



## **MALAYSIAN IMPORT COMPENSATION POLICY WITH THE POSSIBILITY OF ITS APPLICATION IN IRAQ\***

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<b>Article history:</b>		<b>Abstract:</b>
<b>Received:</b>	14 <sup>th</sup> November 2024	The Malaysian experience is one of the development experiences worthy of attention and study, and developing countries benefit from it in rising from stagnation and backwardness. The Malaysian experience came to focus on building the human being, fighting poverty, encouraging creativity, supporting self-reliance, and strengthening export policies. It is one of the first industrial countries in the Islamic world. In 1957, the trend towards industrialization policy began as a primary goal for development. The development strategy in the early sixties turned towards a strategy of compensating for imports in the field of consumer industries. By the mid-eighties, the Malaysian economy became based on manufacturing after it had been dependent on primary commodities, as its exports depend on industry for about (80-85%). Malaysia was able to establish and develop the infrastructure, and diversify its sources of national income, which contributed to achieving a solid economic structure, and achieved great successes in treating the problems of illiteracy, unemployment, and others.
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### **INTRODUCTION:**

Malaysia has implemented the (Islamic economy) model, by setting development plans that target the essence of Islam in terms of caring for people and enhancing their capabilities and contribution to development, and this was reflected in the adoption of educational, health, social and economic policies that contributed to increasing human and economic development rates.

Malaysia's development experience has proven the success of the import compensation strategy that begins with real non-durable consumer goods, as these industries do not require a great deal of expertise, technology and monetary resources with the need for intensive labor and their suitability for the limited capacity of developing countries' markets.

### **RESEARCH IMPORTANCE:**

The importance of the research lies in the fact that it contributes to activating productive activity in Iraq by benefiting from the measures taken by Malaysia to compensate for imports.

**Research Objective:**

The research aims to benefit from the Malaysian policy in compensating for imports and trying to develop appropriate strategies to develop the productive sector in Iraq in a way that contributes to providing goods that meet local demand.

**Research Problem:**

The Iraqi economy suffers from several problems represented by internal structural imbalances and external imbalances due to its dependence on oil, and the decline of the productive sector in Iraq.

**Research Hypothesis:**

The research is based on the hypothesis: The import compensation policy plays a major role in achieving self-sufficiency and economic stability.

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(\*) Research extracted from the doctoral thesis, Import Compensation Strategy and its Role in Achieving Sustainable Development - Selected Experiences with the Possibility of Applying Them in Iraq, University of Wasit, College of Administration and Economics



### **First: The Malaysian economy - political stability and multiple resources**

The Malaysian economy is distinguished by its diversity through state intervention and promotion of growth in targeted sectors, motivated by international competition and its support for the transfer of technological knowledge, and focusing on the development of national oil companies. The Malaysian economy relied on a strategy to compensate for imports in the heavy industries sector, by focusing on stimulating exports of manufactured goods in light of global competition. Malaysia has succeeded in diversifying its economic activity by attracting foreign direct investment in the export sector, which has contributed to strengthening the capital base, in addition to focusing on human and capital development through training workers and developing their skills through a fund targeting industrial companies sponsored by the state. Malaysia has also targeted the development of small and medium enterprises, and these developments have ultimately led to the diversification of its production and exports and their advancement over the years <sup>(1)</sup>

### **The most prominent features of Malaysia's economy are as follows:**

1. Malaysia has large natural resources, as the area of agricultural land in Malaya in West Malaysia is about 3 million hectares, and Malaysia is rich in agricultural resources. Its most important agricultural crops are: rice, spices, rubber, soybeans, sugar cane, palm oil, while forests cover a large area of land, and Malaysia ranks sixth in Asia in wood production and export, and has mineral wealth, as it produces minerals, the most important of which are iron, tin, copper, gold, nickel and phosphate, and Malaysia is the second largest exporter of natural gas after Qatar, and the second largest oil producer in South Asia after Indonesia, and has an advanced infrastructure <sup>(2)</sup>
2. Malaysia is the third economic power in the Association of Southeast Asian Nations, with a GDP estimated in 2012 at about \$407 billion after Indonesia and Thailand, and a population of 30.5 million people. This human wealth has enabled it to occupy the second place in ASEAN, in addition to a GDP per capita that exceeds \$10,000 after Singapore <sup>(3)</sup>.

