading multinational Unit to operate in Malaysia and creating more Malaysian champions.

**Semiconductors:**

The efforts in this important part of the E&E sector have been typically in regions with lower value-added such as the second manufacturing and assembly. We will follow a strategy of building on the strong foundations in technology, semiconductor fabrication and expanding into advanced packaging and design of integrated circuits as well as supporting the growth of substrate manufacturers.

**Solar:**

With a strong start in solar and solid experience in the similarly structured semiconductor industry, Malaysia has a promising future in a promising technology. By 2011, we will have the third largest market share in the world. A concerted effort to increase the number of silicon, wafer, cell and module producers will allow us to leap into second place by 2020.

**Light-emitting diodes:**

Malaysia has a strong lead in solid state lighting, one of the fastest growing segments. We need to move up the value chain from packing and testing to chip and application research and growth by creating a cluster of global and domestic units.

**Industrialelectronics:**
Industrialelectronicsinvolvethemanufacturingofprecisionequipmentusedinindustrial
andcommercial settings. Testandmeasurement, wireless communication,
transmission anddistributionandautomationmarketsarethemostattractiveforfurthergrowth.

**Electricalhomeappliances:**

Malaysia has been successful domestically with the growth of strong local homeappliance
Units. Thenext step istogrow scaleandbuild astrong globaldistributionnetwork.

**Outlook:**

The financial crisis has had a significant impact on the electrics and electronics industry. Due to
tightened consumer budgets little money was spent on unnecessary items, mainly consumer
electronic goods. This forced retailers and manufacturers to lower their prices in order to maintain sales in their markets. Eventheneccessary goodssuchas computers recorded much weaker growth than in previous years since Units and
private citizens postponed their investments to more prosperous times expected in the
future. With the global economy slowly recovering itself, these investments start to be done.
Mixed with the fast pace of new product growths that are characteristic for the electrical
&electronics sector, it is expected to face a stable future. The consumer electronics can be
seen as an example for the whole sector when Euromonitor Global mentioned: “new product growths in late 2009 and early 2010 promise an optimistic forecast for consumer electronics. Goodssuchas tablet computers, strong
laptopsaiming to bedesktop-replacements, 3Dtelevisions and BDLive players, will set the
new standard for the industry and keep consumers’ interest”. Furthermore, “consumers will benefit the most from this trend as they will be able to enjoy many innovative
goods, while the late adopters will be happy to see prices of existing
goods drop quickly with the fast pace of new product growths”. electrical & electronics sector, it is expected to face a stable future.
SUMMARY OF FMCG SECTOR OF MALAYSIA

FMCG (Fast Moving Consumer Goods) Industry

It is also known as CPG (Consumer packaged goods). In FMCG Industry, it deals with the manufacture, delivery and marketing of consumer packaged goods. The Fast Moving Consumer Goods (FMCG) is those consumables which are normally consumed by the consumers at a regular interval. Some of the prime activities of FMCG industry are selling, marketing, financing, purchasing, etc. The industry also engaged in operations, supply chain, production and general management.

Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, non-business use. Retailers are of various types such as convenience stores, specialty stores, department stores, supermarkets, discount stores, catalogue showroom, non-store retailing, chain stores, shopping mall/centers, superstores.

The role of retail industry is to perform retailing functions efficiently than can wholesalers. Retail outlets exist in every nook and corner of the country. They make shopping convenient to customers. It promotes product to ultimate consumers through promotion schemes, store displays and point-of-purchase display. It provides long term relationship with the consumers. They also provide information about competitor’s activities relating to product, price and promotion. They further assist in market surveys. Customers can match products with needs and purchasing power. They can get choice in terms of features, advantages and benefits of products. It also offers varieties of services such as delivery, installation, repair, maintenance, and supply of spare parts.

The retail industry in Malaysia currently is characterised by several retail formats; each format has its own problems and developmental needs. The very large format retail stores comprise hypermarkets and large supermarkets. Foreign retail operators basically own these large format stores. Examples are Carrefour, Giant, Tesco and Jusco. Currently, this format of retail store is the fastest growing in terms of sales, not only in Malaysia but also in this region. The second format is the medium sized supermarkets and/or departmental stores basically owned by local operators. These types of stores are badly hit by the foreign pressure. The third format is the smaller stores including pharmacies, garments, electrical goods, accessories and multitude of different merchandise offered for sale. Finally, the smaller provision stores, including mini markets and sundry shops, mostly located in housing areas and smaller towns and villages.
In the Malaysian economy, the retailing sector occupies the important part as a major contributor to the Gross Domestic Product (GDP). The majorities of Malaysian consumers enjoy shopping, and like to physically experience the products they are considering before making a purchase. Visiting a mall in Malaysia is widely considered to be a leisure activity. Consumer’s demand in Malaysia is the Prime mover of Country’s Economic Growth. Consumers demand in Malaysia contributes 47% to its country’s GDP in 1997. In Malaysia, the retailing sector of the economy comprises of myriad operating formats For easy reference, these formats can be classified as follows:-

- Hypermarkets
- Supermarkets
- Supermarkets and Departmental stores
- Departmental stores
- Convenience Stores(C-Stores)

The objectives of Malaysia Mega Sale Carnival are to make shopping an important tourism product, to increase foreign exchange earnings, to create Malaysia’s own shopping seasons, to make Malaysia Asia’s No. 1 shopping destination and to be one of the leading international shopping destinations. The more would be discussed around the boundary of hypermarkets.

Internet retailing is still in its infancy, and majorities of the Malaysian consumers enjoy physical shopping? How would you comment on this though Internet retailing has been replacing the physical shopping trends? How would it affect to the retail trade industry?

**FMCG Categories and Products**

<table>
<thead>
<tr>
<th>Category</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Household care</strong></td>
<td>Fabric Wash (Laundry Soaps And Synthetic Detergents), Household Cleaners(Dish/Utensil Cleaners, Floor Cleaners, Toilet Cleaners, Air Fresheners, Insecticides And Mosquito Repellents, Metal Polish And Furniture Polish)</td>
</tr>
<tr>
<td><strong>Food and Beverages</strong></td>
<td>Health Beverages, Soft Drinks, Staples/Cereals, Bakery Products (Biscuits, Bread, Cakes), Snack Food, Chocolates, Ice Cream, Tea, Coffee, Soft Drinks, Processed Fruits, Vegetables, Dairy Products, Bottled Water, Branded Flour, Branded Rice, Branded Sugar, Juices, Etc</td>
</tr>
<tr>
<td><strong>Personal care</strong></td>
<td>Oral Care, Hair Care, Skin Care, Personal Wash (Soaps), Cosmetics And Toiletries, Deodorants, Perfumes, Feminine Hygiene, Paper Products.</td>
</tr>
</tbody>
</table>
STRUCTURE, FUNCTIONS AND BUSINESS ACTIVITIES OF FMCG INDUSTRY

SECTION I: MARKET OVERVIEW

Malaysia, with a population of around 27 million, is one of the most developed nations in Southeast Asia. About 61 percent of its population falls into the middle to upper income group of consumers; with GDP per capita income of over $6,000. Its economy has a firm foundation that includes strong manufacturing, service and agricultural sectors.

The services sector, value added manufacturing sector, the agriculture and agro based sector are expected to contribute to the sustainable growth in 2009. In addition, the Government of Malaysia is promoting biotechnology, information and communications technology, halal products and Islamic finance as the new sources of economic growth.

Malaysia is politically and economically stable and open to foreign trade. Transportation, communications, banking and health services are modern and efficient.

The Malaysian food and beverage market is becoming increasingly sophisticated and is supplied by both local and imported products. The strong economic growth in the late 80's and early 90's contributed to major changes in consumer purchases and consumption patterns. Malaysians living in urban areas are relatively brand conscious, and they prefer to shop in stores, which offer them convenience and good product selections. Hypermarkets/large format stores are now the dominant format in urban/metropolitan areas in Malaysia with about 45 to 60 percent of urban household shoppers using them as the main outlet for the majority of their packaged groceries. Traditional markets are losing ground, but are still important outlets for fresh fruits and vegetables.

SECTION II: MARKET SECTOR STRUCTURE AND TRENDS

Malaysia continues to be a net importer of food products with annual imports of more than $5 billion. Food imports have been growing on an average of 20 percent per annum over the last few years and will likely to grow at similar rates over the next five years.

In 2008, the total imports of consumer-oriented and edible fishery products to Malaysia were estimated at $3.5 billion. Total imports from the United States were $320 million*, representing 10 percent market share. New Zealand beat China to be the major supplier with imports at $528
million, which is 16 percent of the market share, followed by China (15 percent) and India (11 percent). The hike in imports from New Zealand was primarily for milk powder.

China is the main supplier of vegetables with reported imports at $170 million in 2008. Turnip, cabbage, carrot, potato and garlic were among the major items. China is the market leader for mandarin oranges ($26 million), apples ($18 million) and pears ($17 million). Since the US and China are both in the northern hemisphere with similar seasons, US exporters have to compete aggressively with Chinese exporters who can sell their produce at lower prices. US Valencia oranges, apples and grapes are popular in the Malaysian market. Imports for 2008 were at $13 million, $4 million and $3.4 million respectively. Competition is less intense with supplies from Australia and South Africa since they have the opposite seasons.

By tradition, New Zealand is the most favored for dairy products followed by Australia. The latter in turn is the preferred source of meat products. In 2008, imports of full cream milk powder, skim milk powder, butter and cheeses from New Zealand were at $410 million while imports from Australia were estimated at $107 million. US whey is finding a growing market, estimated at $28 million.

India is the leading supplier of red meat market with total imports of $184 million (77,000 metric tons) in 2008. Indian beef and buffalo meat caters to the mass market. In the foodservice sector, competition for US beef comes from Australia and Uruguay, with total imports amounted to $26 million and $11 million respectively in the same year. US beef is considered premium and is found only in high-end foodservice outlets and restaurants serving Japanese, Korean and Western cuisines.

Malaysia is self-sufficient in pork and poultry (broiler/eggs) production. Chicken parts and chicken wings are imported periodically to meet the demand from the local processing industry. In 2008, major suppliers of chicken parts and chicken wings were the China ($37 million), Denmark ($14 million) and the Netherlands ($6 million). US pork exporters have seen a growing market in the past year as shortages crop up in the local market.

Malaysia is a net importer of fish and seafood products with an annual import at $600 million in 2008. Of this, an estimated $350 million is for imports of fish, whether live, fresh/chilled or frozen. The supply of fresh and frozen fish comes from Thailand ($115 million), followed by China ($110 million) and Indonesia ($102 million).

