The economy
The Malaysian economy bounced back strongly from the global economic slowdown, posting growth of 7.2% in 2010, driven by strong internal and improving external demand. The 10th Malaysia Plan (2011-15), aims to create a private sector-led economy, by prioritising private finance initiatives and private sector projects under the National Key Economic Areas.

The key indicators are highlighted below:

- real GDP growth of 4.0% year-on-year in Q2, down from 4.9% in Q1, was the slowest since 2009
- export growth picked up to 8.6% in June; in the first five months of the year, exports expanded by 6.2% despite low demand for electrical and electronic products in mature markets and supply chain disruptions in the aftermath of Japan’s earthquake and tsunami in March
- consumer spending rose by 6.4% year-on-year in Q2, but private investment slowed to 3.2%, down from 6.5% in Q1
- having declined by 5.6% in May, industrial production rose by 1% in June, driven by 4.5% year-on-year expansion in manufacturing
- the inflation rate rose by 20 basis points to 3.5% in June.

The business perspective
The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,000 medium to large enterprises (MLEs) in 39 economies around the world. This report focuses on the experiences of privately held businesses in Malaysia and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that MLEs in Malaysia are optimistic about their economy over the next 12 months, although less so than in 2010. Business expectations for revenue are in line with those of last year and expectations for profitability have risen. The availability of a skilled workforce and bureaucracy remain a major constraint on potential expansion.

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1 source: International Monetary Fund, The Economist and Experian.
The outlook

The economy is forecast to expand by around 4.5% this year, picking up to 5.2% in 2012. Growth is expected to be driven by increasing demand from China, already Malaysia’s largest export market, and expected to be its largest trading partner by 2015. Total exports are expected to increase by 16.8% this year, dropping back to 8.6% in 2012.

Private consumption should be boosted by rising household incomes and low unemployment. A surge in private investment – forecast to expand from 10.2% this year to 15.2% in 2012 – is expected to drive growth following various measures undertaken to enhance productivity and competitiveness in the private sector. The government is aiming to scale back the fiscal deficit – public expenditure is expected to grow by 2.8% this year, down from 3.8% in 2010.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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**Figure 1: Key indicators for MLEs**

<table>
<thead>
<tr>
<th>Malaysia compared to the Asia Pacific average</th>
<th>2009 Mal</th>
<th>2010 Mal</th>
<th>2011 Mal</th>
<th>2011 APAC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outlook for the economy over the next 12 months</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Balance of optimists over pessimists</td>
<td>-2%</td>
<td>+49%</td>
<td>+40%</td>
<td>+11%</td>
</tr>
<tr>
<td><strong>Change in employment levels</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Balance of MLEs expecting an increase over those expecting a reduction</td>
<td>-11%</td>
<td>+39%</td>
<td>+36%</td>
<td>+36%</td>
</tr>
<tr>
<td><strong>Constraints on expansion</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of skilled workforce</td>
<td>35%</td>
<td>34%</td>
<td>37%</td>
<td>38%</td>
</tr>
<tr>
<td>Regulations/red tape</td>
<td>24%</td>
<td>24%</td>
<td>22%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: Grant Thornton IBR 2011
International Business Report results

The Grant Thornton IBR 2011 reveals that business optimism has risen in most economies around the world. However, businesses in Malaysia are slightly less optimistic about their economy over the next 12 months; their optimism/pessimism balance has fallen by 9 percentage points from +49% in 2010 to +40% in 2011.

Businesses in India and Chile are once again the most optimistic globally, topping the league table of optimism with +91 per cent. They are followed by the Philippines (+85%), Sweden (+81%) and the United Arab Emirates (+80%). Japan is the least optimistic country once again with a balance of -66%, followed by Spain (-48%) and Greece (-45%).

Overall optimism amongst businesses globally has risen: this year on balance, +28% of MLEs across all countries are positive about their country’s economy, compared with +24% in 2010.

Optimism/pessimism

- businesses in Malaysia are slightly less optimistic about their economy this year (+40%) compared with 2010 (+49%)
- however, this remains well above the Asia-Pacific average (+11%)
- globally, business sentiment has risen from +24% in 2010 to +28% in 2011.

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2 the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.
3 for the purposes of IBR, the term ‘Asia-Pacific’ refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.
Employment

- a balance of +36% of businesses in Malaysia expect employment to grow in 2011, in line with businesses across Asia-Pacific (+36%)
- actual employment growth reported by businesses in Malaysia for 2010 (+40%) was similar to the level expected 12 months previously (+39%).

Revenue expectations

- expectations for revenue prospects are similar to 12 months ago; +62% this year compared with +60% last year
- the Asia-Pacific business average has risen by 9%, from +45% last year to +54% this year
- globally, expectations have risen from +40% in 2010 to +55% in 2011.

Profitability expectations

- the balance of businesses expecting to increase profits in Malaysia remains positive following the steep fall observed in 2009
- this year a balance of +48% of businesses in Malaysia expect their profits to rise compared with +41% in 2010
- the Asia-Pacific business average has risen by 8 percentage points and the global average is up by 13 percentage points.
Constraints

- the availability of skilled workers (38%) is cited as the most pressing constraint on expansion by businesses in Malaysia this year, similar to the Asia-Pacific business average (37%)
- a shortage of orders/reduced demand is cited as the greatest constraint by businesses in the Asia-Pacific region as a whole, at 45% compared with just 17% in Malaysia.

Support of lender

- the majority of businesses in Malaysia are happy with the level of support provided by lenders; 71% class lenders as supportive or very supportive towards their business
- this compares with 77% of businesses in the Asia-Pacific region as a whole
- only 2% of businesses in Malaysia believe that lenders are unsupportive or very unsupportive of their business, in line with the average across the Asia-Pacific region as a whole.
**New economic model**
- The manufacturing sector is cited as the sector most deserving of a boost through the New Economic Model (68%), followed by oil and gas (54%) and business services (52%).
- Half of businesses believe agriculture should receive a boost, with around 40% citing each of retail, electrical and electronics, and automotive.

**Policy measures**
- Businesses in Malaysia are split as to which of the NEM policy measures they most support.
- 37% cite the reskilling of the existing local labour force, but a further 35% take the longer term view, citing the increase in local talent over time.
- Almost one-in-five respondents cite policy related accessing and retaining global talent (18%) but just 7% cite the removal of labour market distortions constraining wage growth.

**Corporate governance**
- Just under half (45%) of Malaysian businesses are fully convinced that standards of corporate governance will be improved following the creation of bodies such as the Malaysian Code on corporate governance and the Audit Oversight Board.
- A further 42% of businesses are undecided as to whether bodies such as these will improve corporate governance, whilst 12% believe they will be ineffectual.
The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the ‘engine’ of the world’s economy.

In Malaysia 190 businesses were surveyed across all industry sectors between November 2010 and May 2011. These businesses ranged from medium to large in size with total employment of between 100 and 499.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

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