### **Second: Malaysian Trade Balance**

The period of (Mahathir Mohamad) represents the industrial shift in Malaysia's economic history, and his government did not neglect the agricultural sector, as it worked to expand the base of local exports, and reduce the annual losses in foreign reserves spent on food imports, and focused on cash crops such as (rice, wheat, cotton and olives ..) that achieve high returns, which contributed to increasing local production in the agricultural sector for the period (1980-1992) and contributed to employing workers at high rates <sup>(4)</sup>, in addition to that, Mahathir Mohamad worked to enhance trade cooperation, and presented the idea of establishing an economic bloc between the Association of Southeast Asian Nations (ASEAN), for the purpose of bringing together all of East Asia, and the focus is on economic and regional cooperation between member states in the field of unifying the industrialization policy and liberalizing trade, and protecting the emerging industry from the damages inflicted on it as a result of the protection applied by developed countries such as the United States, and the free trade area was established in 1991 with the aim of gradually removing customs and non-customs barriers, and it is being implemented for a period of 15 years <sup>(5)</sup>

It is known that international trade played an important role in the Malaysian economy after 1998 due to the trade policies followed by the Malaysian government, which directed most of its efforts to promote exports, especially electronic exports, which represented an important element in supporting the trade balance, in addition to electrical exports, which witnessed a significant expansion in light of government support based on economic policies that support development.

Table (1) shows the diversity of Malaysia's commodity trade balance and the dominance of its non-oil exports over foreign trade by (87.4%) in 2004. The trade balance without oil achieved a surplus of (13.8) billion dollars, and the ability of non-oil export revenues to cover the country's total imports was about (105.2%), while the ability of oil

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<sup>(1)</sup>Ahmed Al-Darwish and others, The Kingdom of Saudi Arabia: Addressing Emerging Economic Challenges to Maintain Growth, International Monetary Fund Publishing, 2015, p. 71.

<sup>(2)</sup> Amina Hanaa Jabi and others, The necessity of economic diversification in countries rich in natural resources, a case study of Malaysia, Journal of Business and Trade Economics, Issue 4, University of M'sila, Algeria, 2017, p. 308.

<sup>(3)</sup>World Bank, World Data Set, Economy and Growth, 2022, p. 78.

<sup>(4)</sup>Ahmed Saleh Aboush, Leaders of Reform and Legislation in the World Throughout History, Dar Al-Kotob Al-Ilmiyah, Lebanon, 2019, p 21.

<sup>(5)</sup>Kamli Zahra, The Economic Experience and Sustainable Development in Malaysia: Determinants and Qualifications, Dimensions of the Development Experience in Malaysia, 1st ed., Arab Democratic Center for Strategic, Political and Economic Studies, Berlin-Germany, 2019, p. 111



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exports to cover total imports was about (15.2%), and oil exports constituted about (12.6%) of total commodity exports, and the surplus of the trade balance with oil was estimated at about 21.4 billion dollars in 2004.

Table (1)  
 Malaysia's merchandise trade balance during the period (2004-2020) (billion dollars)