* This data, obtained from the World Trade Atlas Database based on Malaysia Customs data, reflected a lower import value compared to the statistics published by the US Bureau of the Census Trade Data. US data showed that the total exports of consumer-oriented products and edible fish and seafood products from US were $307 million in 2008.
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<tr>
<td>1</td>
<td>EXPORT</td>
<td>1,084.06</td>
<td>1,161.86</td>
<td>1,305.22</td>
<td>2,575.26</td>
<td>3,419.97</td>
</tr>
<tr>
<td>2</td>
<td>%Growth</td>
<td>7.18</td>
<td>12.34</td>
<td>97.31</td>
<td>32.8</td>
<td></td>
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<tr>
<td>3</td>
<td>IMPORT</td>
<td>2,299.01</td>
<td>2,415.61</td>
<td>5,290.31</td>
<td>6,012.90</td>
<td>7,184.78</td>
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<tr>
<td>4</td>
<td>%Growth</td>
<td>5.07</td>
<td>119.01</td>
<td>13.66</td>
<td>19.49</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>TOTAL TRADE</td>
<td>3,383.07</td>
<td>3,577.47</td>
<td>6,595.53</td>
<td>8,588.16</td>
<td>10,604.75</td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce

![Graph of Total Trade with Malaysia](image1.png)

Source: Ministry of Commerce

![Graph of Trade Value](image2.png)

Source: Ministry of Commerce
## INDIA'S EXPORTS TO Malaysia

<table>
<thead>
<tr>
<th>No</th>
<th>Year</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>EXPORTS to MALAYSIA</td>
<td>1.16</td>
<td>1.31</td>
<td>2.58</td>
<td>3.42</td>
<td>2.84</td>
</tr>
<tr>
<td>2</td>
<td>% Growth in Exports to Malaysia</td>
<td>12.34</td>
<td>97.31</td>
<td>32.8</td>
<td>-17.09</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>India's Total Export</td>
<td>1,03,090.53</td>
<td>1,26,414.05</td>
<td>1,63,132.18</td>
<td>1,85,295.36</td>
<td>1,78,751.43</td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce
Malaysian healthcare system as a whole has performed fairly well. The government recognizing the importance of health as a basic right has been the major player in the health care system. Government public health services which are financed mainly by taxes have provided excellent cover for primary healthcare, with extensive network of rural health centers and clinics, supplemented by urban government hospitals and specialist referral clinics based in these hospitals.

Private health sector meanwhile is playing an increasingly important role. Before 1980, private hospitals were few and consisted mainly of hospitals which were community-or-philanthropic-supported. Private practice then was primarily by way of individual general practice and a limited number of specialists in these not-for-profit institutions. But over the years, especially since the 80s, profit-orientated private hospitals have mushroomed, especially in the urban areas. Private health care business is now dominated by investor-owned healthcare businesses; some of them are even listed on the stock exchange.

In the 1980s, government contributed about 76% of the total health care expenditure. The rapid growth of private health sector is a direct result of government’s policy of letting private sector play a greater role in areas such as health and education since the early eighties.

The health status in Malaysia is relatively good, being on target to achieve the Millennium Development Goals (MDGs). An extensive and comprehensive primary health care (PHC) system provides good access to care. Total health expenditure (THE) is only 4.3% of GDP, with about 45% from the public sector, but 40% of ‘THE’ is out of pocket from private households. The national health priorities include enhancing the

Figure 2: Access to health care in Malaysia
health care delivery system to increase access to quality care, and reducing the disease burden, both communicable and non-communicable diseases. The key health challenges are posed by the changing disease pattern with high prevalence of non-communicable diseases and their risk factors, a rapidly growing private sector and high proportion of health expenditure being out of pocket, and a large population of migrant workers who are at high risk of communicable diseases.

This rapid growth of private hospitals and clinics has resulted in a “brain drain” of doctors and other medical personnel from the public sector. About two third of surgeons and physicians work in private sectors, with the remaining one-third in government hospitals. This is despite the fact that government hospitals have ¾ (about 34000 beds) of total hospital beds whereas private hospitals have only 9100 beds.

The consequence is a very overworked public health sector and a perceived decline in the quality of healthcare in the public sector. The fact is, despite the heavy workload, Malaysian public health sector is still functioning well.

Besides the heavy workload, there are many other challenges facing the public healthcare sector. As with many other countries, the proportion of older people is set to increase over the next few decades. This couples with rising cost of medication and equipment, rising demand of quality healthcare and sophisticated equipment and changing patterns of diseases will inevitably lead to a higher healthcare cost in future.

![Figure 3: Overview of Malaysian health care system](image-url)
Health education in Malaysia

Some medical schools in Malaysia are,

- **Governmental**
  - University of Malaya Medical Centre (UM) - Malaysia’s first Medical school
  - Faculty of Medicine, University of Malaya
  - University Kebangsaan Malaysia (UKM)
  - University Sains Malaysia (USM)
  - University Putra Malaysia (UPM)
  - University Malaysia Sarawak (UNIMAS)

- **Private**
  - International Medical University (IMU) - First private medical school in Malaysia
  - Perak College of Medicine
  - Penang Medical College
  - Melaka-Manipal Medical College
  - University College Sedaya International (UCSI)
  - International Islamic University of Malaysia (IIUM)

Biotechnology

Malaysia currently places no restrictions on the import of biotechnology food or feed. To date, the only biotechnology product officially approved for import into Malaysia is a biotechnology soybean. The value of U.S. exports to Malaysia of biotechnology soy, soybean meal, and oil is about $100 million. Malaysia also has yet to produce a biotechnology crop commercially, although several biotechnology crops have been produced at the experimental stage.

Government policy and action

The Malaysian government places importance on the expansion and development of health care, putting 5% of the government social sector development budget into public health care—an increase of more than 47% over the previous figure. This has meant an overall increase of more than RM 2 billion. With a rising and aging population, the Government wishes to improve in many areas including the refurbishment of existing hospitals, building and equipping new hospitals, expansion of the number of polyclinics, and improvements in training and expansion of tele health. A major problem with the health care sector is the lack of medical centers for rural areas, which the government is trying to counter through the development of and expansion
of a system called "tele-primary care". Another issue is the over prescription of drugs, though this has decreased in recent years. Over the last couple of years, the Malaysian Health Ministry has increased its efforts to overhaul the system and attract more foreign investment.

Export Taxes
Malaysia taxes exports of palm oil, rubber, and timber products in order to protect domestic processing production. Malaysia is the second largest producer and largest exporter of palm oil and products made from palm oil, accounting for approximately 15 percent of world production and 30 percent of world trade in vegetable oils. Malaysia uses export taxes of 10 percent to 30 percent ad valorem to discourage the export of crude palm oil and to encourage development of the local refinery sector. Refined palm oil and products are not subject to export taxes. The Malaysian government waives export taxes on exports of crude palm oil to Malaysia-invested foreign vegetable oil refineries that include investment by Malaysian persons, giving Malaysia-invested plants a competitive advantage in foreign markets, including the United States.

Intellectual Property Rights for Pharmaceuticals and Medical Devices
The Malaysian government recognizes that the sale of counterfeit pharmaceutical products are a continuing concern and has sought to improve its enforcement efforts, including better information sharing between ministries and collaboration with industry. It is also looking to the special IPR court to improve prosecution of crimes involving counterfeit pharmaceutical products.

Malaysia is considering legislation that would provide protection for test and other data submitted for the marketing approval of pharmaceuticals, for five years for new chemical entities and three years for new indications. The Malaysian government lacks an effective patent linkage mechanism to prevent the regulatory approval of versions of pharmaceutical products that are still covered by a patent; U.S. industry has reported several cases involving the registration of generic versions of pharmaceuticals that are still subject to patent protection.

Tax consideration in Malaysia
Mainly tax consideration for Malaysia includes,

- Corporate taxes
  Malaysia’s headline corporate tax rate is a flat 17%. All Malaysia resident companies are eligible for partial tax exemption which effectively translates to about 9% tax rate on taxable income of up-to S$300,000 per annum. The taxable income above S$300,000 will be charged at the normal headline corporate tax rate of 17%.
Indirect Taxes

Indirect tax such as VAT or GST is an area of concern for most businesses, as it increases the selling price of goods and services. Goods and Services Tax (GST) is a consumption tax that is levied on the supply of goods and services in Malaysia and the import of goods into Malaysia.

How to set up a company in Malaysia?

To set up a new company in Malaysia involves,

- Minimum Statutory Requirements
- Incorporation procedure
- Incorporation Time-line
- Government Fees
- Annual Filing Requirements
- Accounting Records
- Appointment of Auditors
- Annual General Meeting

Medical tourism

The Malaysia Healthcare Travel Council (MHTC) was officially launched on 21 December 2009 by the Malaysian Prime Minister.

MHTC has a vision of

‘To position Malaysia as the preferred destination for world-class healthcare services’

It performs several functions like,

- To formulate and implement a strategic plan for the promotion and development of healthcare travel in Malaysia
- To encourage smart partnerships between the government and healthcare travel industry
- To serve as a “one-stop centre” for all matters related to healthcare travel,
  - For enquiries on healthcare travel facilities and services
  - For enquiries on policies and incentives
  - For resolving policy and administrative impediments affecting healthcare travel such as fast-track clearance, application for extension of visa and so on
- To carry out promotional activities for the Malaysian healthcare travel industry
- To undertake research activities related to the development and promotion of the healthcare travel industry
- To establish a database to support research and planning activities
Malaysia has scored many medical awards in the medical frontier regionally and globally, especially in the disciplines of Oncology, Haematology, Cardiology and Cardiac Surgeries, Assisted Reproduction, Vascular and Interventional Radiology, Hepatobiliary and Liver Transplant Surgery and Urology. Some of these are:

- Multiple successful Liver transplants
- World’s first arm and hand transplant
- First keyhole (endoscopic) surgery to treat lone atrial fibrillation in Asia and Australasia
- First mechanical heart assist device implant (Thoratec IVAD) in Asia and Australasia
- First bypass and Thymectomy surgeries in the region on a conscious or "awake" patient without general anaesthesia
- First in region to perform a detailed mapping for complex arrhythmia with the introduction of a noncontact mapping system, ENENSITE 3000
- First in the world to perform a pocket incision heart surgery, utilizing Heart port technology, for mitral valve 17 repair/replacement

**SUMMARY OF HOTEL INDUSTRY IN MALAYSIA**

A hotel is an establishment that provides paid lodging on a short-term basis. The provision of basic accommodation, in times past, consisting only of a room with a bed, a cupboard, a small table and a washstand has largely been replaced by rooms with modern facilities, including en-suite bathrooms and air conditioning or climate control. Additional common features found in hotel rooms are a telephone, an alarm clock, a television, a safe, a mini-bar with snack foods and drinks, and facilities for making tea and coffee. Luxury features include bathrobes and slippers, a pillow menu, twin-sink vanities, and Jacuzzi bathtubs. Larger hotels may provide additional guest facilities such as a swimming pool, fitness center, business center, childcare, conference facilities and social function services.
Hotel rooms are usually numbered (or named in some smaller hotels and B&Bs) to allow guests to identify their room. Some hotels offer meals as part of a room and board arrangement. In the United Kingdom, a hotel is required by law to serve food and drinks to all guests within certain stated hours. In Japan, capsule hotels provide a minimized amount of room space and shared facilities.