Year	Value of non-oil exports billion dollars (1)	Oil exports value billion dollars (2)	Total merchandise exports billion dollars (3)	Value of non-oil imports is one billion dollars (4)	The value of oil imports is one billion dollars (5)	Total commodity imports billion dollars (6)	Total value of foreign trade billion dollars (7)	Trade balance with oil billion dollars (8)	Trade balance without oil: \$1 billion (9)	Percentage of non-oil exports to total exports% (10)	Percentage of oil exports to total exports % (11)	Non-oil exports coverage ratio of imports% (12)	Oil exports coverage ratio of imports% (13)
2004	110.647	15.957	126.604	92.063	8.308	105.166	231.770	21.438	18.584	87.4	12.6	105.2	15.2
2005	122.335	19.261	141.596	91.761	9.375	114.324	255.920	27.272	30.575	86.4	13.6	107.0	16.8
2006	138.680	22.073	160.754	90.817	12.001	130.441	291.195	30.313	47.863	86.3	13.7	106.3	16.9
2007	150.615	25.330	175.945	91.088	12.998	146.170	322.115	29.775	59.528	85.6	14.4	103.0	17.3
2008	162.917	36.592	199.509	89.064	17.108	156.348	355.857	43.161	73.853	81.7	18.3	104.2	23.4
2009	133.972	23.215	157.187	90.259	12.004	123.757	280.944	33.430	43.713	85.2	14.8	108.3	18.8
2010	167.185	31.473	198.658	90.060	16.412	164.622	363.280	34.036	77.125	84.2	15.8	101.6	19.1
2011	187.357	40.827	228.185	88.234	22.045	187.473	415.658	40.712	99.124	82.1	17.9	99.9	21.8
2012	180.278	47.328	227.606	85.500	28.477	196.393	423.999	31.213	94.778	79.2	20.8	91.8	24.1
2013	177.380	50.855	228.235	83.800	33.369	205.897	434.132	22.338	93.580	77.7	22.3	86.2	24.7
2014	182.178	51.673	233.851	82.889	35.714	208.851	442.702	25.000	99.289	77.9	22.1	87.2	24.7
2015	167.010	32.920	199.930	86.749	23.404	175.971	375.901	23.959	80.261	83.5	16.5	94.9	18.7
2016	160.615	29.220	189.835	88.341	19.736	168.684	358.519	21.151	72.274	84.6	15.4	95.2	17.3
2017	184.451	33.600	218.051	86.395	26.577	195.417	413.468	22.634	98.056	84.6	15.4	94.4	17.2
2018	208.357	39.098	247.455	85.600	31.296	217.602	465.057	29.853	122.757	84.2	15.8	95.8	18.0
2019	203.801	34.472	238.273	85.500	29.819	204.998	443.271	33.275	118.301	85.5	14.5	99.4	16.8
2020	207.721	26.465	234.186	87.526	23.732	189.856	424.042	44.330	120.195	88.7	11.3	109.4	13.9
compound growth rate	3.77%	3.02%	3.68%	3.23%	6.37%	3.54%	3.62%						

Source: The table was prepared based on: - Column (1)(2)(3)(4)(5)(6): Based on: World Bank data set <http://www.albankaldawli.org.2022>

Column (7)(8)(9)(10)(11)(12)(13) prepared by the researchers. Malaysia also announced an increase in its non-oil exports from (110.64) billion dollars in 2004 to 207.72 billion dollars, which is the highest level of non-oil exports in 2020. The ability of non-oil exports to cover imports reached about 109% in 2020, and the compound growth rate of the value of non-oil exports during the study period reached about (3.77%).

Total commodity exports increased in 2004 from \$126.604 billion to \$234.186 billion in 2020 at a compound growth rate of 3.68%. The highest value of total exports was \$247.455 billion in 2018, and the lowest value was \$126.604 billion in 2004.

During the period (2004-2014), oil exports increased from \$15.957 billion to \$51.673 billion, which is its highest level in 2014, and constituted (21.1%) of total Malaysian exports in 2014, and its ability to cover imports to about 24.7%, and it began to decline during the period (2015-2020) from \$32.920 billion to \$26.465 billion, and its ability to cover Imports by 18.7% in 2015, and its ability to cover imports decreased in 2020 to reach 13.9%, and its percentage of total exports reached about 11.3% in 2020, and the compound growth rate of oil exports reached about 3.02%. This explains the high contribution of non-oil sectors to foreign trade. As for total imports, they recorded their highest value in 2018, reaching \$217.602 billion in 2018, and the lowest value was \$105.166 billion in 2004, with a compound growth rate of 3.54% during the study period. The value of non-oil imports recorded about \$96.819 billion in 2004 to \$166.174 billion in 2020, and the highest value recorded in 2018 was about \$186.267 billion, and the lowest value recorded in 2004 was about \$96.819 billion, with a compound growth rate of about 3.23%. As for oil imports, they reached \$8.308 billion in 2004 and continued to rise, recording their highest value in 2014, reaching \$35.714 billion.

The compound growth rate reached 6.37%, and thus the trade balance recorded a permanent surplus during the study period, as exports recorded values much higher than import values, and Malaysia gradually worked to reduce the volume of imports and replace them with local production.

Table (2)

Third: - Commodity composition of Malaysian imports for the period (2004-2020)



Year	(1) Consumer imports billion dollars	(2) Intermediate imports and raw materials billion dollars	(3) Capital imports billion dollars	(4) Oil imports billion dollars	(5) Total commodity imports (billion dollars)	(6) Consumer imports as a percentag e of total	(7) Intermediat e imports as a percentage of total%	(8) Capital imports as a percentag e of total%	(9) Oil imports as a percentag e of total%
2004	5.794	6.520	84.505	8.308	105.166	5.5	6.2	80.4	7.9
2005	6.173	7.386	91.345	9.375	114.324	5.4	6.5	79.9	8.2
2006	6.805	9.000	102.657	12.001	130.441	5.2	6.9	78.7	9.2
2007	8.606	11.840	112.697	12.998	146.170	5.9	8.1	77.1	8.9
2008	11.012	10.508	117.730	17.108	156.348	7.0	6.7	75.3	10.9
2009	10.519	7.870	93.313	12.004	123.757	8.5	6.4	75.4	9.7
2010	12.796	11.501	123.960	16.412	164.622	7.8	7.0	75.3	10.0
2011	16.515	15.231	133.668	22.045	187.473	8.8	8.1	71.3	11.8
2012	16.890	15.711	135.315	28.477	196.393	8.6	8.0	68.9	14.5
2013	16.678	18.943	136.922	33.369	205.897	8.1	9.2	66.5	16.2
2014	17.961	15.432	139.721	35.714	208.851	8.6	7.4	66.9	17.1
2015	15.396	13.198	124.060	23.404	175.971	8.7	7.5	70.5	13.3
2016	14.660	12.006	122.351	19.736	168.684	8.7	7.1	72.5	11.7
2017	16.610	14.647	137.574	26.577	195.417	8.5	7.5	70.4	13.6
2018	18.061	16.755	151.451	31.296	217.602	8.3	7.7	69.6	14.4
2019	18.040	17.835	139.399	29.819	204.998	8.8	8.7	68.0	14.5
2020	18.036	17.467	130.671	23.732	189.856	9.5	9.2	68.8	12.5
<b>Average</b>	<b>13.562</b>	<b>13.050</b>	<b>122.196</b>	<b>21.316</b>	<b>170.116</b>	<b>7.8</b>	<b>7.5</b>	<b>72.7</b>	<b>12.0</b>
<b>compound growth rate</b>	<b>6.91%</b>	<b>5.97%</b>	<b>2.60%</b>	<b>6.37%</b>					

Source: The table was prepared based on: - Column (1)(2)(3)(4)(5): Based on: Based on: World Bank Data Set ( <http://www.albankaldawli.org.2022>)

- Column (6)(7)(8)(9): Prepared by the researchers based on the same table.

Table (2) shows the commodity composition of Malaysian imports, and to give a clear picture of the country's level, the commodity composition of Malaysian imports can be arranged in terms of importance as follows:

**1. Imports of capital goods:** It ranks first in the list of imported materials, and production goods have a significant percentage of total imports, and these imports are represented by machinery and transportation equipment, etc., meaning that Malaysia sought to import capital goods at a greater rate in order to contribute to the development of the production sector and thus reduce the volume of imports of consumer goods and relies on the local sector, which is part of the import compensation policy, as it amounted to \$71 billion in 2004, or 68% of total imports, and continued to increase to \$137 billion in 2020, or 72%, and the average value of capital imports was estimated at \$120 billion, and the compound growth rate reached 3.93%, due to the increase in global trade dealings with Malaysian companies.

**2. Oil imports:** It ranks second in terms of importance among total imports, amounting to \$8.308 billion in 2004, representing 7.9% of total imports, and continued to increase to \$23.732 billion in 2020, representing 12.5% of total imports. The highest percentage of oil imports of the total was recorded at 17.1% in 2014. Its average annual volume was estimated at \$21.316 billion, with a growth rate of 6.37%.

**3. Imports of consumer goods:** These imports rank third in the list of commodity imports in Malaysia, as consumer imports recorded a decline during the study period from \$18 billion in 2004 to \$10 billion in 2020, an average of \$14 billion, and a low compound growth rate of 3.62%, and its percentage of total imports decreased from 17% in 2004 to 5% in 2020.





**4. Imports of intermediate goods:** They rank last in the list of imports, as they recorded \$6.520 billion in 2004, or 6.2% of total imports, to \$18 billion in 2020, a rate of 9.7%, and the average intermediate imports were estimated at about \$13 billion, while the compound growth rate was high during the study period at about 6.32%, As it is important to continue operating the wheel of production in various economic sectors.