Hospitality industry can be empirically divided into two parts: entertainment areas like clubs and bars, and accommodation. Accommodation takes the form of public houses, resorts, inn, campgrounds, hotels, hostels, serviced apartments, and motels. The clubs and bars category include restaurants, fast foods, and nightclubs.

The hospitality industry also includes tourism support commercial activities like airline cabin staff and travel agents. Travel technology like applied information technology (IT) and its workers in hospitality, travel and tourism are included in the hospitality industry. Corporate entertainment is also a very thriving activity amongst corporation.

A hotel is an establishment that renders lodging in lieu of payment. This lodging is usually given in exchange for a specified predetermined amount of money. Modern hotel rooms come equipped with climate control and attached bathrooms. Higher end hotels offer guests internet connectivity within rooms and also throughout the premises. A combination of meals and accommodation comes as a package in most hospitality establishments. Hotels are usually managed by professionally qualified managers. Junior workers usually maintain the hotel. Functions like cooking is usually done by professionally trained chefs.
Survey of Malaysia Hotel Industry Survey of Operations 2011

Horwath HTL is once again pleased and honored to present you the 2011 Malaysian Hotel Survey. This authoritative and powerful analytical tool for tracking industry performance and individual property benchmarking against industry averages has been well-received and this year saw a significant increase in the number of hotels taking part in the survey. The Malaysian Hotel Survey joins similar annual hotel industry surveys we proudly coordinate and publish with local industry associations and organizations in China, Japan, Hong Kong, Singapore, Indonesia, Australia and New Zealand.

Government policy

Government’s push to promote tourism will help improve tourist arrivals and receipts.

PETALING JAYA: The local hospitality sector can look forward to a steady growth this year, given the number of initiatives to promote the tourism industry, property consultants said.

Knight Frank in its Second-Half 2011 Real Estate Highlights report said the local hospitality sector remained optimistic that performance levels would show steady growth.

It said this was despite analysts predicting moderating economic expansion ahead as a result of slowing external demand and continued uncertainties in the Middle East, Europe and the United States.

“Moving forward, the Government will seek to enhance various sector-specific initiatives that focus on high-yield visitors, in particular business and medical tourism. The Budget 2012 announcement will keep the 4-star and 5-star hotel category at the forefront of development opportunities with the provided benefits in the form of tax exemption or allowances.

“With concerted efforts from all parties, Malaysia will remain well positioned to retain its ranking among the global top 10 tourist arrivals and top 15 tourist receipts,” the report added.
Knight Frank said tourism contribution to gross national income was expected to almost triple the 2010 figure of RM34bil to RM94bil by 2020 (ranked the fifth-largest contributor to national economy in 2010).

The growth-centred Budget 2012, announced in October last year, is generally well received by the wider hospitality sector.

In the Budget, the Government has pledged to assist the private sector in developing more international standard accommodation to attract a higher number of tourists through a “pioneer status” income tax exemption of 70% or an investment tax allowance of 60% for five years for new 4-star and 5-star hotels in Peninsular Malaysia.

CB Richard Ellis Research, in its fourth quarter 2011 report on Kuala Lumpur's hospitality sector, said it hoped the various initiatives under the Economic Transformation Programme would be successful in stimulating demand, especially in raising tourist arrivals and average spending.

It also hopes that growing tourist arrivals from China, India and the Middle East would compensate for the likely continued decline from struggling Western economies.

“Tourism Malaysia is maintaining its target of 36 million annual visitors by 2020 with an estimated revenue of RM168bil, up from 24.6 million tourists with revenue totaling RM56.4bil in 2010,” the report added.

It said the hospitality market performed better in the last quarter of 2011 compared with the same period in 2010, led by improvements in overall occupancy rates for 3-star to 5-star hotels.
Although Kuala Lumpur had some of the lowest room rates for luxury hotels in the region, the announced redevelopments in the city centre would add to the growing quality of the city's hospitality market, it added.

The Knight Frank report said industry leaders had now fully recognized the importance of the MICE (meetings, incentive, convention and exhibition) industry as a major contributor to the economy.

The Tourism Ministry, which established MyCEB (Malaysia Convention and Exhibition Bureau), plans to further strengthen the nation's tourism brand and grow the total number of conventions and exhibitions held on home soil.

The number of MICE visitors is expected to reach 1.3 million for 2011 with RM10.8bil in receipts (2010: 1.28 million visitors and RM10.6bil receipts).

It said the Government's concerted efforts to attract more arrivals from the BRIC economies (Brazil, Russia, India and China) through various measures, including a simplified and shortened visa application process,
had shown excellent results with recently released figures showing the number of Chinese tourist arrivals increased by 57% between January and July 2011.

As at November 2011, there was a total stock figure of 17,862 hotel rooms in Kuala Lumpur. The supply figure of 4-star and 5-star hotel rooms in the city currently stands at 7,667 and 10,195 respectively.

During the review period, average occupancy rates for 4-star and 5-star hotels in the city registered increases to 72% (first half 2011: 69%) and 71% (first half 2011: 68%) respectively.

Both occupancy and average room rates (ARR) for 4-star and 5-star hotels have shown an improvement over the second half of 2011 review period to November.

The ARR for 4-star hotels was recorded at RM214 (first half 2011: RM209), reflecting a 2.39% increase, while the 5-star category saw a 1.18% increase to RM343 (first half 2011: RM339).

Knight Frank said that during the second half of 2011, Kuala Lumpur's hotel market maintained a reasonable performance with steady improvements in the tourism industry.

“This sub-sector continued to perform well on the back of an increasing number of promotional activities and Kuala Lumpur's growing reputation as a dynamic and competitive shopping hub and host for global sporting events (such as Le Tour de Langkawi, F1 Grand Prix, PGA and LPGA Tours, ATP World Tour, EPL pre-season tours for Arsenal, Chelsea and Liverpool) and business/conference events,” it added.
INTRODUCTION & FORMATION OF TEAM

The travel and tourism industries have grown by 500% in the last 25 years. It is estimated that by the year 2020 there will be 1.6 billion annual international tourist arrivals worldwide. Collectively these visitors will spend US$2 trillion. More importantly the industry is undergoing a major shift with the switch from established areas like the Caribbean, Hawaii and the Mediterranean, to the Asia Pacific Region.

Tourism has been and will continue to be a key economic activity in Malaysia as it is in many countries in the coming decades. However, long term success of the tourism in Malaysia hinges on the country’s ability to develop sustainable tourism and attract repeat visitors. Both require the existence of a quality workforce that is attuned to the highest international standards yet deeply steeped in our culture, traditions and heritage. Excellent customer service will also ensure that our guests look forward to return to Malaysia again and again.

The greatest needs of the hospitality and tourism industry in terms of human capital are recruitment of a quality workforce, retention and retraining. Institutions and hospitality and tourism organizations can work together on these areas to their mutual benefits. Investing in human capital pays off in repeat guests and increased profitability.

Although, formal hospitality training began in the late 1960s there has never been an attempt to form an Association of educators in this area of specialty. It was in response to the need amongst the relevant training and teaching professionals to meet and discuss issues of common interest that the Tourism Educators Association of Malaysia (TEAM) was formed in June 2001. It was formally registered with the Registrar of Societies (ROS) on 3 March 2003.

There is need for closer formalized ties between the government, tourism educators and the industry. Herein lies the role of TEAM, which could act as a representative body for tourism
and hospitality educators. Integration of all stakeholders in the implementation of the broad education policy outlined by the government is crucial to improving hospitality and tourism education in Malaysia.

TEAM will enable the academic community to develop meaningful partnerships amongst themselves and the industry. Building relationships between industry and institutions will encourage hospitality and tourism professionals to participate in curriculum development, professional development and cross-exposure programmes.

The Tourism Educators Association of Malaysia (TEAM) co-organized successfully their First National Conference in June 2001 with the theme, “Issues in Hospitality and Tourism Education and Training: Practitioners’ Viewpoints” together with University Utara Malaysia (UUM) and Taylor’s College, School of Hospitality and Tourism. Subsequently, the second conference was organized by University Technology MARA (UiTM) in 2003, KDU College in 2004 and University Tun Abdul Razak in 2006. In 2005, TEAM co-organized the Asia-Pacific CHRIE Conference with Taylor’s College, School of Hospitality and Tourism. The main goal of these conferences is to provide a platform for discussing and sharing information on current issues and challenges faced by the industry with special emphasis on the Malaysian hospitality and tourism industry.

The Government has over the years sought tourism to be a key economic activity in Malaysia. Although, much of the world faces shortcomings whether economically, politically or socially, tourism in Malaysia remains an important source of revenue. The Government continues to support tourism activities, with campaigns to promote Malaysia worldwide and concentrate on some tourism infrastructure.

With TEAM, the relationship between the academic world and the industry will further be strengthened. TEAM would work together to have some kind of a support system to ensure that the quality of the workforce, whether those already in the industry or about to joint the industry, be maintained at the highest standard as possible. Hence, further improving the business of tourism in the country. The role of tourism education is not limited to merely responding to the challenges, but to help shape the industry’s future by equipping the future industry leaders and manpower with the ability to translate current challenges into tourism visions and plans.

The competitive pressures within the hospitality and tourism sector, especially in the Asian region, result in greater demand for quality services and therefore the industry need for
innovative and skillful managers. The institutions of higher learning are given the responsibilities of producing these managers.

With the formation of TEAM, it is now possible to forge collaboration and alliances within the tourism and hospitality institution with local and international educational partners and tourism sectors such as tour operators, travel agencies, hotels, airlines and tourism associations and government agencies. TEAM can ensure the development of the curriculum and course design will be able to meet the need, requirement and expectation of the tourism industry.

The tourism industry is under pressure. Changing markets, industry restructuring and more competitive domestic and international markets are placing great burdens on expertise. The ability to succeed, and the future performance of tourism and related activities will depend largely on the skills; qualities and knowledge managers are able to bring to their businesses. Skills, qualities and knowledge are provided by education, training programs and working experiences.

Education in tourism has to find its place and role in faculties, departments and schools, providing the tourism industry with graduates who are able to respond to the challenges arising from this fast growing industry. It is indeed timely that TEAM was formed to coordinate and bridge the hospitality and tourism educators with the industry. It is hoped that TEAM would succeed in its mission as the association for tourism educators to lead the advancement in tourism education, sharing of ideas and disseminating knowledge so as to contribute effectively to the development of the tourism industry in Malaysia.

Tourism has been and will continue to be a key economic activity in Malaysia in the coming decades. However long term success of the tourism and hospitality industry in the country hinges on the recruitment of a quality workforce, retention and retraining. Institutions and hospitality and tourism organisations can work together on these areas to their benefit.

Although formal hospitality training began in the late 1960s there has never been an attempt to form an Association of educators in this area of specialty. It was in response to the need amongst the relevant training and teaching professionals to meet and discuss issues of common interest that the Tourism Educators Association of Malaysia (TEAM) was formed.

TEAM will enable the academic community to develop meaningful partnerships amongst themselves and with the industry. Building relationships between industry and institutions
will encourage hospitality and tourism professionals to participate in curriculum development, professional development and cross exposure programmes.
TOURISUM INDUSTRY OF MALAYSIA

The early 70s spelt the beginning of a `new era`. The old Tourism Department of 1959 was then upgraded into the Tourism Development Corporation.

The formation of the Tourism Development Corporation (TDC) in 1972 and placing it under the purview of the Ministry of Trade and Industry (MITI) for strategic planning and focus charted a new era in the history of the tourism industry. That was the same year Malaysia Airlines was formed (1972). It was the dawn of a new beginning and both TDC and MAS were tasked to put Malaysia on the world tourist map. Since then, the Malaysian economy remains relatively robust with manufacturing and tourism taking the lead.

Today, the tourism industry has experienced a rapid growth and gained an importance in the Malaysian economy. It is the second largest foreign exchange earner, after manufacturing. This is in line with the government’s objective to accelerate the domestic private sector and stimulate the services sector to spearhead economic growth.

Tourism’s Contribution Receipts

In the context of tourism receipts, the contribution from this sector has been very encouraging. For instance, the Malaysian economy registered RM17.40 billion in receipts from 10.22 million visitors in 2000 (just a year after implementing the three-pronged action).

This constituted a 28.9 per cent increase between 1999 and 2000. With the exception of 2003 (SARS & Gulf War), this upward trend continued until today. From the tourism receipts (tourism revenue) contribution, there exists a steady growth. For example, tourism receipts increased from RM17.40 billion in 2000 to RM24.20 billion a year later and then increased further to RM25.80 billion (2002), RM29.7 billion (2004) and
RM32.00 billion in 2005. Last year Malaysia received RM36.3 billion (USD10.4 billion) in tourism receipts.

The top 10 markets in 2006 were Singapore (9,656,251 arrivals), Thailand (1,891,921 arrivals), Indonesia (1,217,024 arrivals), Brunei (784,446 arrivals), China (439,294 arrivals), Japan (354,213 arrivals), India (279,046 arrivals), Australia (277,125 arrivals), United Kingdom (252,035 arrivals) and the Philippines (211,123 arrivals). Gross Domestic Product (GDP) Malaysia's services sector is the largest sector in the economy, contributing 52.4% to GDP and 48.6% to total employment in 2000. The government views the services sector as a catalyst for growth. Last year, the national GDP was at RM1,098.3 billion or USD 313.8 billion (constant 1987 prices) with a growth of 5.9% of which RM36.3 billion or USD 10.3 billion came from the tourism sector thus making it as the second economic contributor for 2006. The Services Sector accounts about 54% of the national GDP. Jobs / Employment Out of the total national workforce, 51% (2005) were in the services sector. This translates into almost 5.4 million out of the 10.73 million of the national workforce being employed either directly or indirectly in the tourism sector, be it in hotels, restaurants, travel agencies, airlines, transportation etc... By providing job opportunities, the tourism sector has played a role in keeping unemployment down to a low at 3.5% (2005/2006). Retail Sector With the introduction of the MEGA SALE Carnival in 1999, the economy received a boost from the retail sector. The Malaysian tourism authority has undertaken efforts to position Malaysia as a leading international shopping destination. The Mega Sales Carnivals were held on a nationwide basis were successful in attracting more shoppers. Each Mega Sale has managed to attract additional half a million foreign visitors and day-trippers from the neighboring countries, on top of the normal tourist arrivals. The effort facilitated the growth in tourism expenditure and consumer demand, which enhanced the growth of retail trade.

For instance, in 2003, the retail sector made up just over 13% of Malaysia’s gross domestic product (GDP) and employed about 730,000 workers, or 7% of the total workforce. Then in 2005, the retail sector made a 10.2% growth in sales over the same period in 2004. Its relations to other sectors of the economy, such as wholesaling, advertisement and promotions, info technology and logistics, ensure it that it has a pivotal role to play.

Education tourism The increase in the number of institutions of higher learning and twinning
programmes with foreign universities provided the foundation for the growth in education tourism. Currently, over 50,000 foreign students registered with institutions of higher learning in the country. There are additional spins-offs as parents of foreign students took the opportunity to spend their holidays at tourist attractions when visiting their children.

Education tourism has become popular as reflected by the demand for tours to visit schools to enable students from other countries to gain knowledge of the school education system as well as experience the Malaysian school atmosphere, which is unique with the social interaction of the various ethnic groups besides contributing to the national economy.

Medical and Health Sector Since it was introduced in 1999, the medical and health tourism has contributed handsomely to the national economy. Last year (2006), a total of 296,687 health tourists visited Malaysia yielding revenue totaling RM203.66 million (USD32.8 million).

Malaysia My Second Home Malaysia My Second Home Programme is promoted by the Government of Malaysia to allow people from all over the world who fulfill certain criteria, to stay in Malaysia as long as possible on a social visit pass with a multiple entry visa. The Social Visit Pass is initially for a period of ten (10) years (depending on the validity of the applicants’ passport) and is renewable. The programme has managed to attract more than 10,000 foreigners since it was introduced in 1996 to date. Last year alone there were 1,728 people registered under the programme, which has various flexible conditions, and was introduced to enable foreigners with a high income to stay in the country for at least five years or for a longer period of time.

VISIT MALAYSIA YEAR 2007

This year, Malaysia’s focus will be on the Visit Malaysia Year (VMY) 2007, was is aimed at aggressively promoting Malaysia, increasing 4 tourist arrivals, as well as encouraging domestic tourism among Malaysians. Coincidentally, 2007 is also the year of Malaysia’s 50th independence. As such, the Visit Malaysia Year campaign is a timely event to celebrate
Malaysia’s golden jubilee. It is an occasion to rejoice and to share with the world the unique qualities and virtues that have shaped Malaysia to be the country that it is today. The VMY 2007 campaign is expected to raise the awareness of foreign tourists to enable them to plan their holidays in Malaysia. For VMY 2007, the country has set a target to attract 20.1 million tourists.

Overall, there are over 240 events, of which, 50 being major events and 5 as international mega events. All these events are presented in ‘One Golden Celebration’. A celebration that brings Malaysia to the world, and the world to Malaysia.

The first event of the year was the Visit Malaysia Year Grand Launch on 6 January by the Honourable Prime Minister of Malaysia in the presence 500 international media and trade representatives from all over the world. Highlight of the Grand Launch was the unveiling of the Eye on Malaysia, which is a 60-metre Ferris Wheel followed by the Flora Fest Parade, a spectacular display of floats dressed in all kinds of flowers found in Malaysia.

The other mega events include the Malaysian International Aerospace Adventure, the International Fireworks Display, the Malaysian International Tattoo and the KL International Buskers Festival. Conclusion:

The tourism industry has come along way since its inception in 1959 with only a Tourism Department back then. Today, after 50 years and half of a century later, the industry has moved with such celerity to become the second income spinner to the national economy whilst experiencing tremendous growth from year to year. The string of awards and accolades awarded to Malaysia bears testimony to this fact.

Malaysia was voted as one of the top five most popular outbound destinations in 2006 out of 100 countries in a poll organized by Guangzhou Daily, the biggest South 5 China newspaper which has a daily circulation of 1.8million.

Malaysia received two awards at the tourism film competition Das golden Stator (The Golden City Gate) during the world’s largest tourism exhibition, ITB, in March 2007. The tropical
nature paradise won the gold award for the “Malaysia Now” global online campaign and a silver award for its 60-second TV commercial themed “The Time is Now, The Place is Malaysia.”

Malaysia was also named the “Best Tourism Destination 2006” by the American business travel magazine Global Traveller in the beginning of the year. - In early May 2007, Malaysia was awarded as the ‘Best Summer Destination’ for United Arab Emirates residents by Asfaar Magazine.

**Malaysia's Hospitality Industry**

Malaysia’s hospitality industry is experiencing healthy growth in hotel openings and hospitality-related services through the steady flow of business travelers, tourists and popularity as a MICE (Meeting, Incentives, Conventions, and Exhibitions) venue.

Malaysia’s advantage in this sector lies in good value in terms of costs compared to the rest of the region, its diversity of natural attractions such as beaches and mountains as well as solid infrastructure and amenities.

A total of 23.6million tourists entered Malaysia in 2009, marking an increase of 7.3% y-o-y compared to 2008. The tourism industry has rebounded quickly despite the effects of the global economic crisis.

Currently, there are approximately 180 hotels of 4-star grade and above, contributing to a total room supply of 54,175. The average hotel occupancy rate in 2009 was fairly stable at 60.9%. According to the Malaysian Association of Hotels, average hotel room rates in Kuala Lumpur's prime Golden Triangle location stands at approximately RM 221.10 (US$ 70.00).
2009 and 2010 will see the launch of more established hotel names such as:

- Thistle Johor Bahru and Thistle Port Dickson Resort
- Four Points by Sheraton in Kuching opened in July 2009, owned by the Starwood Hotels & Resorts Worldwide
- Doubletree by Hilton in Kuala Lumpur
- The Hyatt at Kuala Lumpur

Hotels in Malaysia have been awarded accolades in award shows such as the the 16th World Travel Awards. In 2009, Pan Pacific KLIA was named Asia's Leading Airport Hotel and the Hilton Kuala Lumpur won in the Leading City Hotel and Leading Design Hotel categories. Such awards are testament to the world-class standards found in Malaysia’s hospitality industry.
SUMMARY OF MUTUALFUND INDUSTRY IN MALAYSIA

Investment in IMFs is increasingly popular in the current market due to the developments of the Islamic finance (IF) worldwide, which illustrate IF becoming an important part of the international financial system. There is a continuous demand for the Islamic funds industry, with the industry currently the fastest growth area of the Islamic financial system. The growth of the IMFs is crucial, as it indirectly influences and illustrates the continuing improvement of the global Islamic financial market.

The industry in Malaysia, which started in 1990s, has grown tremendously, with an increase from 2 funds in 1993 to 150 funds at the end of December 2009. Thus, better performance of IMFs can be seen to lead to continuing development in IF, particularly in increasing confidence levels among investors and market players towards Shariah-compliant products.
The Formative Years: 1959 -1979

The first two decades in the history of the unit trust industry were characterized by slow growth in the sales of units and a lack of public interest in the new investment product. Only five unit trust management companies were established, with a total of 18 funds introduced over that period. The industry was regulated by several parties including the Registrar of Companies, The Public Trustee of Malaysia, Bank Negara Malaysia and the Ministry of Domestic Trade and Consumer Affairs. The 1970s also witnessed the emergence of state government sponsored unit trusts, in response to the Federal Government's call to mobilize domestic household savings.

The Period from 1980 to 1990

This period marks the entry of government participation in the Unit Trust Industry and the formation of a Committee to regulate the unit trust industry, called the Informal Committee for Unit Trust Funds, comprising representatives from the Registrar of Companies (ROC), the Public Trustee of Malaysia, Bank Negara Malaysia (BNM) and the Capital Issues Committee (CIC).
The 1980s marked a significant development in the history of the industry when the Skim Amanah Saham Nasional (ASN) was launched by Permodalan Nasional Berhad (PNB) in 1981. Despite only 11 funds being launched during this period, the total units subscribed by the public swelled to an unprecedented level because of the overwhelming response to ASN. The 1980s also witnessed the emergence of more unit trust management companies, which were subsidiaries of financial institutions. Their participation facilitated the marketing and distribution of unit trusts through bank's branch network which widened investor reach.