**Fourth: - Malaysian policy in compensating for imports**

The Malaysian economy before 1957 depended heavily on primary products (rubber and tin) in particular. After gaining independence in 1957, development strategies were resorted to, including the import compensation strategy, The Malaysian economy witnessed a transition from agriculture to industry, Malaysia began moving towards sustainable development during the seventies, starting with the export-oriented manufacturing strategy to achieve stability in its exports. The economic policy played roles in restructuring the social imbalance and eliminating poverty, All development plans emphasized the elements of sustainable development, which include sustainable economic growth, access to infrastructure and education, generalizing environmental conservation, and providing health care services <sup>(6)</sup>The Malaysian government formulated an economic model for the Eleventh Development Strategy Plan, for the period (2016-2020). This plan set six goals to help Malaysia become a developed country in 2020. The plan included six innovative goals with the aim of accelerating development in Malaysia. The goals are:<sup>(7)</sup>

- 1) Promoting inclusiveness towards a just society.
- 2) Accelerating human capital development in line with developed countries
- 3) Flexibility and strengthening infrastructure to support economic growth.
- 4) Achieving green growth for sustainability.
- 5) Improving well-being for all.
- 6) Restructuring economic growth to achieve prosperity.

**The development process in Malaysia has gone through several stages, the most important of which are the following:**

- A- **The first stage: The stage of import substitution industries:** In the early sixties, Malaysia implemented the import substitution strategy, and on the basis of it, small-scale industries were established, and others to produce goods that replace imported goods such as food industries, chemicals, building materials, tobacco and plastics <sup>(8)</sup>.
- B- **The second stage: The stage of export industries:** In the early seventies, the stage of export industries began, and the government encouraged investments in the field of textile and electronics industries by granting attractive tax incentives and providing cheap labor, establishing free trade zones and issuing licenses for foreign products, and the Malaysian government worked to host multinational companies to operate production lines, and it also allowed these companies to produce goods for export that they own completely without requiring local participation. These stages in Malaysia that were implemented increased its industrial capacity <sup>(9)</sup>.
- C- **The third stage: heavy manufacturing and industries based on local materials:** This stage began in the early eighties, when the government encouraged these industries, and the manufacture of the local car (Proton), then the expansion of the iron, steel and cement industries, and the focus on the textile and electronics industries, which contribute two-thirds of the added value of the industrial sector and absorb

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<sup>(6)</sup> Mohammed B. Yusoff and others, Globalisation, Economic Policy, and Equity: The Case of Malaysia, Paris, 2000, p3.

<sup>(7)</sup> Ahmed Mohi Khalaf Saqr, Cultural and Social Factors and Their Impact on Strategic Plans for Youth Employment in Some Countries of the World, Dar Al-Taalim Al-Jami'i, Alexandria, 2019, p. 120.

<sup>(8)</sup> Tham Siew Yean, THE FUTURE OF INDUSTRIALIZATION IN MALAYSIA, UNDER WTO, Asia-Pacific Development Journal, Vol. 11, No. 1, Fourth Indonesian Regional Science, 2004, p30

<sup>(9)</sup> Bin Abdul Aziz Sufyan, Bin Abdul Aziz Samir, Economic Development in Malaysia: A Pioneering Islamic Experience, Al-Badr Magazine, Volume 2, Issue 12, University of Bechar, Algeria, 2010, p. 166



about (40%) of the workforce. It is noted during this period that local industries enjoy government protection and enter into many projects that provide all economic activities <sup>(10)</sup>.

- D- **The fourth stage: The stage of encouraging high-tech industries (with added value):** This stage began in the early nineties, as the government encouraged these industries, which require high skills and large capital, in order to increase the competitiveness of Malaysian products and expand their local markets. The period (1990-2000) witnessed an expansion in investments in the industrial sector, as more than (15) thousand industrial projects were established, of which local projects constituted (46%) and foreign projects (54). These projects provided two million jobs, in addition to developing workers' skills, transferring modern technology, and finding new marketing channels <sup>(11)</sup>.

**There are a set of foundations that formed the success of the Malaysian development experience, which are:**

A. Eliminating class disparity between different ethnic groups in Malaysia, and education played the biggest role in achieving this change, and Malaysia benefited from the Japanese experience in achieving development, and Malaysia relied on the industrialization policy, and went through several stages that ended with Malaysia becoming an exporter of technology-intensive industries after it used to export raw materials <sup>(12)</sup>.