The Period from 1991 to 1999

This period witnessed the fastest growth of the unit trust industry in terms of the number of new management companies established, and funds under management. The centralization of industry regulation, with the establishment of the Securities Commission on 1 March 1993, coupled with the implementation of the Securities Commission (Unit Trust Scheme) Regulations in 1996 and extensive marketing strategies adopted by the ASN and ASB (Amanah Saham Bumiputera), played key roles in making unit trusts household products in Malaysia. Consequently, the total asset value of funds under management grew more than threefold from RM15.72 billion at the end of 1992 to RM59.95 billion at the end of 1996. The period also saw greater product innovation and deregulation of the industry. Although the pace of growth of local unit trust funds has moderated since the financial crisis of 1997-1998, it has nevertheless maintained its upward trend.

The Period from 2000 to current

The unit trust industry has a very promising start to the 21st century. The industry recorded double digit growth for first 7 years, growing from RM43 billion in Net Asset Value (NAV) in Year 2000 to RM169 billion as at 31 December 2007. However, this strong growth has been punctuated by some extraordinary financial crisis in 2008, starting from the fallout of the subprime loans in the USA, bursting of the property bubble, the global credit crunch, the banking crisis and the rapidly falling share prices worldwide. As at 31 December 2008, the unit trust industry saw its NAV dropping to RM134 billion. While the industry NAV has dropped by 20% over the last 10 months, the industry
Net Asset Value to Bursa Malaysia Market Capitalization has increased from 15% to more than 20%. In relative terms, the unit trust industry drop is less severe than the fall in share prices in Bursa Malaysia due to the diverse nature of its assets.

MUTUAL FUND INDUSTRY IN WORLD MARKET

- MUTUAL FUND – A GLOBALLY PROVEN INVESTMENT

Worldwide, the Mutual Fund has a long and successful history. The popularity of the Mutual Fund has increased manifold. In developed financial markets, like the United States, Mutual Funds have almost overtaken bank deposits and total assets of insurance funds.

Internationally, on-line investing continues its meteoric rise. Many have debated about the success of e-commerce and its breakthroughs, but it is true that this aspect of technology could and will change the way financial sectors function. However advanced countries like US, mutual funds buy-sell transactions have already begun on the net, while in India the net is used as a source of information. Such changes could facilitate easy access, lower intermediation costs and better services for all.
MUTUAL FUND INDUSTRY IN INDIAN MARKET

The Indian mutual funds industry is witnessing a rapid growth as a result of infrastructural development, increase in personal financial assets, and rise in foreign participation. With the growing risk appetite, rising income, and increasing awareness, mutual funds in India are becoming a preferred investment option compared to other investment vehicles like Fixed Deposits (FDs) and postal savings that are considered safe but give comparatively low returns, according to “Indian Mutual Fund Industry”.

[Graph showing Worldwide Total Assets of Mutual Funds (in USD million) from 2003 to 2009 with data points for World, Americas, Europe, Asia and Pacific, and Africa.]
MUTUAL FUND INDUSTRY IN MALASIA

In Malaysia, the unit trust schemes which are managed by experience fund managers are governed by a legally binding deed registered with the Securities Commission under central government. The Securities Commission regulates the unit trust industry as well as the operations and administration of unit trust schemes to protect the interest of unit holders. Private Unit trust funds are classified as professionally managed, collective investment schemes that pool unit holders monies and invest them towards the specified goals as declared by the investment objectives of the schemes. The schemes aim to provide comparatively higher returns in the form of income distributions and capital growth with reasonable risk. The investment schemes are medium to long term in a broadly diversified portfolio of stocks and bonds, or other specialized money market instruments.
The growth of the IMFs in Malaysia, which is in a similar pattern, is expected to increase from a higher demand from local and foreign markets, as well as from increasing level of awareness and confidence among investors.

Abdullah in his research of the performance of the mutual fund, indicates that the MF industry in Malaysia has the potential to grow even faster. This potential depends upon new catalysts, the removal of the weaknesses by the SC, and the liberalization of foreign-exchange administration rules by the Malaysian Central Bank in 2007 for MF investments in foreign markets, so that fund managers can to invest up to 50% of net asset value in foreign currency. There is continuous growth of IMFs in Malaysia. Data in April, 2009 indicated that there were 141 IMFs in Malaysia, increasing from 13 funds in December 1999. The net asset values of these funds increased from RM1.39billion to RM18.31billion, with a total NAV RM150.472billion, and units in circulation amounting to 50.76billion units.

**Cycle Mechanism:**

![Cycle Mechanism Diagram]
Growth in Malaysian unit trust fund /mutual fund industry

Led by a resilient domestic demand and government consumption, Malaysian economy staged a strong recovery in the first half of 2010, rebounded to 9.5% from a negative 5.1% in the same period last year before expanded further, albeit at a slower pace in the second half and recorded a growth of 7.2% in 2010 as a whole. Against the positive backdrop, Net Asset Value (NAV) for unit trust funds increased 18.3% to RM226.8 billion as at end of December 2010, representing 17.8% of market capitalization of Bursa Malaysia.

- Total NAV of Islamic funds amounted to RM26.6 billion as at end of 2010 - an increase of 22.6% over the course of last year, while assets of money market Funds added a marked 65.1% to RM 20.8 billion in the corresponding period.
SUMMARY OF TOURISM SECTOR IN MALAYSIA

The Ministry of Culture, Art and tourism was established in 20 May 1987 and Tourism Development Corporation of Malaysia moved to the new ministry. Tourism Development Corporation exist from 1972 to 1992, under the act of Malaysia tourism promotion board 1992 Malaysia tourism promotion board established.

Malaysia tourism promotion board has objective to achieve success at both domestic and international level. It aims to market Malaysia as a number one destination. Malaysia tourism board wants to make tourism sector a main contributor to the growth of the nation.

With the growth of world tourism and Malaysia as tourism spot, has contributed to the change and focus in the Malaysia’s tourism sector. It has helped to generate revenue in substantive foreign exchange earnings and create more number of employment. Tourism Malaysia now has 11 marketing representative offices and 34 overseas.

MTPB (Malaysia Tourism Promotion Board) is a body under the Ministry of Tourism, Malaysia.
Tourism Malaysia or formerly known as the Tourist Development Corporation of Malaysia (TDC). TDS was recognized on August, 1972. It was then under the former Ministry of Trade and Industry.

Artistic with a multiplicity of cultures, Malaysia offers a ‘truly Asian experience’. Discover a wonderful fusion of three of Asia’s oldest civilisations – Malay, Chinese and Indian. A collection enriched with the original traditions of the KadazanDusuns, Ibans and other ethnic communities of Sarawak and Sabah. Experience the country’s alluring wonders – multi-coloured festivals, splendid skyscrapers, charming heritage buildings, enchanting islands and beaches as well as a million-year-old rainforest with fascinating flora and fauna. Meet the affectionate and friendly people and enjoy world-class facilities. Wonder at the bewildering range of shopping delights and tempt your palate with mouth watering delicacies. Pulsating with life, bursting with colour, Malaysia awaits you.

- The country has made astonishing economic progress since independence and has become a major centre for tourism in Asia.
- Malaysia is one of the most wonderful beautiful cities in the Southeast Asia engrossed in rich cultural and traditional heritage is considered as a great destination for tourists. Malaysia tourism is interesting for those who love crystal clear water at beaches, water sports activities, deep blue sea, stunning resorts and luxurious hotels. If you are night lover and want to enjoy dinning and night parties with some exotic dance and
dinner this city offer some of the best restaurants and dinning places. Shopping complexes are also interesting here and you can experience great hospitality during your Malaysia tour.

- Holiday goers should not miss this place specially those who love travelling around the world. This place is also famous for the ancient sculptors and traditional art which are mixed with the modern technology which has establish some of the utmost skyscrapers. These things are world famous and one must not miss them in their Malaysia tour.

- Manufacturing constitutes the major single factor of Malaysia's economy. Tourism and primary produce such as palm oil, petroleum, timber and natural rubber are major contributors to the economy.

- Map of Malaysia
Promotional efforts

In year 2007 the success of the Visit Malaysia is a celebration of Malaysia's different cultures, beautiful holiday places and exclusive attractions has helped the country to be in the forefront in tourism.

In 2010 Tourism Malaysia declared that it would be making great efforts to attract people from New Zealand. The Malaysian government has started a movement called "1Malaysia Green, 1Malaysia Clean" in order to let tour operators and travelers know the need to protect nature areas while promote eco-tourism.

Ministry of Tourism

As of August 2010 Dato’ Sri Dr. Ng Yen Yen is the Minister of Malaysia Tourism and Azizan Noordin is Acting Director-General of Tourism Malaysia.

A message by the Minister of Tourism:

“Malaysia’s wealth of culture, beautiful landscapes and exotic foods has been documented numerous times before. In fact, these are some of the main reasons for travellers to choose Malaysia as their holiday destination. However, there is one aspect of Malaysia that many have yet to discover: our beautiful and priceless art heritage.”

10 of Malaysia’s Best:
1) **PETRONAS Twin Towers- Kuala Lumpur:** Explore the world’s tallest twin structure with a height of 452 meters (88 floors) located in The Heart of Kuala Lumpur.

2) **Sunway Lagoon- Kuala Lumpur:** Sunway Lagoon Theme Park features the world’s largest surf wave pool and thrilling rides.

3) **Mt. Kinabalu – Borneo:** Explore South East Asia’s highest mountain. Those looking for a challenge can take a two day hike to the summit and enjoy stunning views.

4) **Sepilok Orangutan Rehabilitation Centre- Borneo:** Visit the world’s largest orangutan rehabilitation centre. See orphaned and injured orangutans be rehabilitated to return to their natural environment.

5) **Island Hopping- Langkawi:** Langkawi has 99 islands waiting to be discovered. Island hop, swim, snorkel or simply relax on the beaches.
6) **George Town - Penang:** Explore the winding streets with many grand colonial buildings, temples, mosques.

7) **Golfing:** There are a variety of excellent golf courses around Malaysia with breathtaking scenery.

8) **National Parks:** Visit one of Malaysia’s 19 national parks. Trek, spot wildlife including the proboscis monkey, explore caves, waterfalls and discover rare species of plants.

9) **Longhouse – Borneo:** Visit a tribe in a wooden structure on stilts.

10) **Turtle Island – Borneo:** Take a trip to Turtle Island and get up close and personal with turtles. Watch turtles
laying eggs on the beach and help to release them back into the ocean.

1.2) DEMOGRAPHIC PROFILE

AREA
329,759 square KMs

POPULATION
28.32 ml

CAPITAL CITY
KUALA LUMPUR

PEOPLE
Malays include 56.8% of the population, while the Indian, Chinese and Bumiputeras and other races to 43.2% of the country's population.
POPULATION GROWTH RATE

1.576% (2011 est.)

BIRTH RATE

21.09 Births/1,000 Population (2011)

DEATH RATE

4.92 Deaths/1,000 Population (July 2011)

NATIONALITY

Noun: Malaysian(s)
Adjective: Malaysian

ETHNIC GROUPS


GOVERNMENT

Malaysia follow the bicameral governmental structure, adopting a democratic parliamentary. The country’s head is the King or the Yang Di-Pertuan Agong, this position which is altered every five years amongst the Malay Sultanates. Prime Minister is a head of government.

WEATHER

The Malaysia experience tropical weather conditions year-round. Temperatures are from 20°C (67°F) to 31°C (87°F). Higher elevation is much colder with temperatures between 14°C (55°F) to 24°C (75°F). Annual rainfall varies from 2,010mm to 2,506mm.
RELIGIONS

Muslim 60.45%, Buddhist 19.15%, Christian 9.10%, Hindu 6.35%, Confucianism, Taoism, other traditional Chinese religions 2.55%, other or unknown 1.48%, none 0.82% (2000 census)

LANGUAGES

Bahasa Malaysia (official), Chinese (Mandarin, Cantonese, Hokkien, Foochow, Hakka, Hainan), English, Tamil, Malayalam, Telugu, Thai, Panjabi.

LITERACY

Definition : Age 15 year and above the 15 year can read and write
Total population : 88.72%
Male : 92.5%
Female : 85.42% (2000 census)

1.3) GENERAL ECONOMY & INDUSTRY OVERVIEW

➢ GENERAL ECONOMY

Malaysia is a middle-income nation, has distorted itself as the 1970s from a manufacturer of raw materials into an promising difference sector of economy. Under the Prime Minister NAJIB, Malaysia is attempting to get high-income status by 2020 and to go farther up the value-added production chain by attracting investments in Islamic finance, biotechnology, services and high technology industries.
The NAJIB organization also is ongoing efforts to improve domestic demand and decrease the economy's dependence on export. Nevertheless, exports - particularly of oil and gas, electronics, rubber and palm oil - remain a important driver of the economy. As an oil and gas exporter, Malaysia has profited from higher world energy prices; although the rising cost of domestic gasoline and diesel fuel, combined with strained government finances, has forced Kuala Lumpur begin to reduce government subsidies.

The Malaysian govt is also trying to reduce its dependence on state oil producer Petronas, which supplies more than 40.5% of government’s income. The central bank maintains healthy foreign exchange reserves and bank well-developed regulatory regime has limited Malaysia's exposure to riskier financial instruments and the global financial crisis. Nevertheless, decreasing worldwide demand for consumer goods hurt Malaysia's exports and economic growth in 2009, although both showed signs of recovery in 2010. In order to attract increased investment, NAJIB has raised possible revision to the economic and social preference accorded to ethnic Malays under the New Economic Policy of 1970, but he has encountered important opposition, especially from Malay nationalists and other vested interests.

**GDP:**

$414.42 billion -2010  
$386.86 billion -2009  
$393.51 billion -2008

**GDP - Real Growth Rate**

7.23% -2010  
-1.71% -2009  
4.76% - 2008

**POPULATION BELOW POVERTY LINE:**

3.61% -2007
LABOUR FORCE:

11.60 ML (2010)

LABOUR FORCE - BY OCCUPATION:

Agriculture : 13.2%
Industry : 36.4%
Services : 50.4% - 2005

UNEMPLOYMENT RATE:

3.42% - 2010
3.74% - 2009

UNEMPLOYMENT, YOUTH AGES 15-24:

Total: 10.7%
Male: 10.4%
Female: 11.6% - 2008

MARKET VALUE OF PUBLICLY TRADED SHARES:

$410.50 billion December 31, 2010
$256.10 billion December 31, 2009
$187.12 billion December 31, 2008

AGRICULTURE - PRODUCTS

Peninsular Malaysia - palm oil, rubber, rice, cocoa; Sabah - subsistence crops, coconuts, Sarawak – rubber, rice; rubber, timber; pepper; timber.

INDUSTRIES

Peninsular Malaysia - Pharmaceuticals, rubber , oil palm processing and manufacturing, electronics, medical technology, smelting and tin mining, logging, timber processing;
petroleum production; Sabah - logging, petroleum production and refining, Sarawak - agriculture processing, logging.

**INDUSTRIAL PRODUCTION GROWTH RATE**

1. – 2010

**ELECTRICITY - PRODUCTION**

101.12 billion KWh  2009

**ELECTRICITY - PRODUCTION BY SOURCE**

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fossil fuel</td>
<td>89.45%</td>
</tr>
<tr>
<td>Hydro</td>
<td>10.55%</td>
</tr>
<tr>
<td>Nuclear</td>
<td>0.00%</td>
</tr>
<tr>
<td>Other</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**ELECTRICITY - CONSUMPTION**

93.81 billion KWh  2009

**ELECTRICITY - EXPORTS**

91.67 million KWh  2009

**ELECTRICITY - IMPORTS**

0 KWh  2009

**EXPORTS**

$196.5 billion  2010
$157.7 billion  2009
**EXPORTS - COMMODITIES**

Petroleum and liquefied natural gas, electronic equipment, rubber, wood and wood products, palm oil, chemicals, textiles.

**EXPORTS - PARTNERS**

Singapore 13.42%, China 12.58%, Japan 10.3%, US 9.6%, Thailand 5.25%, Hong Kong 5.15% 2010

**IMPORTS**

$152.56 billion 2010  
$117.44 billion 2009

**IMPORTS - COMMODITIES**

Machinery, Electronics, petroleum products, iron and steel products, plastics, vehicles, Chemicals.

**IMPORTS - PARTNERS**

China 12.61%, Japan 12.56%, Singapore 11.42%, US 10.67%, Thailand 6.23%, Indonesia 5.61%  2010

(Source:-Malaysia Economy Profile 2012)

**Malaysia's Economy Attains 7th Position**

Compared with 12th position Malaysia's Economic get 7th rank out of 59 economies in the year of 2007. It was recognized in the World Competitiveness Yearbook 2011 Report released by the IMD (Institute for Management Development) recently.

Economic performance rank, Malaysia was headed of Sweden, Taiwan, Canada, the United Kingdom, Australia and Switzerland.

The Institute for Management Development survey constant to rank Malaysia has the top 5 most competitive nations in the Asia-Pacific region for the second year, taking 6th
position in the 20 million population category and 2nd position after Taiwan in the GDP per capita less than US$20,000 category.

Comparison with 10 places Malaysia get 16\textsuperscript{th} rank overall in terms of competitiveness among 59 economies in 2010.
INDUSTRY OVERVIEW:

Tourism Products

India offers various tourism options due to its uniqueness, which attracts majority of the tourists. The country boasts of natural treasures like mountains, ocean, seas, deserts, rainforests, valleys etc. on one hand, while world-class healthcare infrastructure on the other, which provides varied kinds of tourism options such as adventure and rural tourism, sustainable tourism/eco-tourism, cruise tourism, golf tourism and medical tourism to the travelers.

VISION

Developing Malaysia as a world class tourist destination.

MISSION

To work with all industry players to put the tourism industry as a facilitator for sustainable economic growth.
NATIONAL TOURISM POLICY

Making the National Tourism Industry as a main sector, sustainable, viable and valuable in contributing to national development.

OBJECTIVE

- To increase the role of tourism to the economic development of the country.
- To empower rural communities through the rural tourism activities.

QUALITY POLICY

Ministry of Tourism is committed to the delivery of excellent tourism services to the customers based on MS ISO 9001:2000.

Ministry of Tourism always makes improvement continuously on the Quality Management System to improve the role of the implemented system.

1.4 GENERAL OVERVIEW OF TRADE & COMMERCE

**Tourist Arrival of Malaysia**

<table>
<thead>
<tr>
<th>Year</th>
<th>Arrival(million)</th>
<th>Receipt(million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>24.7</td>
<td>58.3</td>
</tr>
<tr>
<td>2010</td>
<td>24.6</td>
<td>56.5</td>
</tr>
<tr>
<td>2009</td>
<td>23.6</td>
<td>53.4</td>
</tr>
<tr>
<td>2008</td>
<td>22.0</td>
<td>49.6</td>
</tr>
</tbody>
</table>
Total arrivals volume declined in only three years during the decade.

- **2001**: the devastating terrorist attack on 11 September (9/11) in the USA had a major impact on global demand in the last quarter of 2011, but the final outcome was a year of stagnation rather than real decline (-0.1%).

- **2003**: a relatively modest 1.6% fall in arrivals was due to the combined effect of three significant factors: the Iraq crisis, the SARS outbreak and a persistently weak global economy.

- **2009**: the global economic recession that started in the Second Half of 2008 resulted in a 3.8% decline in arrivals worldwide the following year.
1.5) OVERVIEW DIFFERENT ECONOMIC SECTORS OF SELECTED COUNTRY

Overview of Malaysian Economy

The Malaysian economy continued to grow and was able to record a growth of 6.3% in 2007 (2006 : 5.9%). The growth of Malaysia's economy exceeded the initial forecast of 6.0%. Part of the growth was supported by the results of the 9MP projects which gave positive impact on construction and trade activities, in spite of the moderate growth of the export environment.

The Performance of the Economic Sector

Large number of Malaysian key economic sectors showed positive growth in 2007. The growth was led by the construction sector, i.e. at 4.6% (2006 : -0.5%), the mining sector at 3.3% (2006 : -2.7%), and services sector at 9.7% (2006 : 7.3%). Sectors which experienced decline were agriculture at 2.2% (5.4% : 2006), and manufacturing at 3.1% (2006 : 7.1%).

Central Bank of Malaysia Yearly Report 2007

1.6 LEGAL ASPECT OF TRADE IN MALAYSIA

The law of Malaysia is mainly based on the common law legal system. This was a direct result of the colonization of Malaya, Sarawak, and North Borneo by Britain between the early 19th century to 1960s. The supreme law of the land—the Constitution of Malaysia—sets out the legal framework and rights of Malaysian citizens. Federal laws enacted by the Parliament of Malaysia apply throughout the country. There are also state laws enacted by the State Legislative Assemblies which applies in the particular state. The constitution of Malaysia also provides for a unique dual justice system—the secular laws (criminal and civil) and sharia laws.
THE LEGAL SYSTEM IS DIVIDED INTO DIFFERENT PARTS AS FOLLOWS:

PART I: PRELIMINARY
1. Short title
2. Interpretation
3. Power to designate tourism training institutions
4. The Commissioner of Tourism

PART II: LICENSING OF TOURISM ENTERPRISES
5. Tourism enterprises to be licensed
6. Submission of application for licence to the Commissioner
7. Grant of or refusal to grant licence
8. Revocation of licence
9. Appeal
10. Surrender of licence
11. Effect of revocation, surrender or expiry of licence
12. Return of licence
13. Restriction on use of word “tour”, etc.