B. It relied on the privatization policy in 1983 with the aim of raising development rates, and Malaysia is one of the first countries to move towards privatization in Asia, which is represented by converting public sector companies to the private sector, and selling government assets and companies to Malaysians only and not to foreign investors, in order to encourage them to enter quickly to complete huge projects, and this policy includes cooperation between businessmen and the state to achieve Malaysia's development goals, and the profits obtained by the state are used to finance development projects, and this policy contributed to the increase in government savings and the increase in per capita income. <sup>(13)</sup>

C. Malaysia has succeeded in combining globalization with maintaining the pillars of national economic development, transforming in a short period of time from a country dependent on raw material exports to one of the countries exporting technical goods in the field of electrical and electronic industries and industrial goods in Southeast Asia. It was able to establish advanced infrastructure and diversify sources of national income. The 2001 Human Development Report issued by the United Nations Program showed monitoring countries exporting high technology, and Malaysia ranked ninth. Its experience was also successful in confronting the economic crisis in 1997, which adopted a successful program by implementing a national action plan by placing strict restrictions on monetary policy and giving the central bank powers to implement an emergency plan to bring foreign currency into the country and confront the flight of foreign capital <sup>(14)</sup>.

Th. In terms of social policy, Malaysia succeeded in reducing the poverty rate from 49.3% in 1970 to about 5% of the population in 2004. This policy was keen to provide suitable housing through partnership between the public and private sectors, in addition to the decrease in the unemployment rate in Malaysia to reach 2.7% in 2001. Malaysia's experience was distinguished by dealing with the 1997 crisis with its own personality and refusing to borrow with interest or the agenda of the International Monetary Fund, as it directed towards reforming the administrative

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<sup>(10)</sup>Bushul Al-Saeed and others, The experience of economic reform in Malaysia and the lessons learned, Journal of Economics, Finance and Business, Volume 3, Issue 4, 1 University of Martyr Hama Lakhdar El Oued, Algeria, 2020, p. 105.

<sup>(11)</sup>Ali Ahmed Daraj, The Malaysian Development Experience and the Lessons Learned from It in the Arab World, Journal of Pure and Applied Sciences, University of Babylon, Issue (3), Volume (23), 2015, p. 136

<sup>(12)</sup>Osama Sanusi, et al., Development from an Islamic Perspective with a Monitoring of the Malaysian Experience and the Elements of Its Success During the Period (1957-2020), Scientific Horizons Journal, Volume 12, Issue 5, Abdelhafidh Bou Souf University Center, 2020, p. 649.

<sup>(13)</sup>Mohamed Zitouni, The Malaysian Development Experience, Al-Raed Journal of Political Science, Volume 1, Issue 2, University of Mohamed Boudiaf-M'Sila, Algeria, 2020, p. 66.

<sup>(14)</sup>Bilal Yassin Al-Kassabeh, The Impact of Economic Development on Democratic Transformation in Malaysia and Singapore, Journal of Humanities and Natural Sciences, Issue (1), Volume (3), Jordan, 2022, p305.



apparatus and reducing corruption, and Malaysia applying the Islamic economy by setting development plans that target the essence of Islam and raising human capabilities and their contribution to the development process.<sup>(15)</sup>

**Among the most prominent strengths that led to Malaysia's economic success are the following:<sup>(16)</sup>**

- 1) With a focus on the concept of Malaysia as a company that combines the public and private sectors on the one hand and a partnership that brings together the various ethnicities and social classes that make up Malaysian society on the other hand, Malaysia dealt cautiously with foreign direct investment until the mid-eighties and then allowed it to enter, but mainly under conditions under circumstances calculated in favor of the national economy, including that the goods produced by foreign investors should not compete with local industries that meet the needs of the local market
- 2) Malaysia has a future vision for economic activity and development through integrated and successive five-year plans since Malaysia's independence until now and its early readiness to enter the 21st century through planning 2020, and working to achieve what is planned.
- 3) Its coverage of most branches of industrial activity with a great diversity in the industrial structure (consumer, intermediate and productive industries), and this was the result of directing funding towards development in the first place, and the success of Malaysia's development policy.
- 4) Focus on infrastructure, as the Malaysian government refuses to reduce spending on infrastructure projects, which is a way to achieve stable economic growth, in addition to Malaysia's interest in improving the living, health and educational conditions of the indigenous population. By improving the social indicators of human capital.
- 5) Malaysia's heavy reliance on its local resources, by providing the necessary capital to finance investments.