4 Laws of Malaysia ACT 482

PART III: REQUIREMENTS AND DUTIES ON LICENSED TOURISM ENTERPRISES
14. Requirement to display licence
15. Duty to submit information and particulars relating to business operations
16. Inbound and outbound tours and other business activities
17. Notification of change of information
18. Requirements as to advertisement
19. Employment of licensed tourist guides
20. Use of excursion vehicles

PART IV: LICENSING OF TOURIST GUIDES
21. Persons providing services as tourist guides to be licensed
22. Register
23. Application for licence and qualification of applicants
24. Grant of licence
25. Validity of licence
26. Authorization card
27. Duties imposed upon licensed tourist guides
28. Suspension or revocation of licence
29. Effect of suspension or revocation of licence
30. Right to appeal
31. Surrender of licence and authorization card

**PART IVA: REGISTRATION OF ACCOMMODATION PREMISES**

31A. Accommodation premises shall be registered
31B. Application for registration as tourist accommodation premises
31C. Power of Commissioner to determine registration
31D. Register

**PART V: GENERAL**

32. Renewal of licence
33. Lost licences
34. Power of Minister to make regulations
35. Obligation of secrecy
36. Inaccurate declaration, *etc.*
37. General penalty
38. Liability of directors, *etc.*
39. Power to compound offences
40. Authorized officer
41. Power to investigate
42. Power to examine witnesses
43. Admissibility of statement
44. Search with warrant
1.7) PRESENT TRADE RELATION BETWEEN INDIA & MALAYSIA

Bilateral trade for the first time crossed the US $10 billion mark in 2008, with India emerging as the 8th largest export destination for Malaysia and the 12th largest overall trading partner.

India-Malaysia bilateral trade was worth $9.03 billion in 2010. It reached a peak of $10.65 billion in 2008.

"It is projected that in the next 15 to 20 years, of the five major economies of the world, three will be from Asia. Those three will be China, India and Japan. So we will have to work together,"

• In 2006, India-Malaysia trade reached a record US $ 6.57 billion, registering a growth of roughly 22.84% over the preceding year and ten times the amount that existed fourteen years ago.
• Malaysia has usually enjoyed a attractive surplus, of between US $ 1 billion to US $ 1.5 billion, in its trade with India.
• Trade between India and Malaysia has prolonged gradually from US $ 0.6 million in 1992 to US $ 4.3 billion in 2004, US $ 5.1 billion in 2005 and US $ 6.58 billion in 2006.
• India's exports have increased by 98 % from US $ 672.5 million in 2003 and US $ 1.3 billion in 2004

Trade Estimation with ASEAN Countries

The bilateral economic connection between India and Malaysia has been progressively moving in advance. Malaysia has been a huge cause of FDI for India. In fact, Malaysia is the 25th largest overall investor and third largest investor among ASEAN countries with a total inflow of US$ 252.97 million during the April 2000-March 2010 period, according to data released by the Department of Industrial Policy and Promotion.
1.7 BUSINESS VOLUME OF DIFFERENT PRODUCT IN INDIA

Malaysia and India have historical, political, economic, demographics, strategic and cultural relations between the countries with mutual respect and benefits. Malaysia ranks at 9th position country amongst top foreign tourist arrival in India and at the top position in south East Asia region. During the year 2009, Malaysian numbers of tourists visited India are 134,340. Most of the tourists’ purposes to visit India are spare time, festival and amusement (55.6%); visiting associates and family (19.2%) and commerce and trained (13.1%). October-December months are peak period to Malaysian tourist arrival in India whereas April-June are lean months. India is the sixth largest source country for inbound tourism to Malaysia with about 600,000 Indian tourists visiting Malaysia in 2009, an increase of 9% over figures of 2008. In terms of air traveler traffic to and from India, Malaysia is ranked at 10th place during the year 2009-10. During mentioned period, 1112892 passenger travelled to (558903) and from (553989) India between Malaysia whereas total freight traffic is 31100 tone between the countries through air route. Direct flights are available from Kualalumpur to Chennai, New Delhi, Tiruchirapally, Mumbai, Bangalore, Hyderabad, Cochin, Kolkata and Trivendram cities of India.

At present, there are 114 flights between two countries, of which 93 are operated by Malaysian airlines and 21 by Indian airlines.

Such huge explorer and traveler traffic leads to a possible market of Halal travel and tourism in India. Air India and other Indian household and worldwide Airlines still have to verify about the legitimacy to provide the Halal food during the travelling while starred hotels in Indian cities are also not agreement to Halal aware consumer and don’t have the appreciation of Muslim friendly services. Currently Halal legitimacy is ensured verbally only after getting enquired.
Strong bilateral trade, business, investment, travel and tourism relations between India and Malaysia lead to a possible extraordinary market for Halal business too. Malaysia is known as key leader country in promotion and expansion of Halal brand while India has the third major demand market of Halal products with more than 160 Million Muslim consumer. Halal opportunities subsist in processed food, meat, Islamic finance and consultancy services.
# PART-2

## 2.1 ANALYSIS OF MALAYSIA TOURISM

![Malaysia Tourism Logo]

<table>
<thead>
<tr>
<th>SWOT ANALYSIS OF MALAYSIA TOURISM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRENGTH</strong></td>
</tr>
<tr>
<td>• Outstanding nature</td>
</tr>
<tr>
<td>• Cultural diversity</td>
</tr>
<tr>
<td>• Good accessibility &amp; tourism facilities</td>
</tr>
<tr>
<td>• Safety</td>
</tr>
<tr>
<td><strong>OPPORTUNITIES</strong></td>
</tr>
<tr>
<td>• Close proximity to Asian neighbours</td>
</tr>
<tr>
<td>• Better access through budget carriers</td>
</tr>
<tr>
<td>• World Heritage Site branding</td>
</tr>
<tr>
<td>• Youth travel</td>
</tr>
</tbody>
</table>
2.2) PRESENT RELATIONSHIP WITH INDIAN TRADE AND COMMERCE, INVESTMENT, IMPORT EXPORT

Bilateral trade for the first time crossed the US $10 billion mark in 2008, with India emerging as the 8th largest export destination for Malaysia and the 12th largest overall trading partner.

India-Malaysia bilateral trade was worth $9.03 billion in 2010. It reached a peak of $10.65 billion in 2008.

"It is projected that in the next 15 to 20 years, of the five major economies of the world, three will be from Asia. Those three will be China, India and Japan. So we will have to work together,"

• In 2006, India-Malaysia trade reached a record US $ 6.58 billion, registering a growth of approximately 22.84% over the previous year and ten times the amount that existed fourteen years ago.

• Malaysia has traditionally enjoyed a handsome surplus, of between US $ 1 billion to US $ 1.5 billion, in its trade with India.

• Trade between India and Malaysia has expanded steadily from US $ 0.6 million in 1992 to US $ 4.3 billion in 2004, US $ 5.1 billion in 2005 and US $ 6.58 billion in 2006.

• India's exports have increased by 98% from US $ 672.5 million in 2003 and US $ 1.3 billion in 2004.
2.3) NEW OPPORTUNITIES OF BUSINESS (IMPORT, EXPORT, INVESTMENT ETC.)

➢ Tourism in India

The Indian Tourism sector is one of the largest service industries in the country in terms of its contribution to the Gross Domestic Product (GDP) and Foreign Exchange Earnings (FEE), as well as for providing employment to millions. The sector in fact is expected to generate around US$ 42.8 billion (INR 1,897.7 billion) by 2017, according to an industry research note by auditing and consulting firm Deloitte Touche. Significantly, the Tourism and the Hospitality sector generated a total of US$ 2,468.39 billion (INR 1,094, 48.4 billion) in Foreign Direct Investment (FDI) during April 2000-April 2011, according to the Department of Industrial Policy and Promotion (DIPP). Further, Foreign Tourist Arrivals (FTAs) are expected to grow to 10 million by 2010-12 and the domestic tourism is expected to increase by 15 per cent to 20 per cent over the next five years as per the Ministry of Tourism.

Tourism in India is witnessing widespread growth on the back of increasing inbound tourism by the growing Indian middle class, rising inflow of overseas tourists and winning government campaigns for promoting ‘Incredible India’. Infrastructure development holds the key to India’s sustained growth in the Tourism sector. Therefore, Ministry of Tourism has made reliable pains to expand excellence tourism infrastructure at tourist destinations and circuits. Further the government has also allowed 100 per cent foreign investment under the automatic route in the Hotel and Tourism related industry. Also, according to MrSubodh Kant Sahay, Minister of Tourism, "Government is embarking upon the policy of developing integrated perspective investment plans for key circuits and destinations in each state and Union Territory." He said these investment plans would identify components requiring investments through the Centre, the state governments, public private partnership and private sector.

Significantly, the country has the potential to become a major global tourist destination, with the Tourism sector expected to contribute around INR 3,414.8 billion (US$ 77.0 billion*) by 2021, according to a report by the World Travel and Tourism Council (WTTC).
India’s 12th current0 ranked in the Asia Pacific region and 68th overall in the world, according to the WTTC (World Travel and Tourism Council) Competitiveness Report 2011.

According to the TSA (Tourism Satellite Accounting) research, released by WTTC (World Travel and Tourism Council) and its strategic partner Oxford Economics in 2011:

**CONTRIBUTION OF TRAVEL AND TOURISM IN GDP**

<table>
<thead>
<tr>
<th>Particular</th>
<th>INR (billion)</th>
<th>US$(billion)</th>
<th>Percentage</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct contribution</td>
<td>1570.5</td>
<td>35.4</td>
<td>1.9</td>
<td>2011</td>
</tr>
<tr>
<td>Target</td>
<td>3414.8</td>
<td>77.0</td>
<td>2</td>
<td>2021</td>
</tr>
<tr>
<td>Total contribution</td>
<td>3680.4</td>
<td>83.0</td>
<td>4.5</td>
<td>2011</td>
</tr>
<tr>
<td>Target</td>
<td>8523.1</td>
<td>191.2</td>
<td>4.9</td>
<td>2021</td>
</tr>
</tbody>
</table>

**Total Contribution of Travel & Tourism to GDP**
The TSA research also states that the sector is expected to support directly 24,931,000 jobs (5.0 per cent of total employment) in 2011, rising by 2.0 per cent pa to 30,439,000 jobs (5.2 per cent) by 2021.

➢ **Investment Opportunities**

The Tourism sector is expected to perform very well in future and the industry offers an interesting investment opportunity for long-term investors.

According to the TSA research, the sector is expected to attract capital investment of INR 1,233.0 billion (US$ 27.8 billion), rising by 8.7 per cent pa to INR 2,827.5 billion (US$ 63.7 billion). This means that the sector’s share of total national investment will increase from 4.7 per cent in 2011 to 4.8 per cent in 2021.

Source: World Travel & Tourism Council
The Tourism industry in India provides opportunities in diverse fields such as tours and travel circuit, hospitality and hotel sector and development of dedicated tourisms such as medical tourism, rural tourism, golf tourism, cruise tourism, adventure tourism, eco tourism and wellness tourism.

The Tourism sector is witnessing fast growth due to the ever-growing number of participants in related businesses such as hotels, tour operators, airlines, shipping lines, among others. Therefore, the sector is predictable to witness elevated growth in the near prospect and offer diverse opportunities to the investors in all these areas of businesses. In fact, the hotel industry is one of the main areas wherein investors can look for long-term opportunities.

➢ **Hotel Industry**

Due to rising number of foreign tourist arrivals, jointly with the growth of home tourism in the country, the hotel industry is also witnessing continued momentum.

The Indian Hospitality industry contributes around 2.2 per cent of India’s GDP. The industry is expected to reach INR 230 billion (US$ 5.2 billion*) by 2015, growing at a robust CAGR of 12.2 per cent. India will be investing around INR 448 billion (US$ 10.1 billion*) in the hospitality industry in the next five years, according to a report ‘The Indian Hotel Industry Report - 2011 Edition’ by CYGNUS Business Consulting & Research Firm.
The industry also witnessed an increase in the number of hotel rooms with a growth of 5 per cent during the last three to four years. In the next two years, a total investment of US$ 12.2 billion (INR 545.2 billion*) is expected that will add over 20 new international brands in the hospitality sector. Rise of budget hotels in the country, like Ginger Hotels, Lemon Tree, Sarovar Hotels, Fortune Hotels, Ibis and Choice Hotels clearly suggest a huge growth potential in the sector.

The Growth Path

Foreign tourist arrivals in the country have increased considerably during the past decade motivated by both, business and leisure needs and are further expected to grow at a mix annual growth rate (CAGR) of around 8 per cent during 2010-2014, as per a research report ‘Indian Tourism Industry Analysis’ by research firm RNCOS.

In fact, the Tourism sector enjoyed sturdy expansion during 2010, as indicated in the data unrestricted by the Ministry of Tourism in January 2011. As per the data, in 2010, the country practiced a strong recover in the Tourism industry.

Foreign Tourist Arrivals (FTAs)

- FTAs in India during 2010 were 5.57 million with a growth rate of 8.1 per cent as compared to the FTAs of 5.16 million and growth rate of (-)2.2 per cent during 2009.
- The 8.1 per cent growth rate in FTAs for 2010 over 2009 for India is much better than UNWTO’s projected growth rate of 5 per cent to 6 per cent for the world during the same period.
- FTAs during the month of June 2011, was 3.95 lakh as compared to FTAs of 3.70 lakh during the month of June 2010 and 3.53 lakh in June 2009. There has been a growth of 7.2 per cent in June 2011 over June 2010 as compared to a growth of 4.9 per cent registered in June 2010 over June 2009. FTAs during the period January-June 2011 were 29.18 lakh with a growth of 10.9 per cent, as compared to the FTAs of 26.31 lakh with a growth of 8.9 per cent during January-June 2010 over the corresponding period of 2009.
• FEE from Tourism in INR terms during 2010 were INR 648.7 billion as compared to INR 549.5 billion during 2009 and INR 507.3 billion during 2008. FEE from tourism in US$ terms during 2010 were US$ 14.2 billion as compared to US$ 11.4 billion during 2009 and US$ 11.7 billion during 2008.

• The growth rate in FEE in INR terms during 2010 was 18.1 per cent as compared to the growth rate of 8.3 per cent in 2009 over 2008. Therefore, the growth rate observed in 2010 over 2009 was substantially high. The growth rate in FEE in US$ terms during 2010 was 24.4 per cent as compared to a decline of 3 per cent in 2009 over 2008. Therefore, in US$ terms, also growth rate observed in 2010 was positive and substantially high.
• FEE in INR terms during the month of June 2011 were INR 54.3 billion as compared to INR 47.4 billion in June 2010 and INR 38.0 billion in June 2009. FEE in US$ terms during the month of June 2011 were US$ 1.2 billion as compared to FEE of US$ 1.0 billion during the month of June 2010 and US$ 0.7 billion in June 2009.

• The growth rate in FEE in INR terms in June 2011 over June 2010 was 14.4 per cent as compared to 25.0 per cent in June 2010 over June 2009. The growth rate in FEE in US$ terms in June 2011 over June 2010 was 18.9 per cent as compared to the growth of 28.1 per cent in June 2010 over June 2009.

• FEE from Tourism in INR terms during January-June 2011 were INR 351.6 billion with a growth of 12.1 per cent, as compared to the FEE of INR 313.7 billion with a growth of 27.1 per cent during January-June 2010 over the corresponding period of 2009.

• FEE from Tourism in terms of US$ during January-June 2011 were US$ 7.8 billion with a growth of 14.2 per cent, as compared to US$ 6.8 billion with a growth of 36.6 per cent during January-June 2010 over the corresponding period of 2009.

Visitor exports are a key constituent of the direct donation of the sector. According to the TSA research, India is expected to attract 6,179,000 global tourist (overnight visitor) arrivals in 2011, generating INR 678.6 billion (US$ 15.3 billion) in visitor exports (foreign visitor spending, including spending on transportation). By 2021, global tourist arrivals are anticipate to total 11,149,000, an increase of 6.1 per cent pa generating expenditure of INR 1,344.7 billion (US$ 30.3 billion*).

Visitor Exports and International Tourist Arrivals
Drivers behind increase in Tourist Traffic

The main reason for increase in tourist traffic to India has been the following factors:

Domestic Tourist Traffic

- Rapidly increasing purchasing power of the middle class
- Better road connectivity
- Evolving lifestyle

International Tourist Traffic

- Value for money/Economical destination
- Business cum pleasure destination
- Development of Kerala and Rajasthan as the most acclaimed tourist destinations in India with their distinctive brand image
- Opening of the sectors of the economy to private sector/foreign investment
- Reform in the aviation sector such as Open Skies Policy has led to better connectivity with many countries with India
- Success of “Incredible India” campaign and other tourism promotion measures
Government Initiatives

According to the Consolidated FDI Policy, released by DIPP, Ministry of Commerce and Industry, Government of India, the government has allowed 100 per cent foreign investment under the automatic route in the Hotel and Tourism related industry. The terms hotel includes restaurants, beach resorts and other tourism complexes providing accommodation and/or catering and food facilities to tourists. The term tourism related industry includes:

- Travel agencies, tour operating agencies and tourist transport operating agencies
- Units providing facilities for artistic, exciting activity and flora and fauna experience to tourist
- Surface, air and water transport amenities for tourists
- Gathering/seminar units and organizations

As a facilitative measure to make Tourism sector in India more attractive the following initiatives are taken by Government:

- The Government has launched a Scheme of ‘Visa on Arrival’ (VoA) from January 2010 for nation of five countries, viz. Finland, Japan, Luxembourg, New Zealand and Singapore, visiting India for tourism purposes. The Government has now extensive this Scheme for the citizens of six more countries, namely Cambodia, Indonesia, Vietnam, Philippines, Laos and Myanmar from January 2011. During the period January-June 2011, a cumulative figure of 5774 VoAs were issued, with a total of 865 & 770 VoAs issued in the months of May & June respectively.
- The Ministry of Tourism has launched a scheme for development of nationally and internationally important destinations and circuits through Mega Projects. As on 4.2.2011, 38 mega projects have been acknowledged, out of which 26 projects have already been approved.
- To conquer the bottleneck of multiple inters – state road transport barriers, Ministry of Tourism has been advocating completion of flawless travel for marketable traveler vehicles. This would make easy level association of traveler traffic and pass up delays and problem to tourist.

Future trends
According to the Indian Tourism ministry, the Indian tourism industry would be the third largest foreign exchange earner in the country in the next three years. Till the end of 2012, foreign tourists will grow at the fastest pace in comparison with the last decade and it is estimated that tourism in India could contribute US$1.8 billion to India’s GDP. These statistics show the seriousness of the Indian government towards tourism. Andhra Pradesh, Uttar Pradesh, Tamil Nadu, Karnataka and Rajasthan are the leading tourism destinations in India in terms of total tourist arrivals. In the next few years, some new states should come into the picture such as Uttaranchal, Madhya Pradesh and a few others. According to the ministry, it is predicted that around US$10 billion is required for the development of Indian tourism in the next five years. When we think of long term capital requirements for all the states, it would be nearly US$56 billion in the next 20 years.

➤ **Why one should invest in Indian tourism**

- Economic liberalization has given a new force to the hospitality industry
- The Indian hospitality industry is increasing at a rate of 15 percent yearly. The current gap between supply and demand is predicted to grow as the economy opens and grows
- The government predicted an additional requirement of 200,000 rooms in the next five years
- Due to stable political and social conditions in India, there will be an increase in the number of tourist arrivals. India is ranked fourth among the world’s must see countries
- The present government in its process has taken a few projects like opening of the partial sky policy. This allows private domestic airline operators to fly on the Indian skies
- An increasingly growing middle class group, the arrival of corporate incentive travel and the multinational companies into India has bright prospects for tourism. India’s easy visa rules, public freedoms and its many attractions as an ancient civilization makes tourism development easier than in many other countries
- The 5 star hotel sector has increased the fastest during the last five years at a CAGR of 12 percent. In the coming years, this sector can be divided into three sub-segments Luxury, Business and Leisure. The growth in this segment shows that segment of travelers coming into India. In the last few years India has seen a large inflow of
business travelers in the country courtesy to relaxation of the government’s stand on FDI for most of the sectors in the country

- It costs an average of US$50-80 million to set up 5 star hotels with three hundred rentable rooms in India. The gestation period is generally between 3-5 years
2.4) PROBLEM AND PROSPECTS OF BUSINESS TRADE WITH MALAYSIA

The barriers that impede the growth in the tourism sector include the following:

• Provision of inappropriate infrastructure or facilities, owing to insufficient understanding of the specific attractions that appeal to particular types of tourist (e.g. crowding of chalets within very small areas, trends towards mass tourism at specialist tourism sites)
• Visible environmental damage owing to inappropriate silting of roads, buildings, accommodation on steep slopes and in high rainfall areas
• Limitations of infrastructure for air travel, and differences of opinion over questions of flight frequency and landing rights (e.g. frequency of flights between Peninsular Malaysia, Sabah and Sarawak)
• Constraints on manpower and training, shortage of training opportunities, and inadequate opportunities to learn and appreciate the specific requirements of tourists
• Rising prices especially for accommodation due to shortage of hotels
• Isolation of the tourism industry from its social obligations, leading to conflicts or lost opportunities for one or other party, e.g. between tourism developers and local communities

➢ Direction To Overcome The Barriers

A major direction to overcome the barriers is to form a smart partnership internally to benefit from the economies of scale, improve in the flow of information and work together to create value in the tourism products available to the tourists. In addition by enabling speedy response to market opportunities by continuously calibrating tourism products to meet changing trends in domestic and international tourists’ profile would enhance brand value of Malaysian tourism product, reputation and market share.