Malaysia is one of the most successful countries in using incentives to attract foreign investment. The government supported this strategy in 1968 by issuing the Investment Encouragement Act to attract foreign investment for the purpose of increasing the industrial base. This strategy yielded positive results, but due to the narrow market, weak local demand, and it can be said that due to the shortcomings that accompanied the import compensation strategy, Malaysia resorted to the manufacturing strategy for export. Some studies confirm that this strategy contributes to growth more than the import compensation strategy <sup>(17)</sup>.

The Malaysian experience did not come out of nowhere, but rather as a result of the efforts of the wise leadership with the presence of a government that believes in change, represented by the efforts of Muhammad Mahathir. Malaysia was able, through the stages it went through and the policies it adopted, to establish a development model and move from an agricultural economy to an economy based on knowledge and technology, improve the quality of life and health services, and focus on rural development and manufacturing, to reduce the rate of unemployment and poverty. The Malaysian government has developed several development plans in light of Islamic teachings, that Islam is a practical religion, not just religious rituals. Malaysia's increased ability to attract foreign direct investment and develop its economy was the result of many factors, including its interest in developing and advancing human resources, which helped it provide qualified scientific capabilities that were able to attract global investment companies to Malaysia, which contributed to structural transformations in the Malaysian economy, and the industrial sector became the main sector in Malaysia.<sup>(18)</sup>

**Fifth: - The possibility of benefiting from the Malaysian experience**

The Malaysian experience can be benefited from as it suffered from difficult conditions similar to those of Iraq, including unemployment, poverty, debts, and limited economic sectors with limited productivity, and it benefited from

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<sup>(15)</sup>Nawal Abdel Moneim Bayoumi, *The Malaysian Experience According to the Principles of Islamic Finance and Economics*, Al-Shorouk International Library, Cairo, 2011, p. 5

<sup>(16)</sup>Jalal Hassan Abdullah, *The Malaysian Experience in the Field of Sustainable Development (Reality and Future Challenges)*, Dimensions of the Development Experience in Malaysia, Arab Democratic Center for Strategic, Political and Economic Studies, Berlin-Germany, 1st ed., 2019, p. 174

<sup>(17)</sup>Abdel Moneim Saeed, *Egypt, a Natural State: Politics, Economy and Urbanism*, 1st ed., Nahdet Misr Publishing House, Egypt, 2011, p. 20

<sup>(18)</sup>Nabeel Farag Amin Al-Hosary, *Malaysia's Experience in Applying Islamic Economics: Analysis and Evaluation*, 1st ed., Dar Al-Fikr Al-Jami'i, Alexandria-Egypt, 2009, p. 185





the experiences of other countries to transform its economy from an economy based on agriculture to an economy based on industry. Therefore, the Malaysian experience can become a model to be emulated in Iraq through the policies that were followed. After knowing the nature of the Iraqi economy and the main reasons behind the increase in imports, the researcher sees the possibility of benefiting from some of the measures that Malaysia followed to support local production, as follows:

1. The possibility of Iraq implementing annual development programs with local and foreign financial allocations. These programs target the necessary treatment of the requirements for the growth of the gross domestic product, such as the beginning of infrastructure projects and the establishment of industrial cities until the requirements of local production are gradually qualified, as the advanced infrastructure in Malaysia contributed to stimulating foreign investment, which gave a strong boost to the structure of industrial production, which contributed to diversifying the Malaysian economy and diversifying its exports.
2. The main factors that helped Malaysia diversify its production base are its future vision for development through successive plans, so it directed local investments towards consumer industries to meet the need for local demand and reduce imports through the import compensation strategy, while it directed foreign investments towards the labor-intensive electronic industry through the export promotion strategy, as both strategies benefit from expanding local demand, reducing the unemployment rate and improving income distribution in society. In Iraq, we need to develop long-term industrial development plans that include an industrial strategy that combines the import compensation strategy and the manufacturing strategy for export purposes.
3. One of the most important economic reform policies followed by the Malaysian government is the privatization of government-owned industrial companies by transferring them to the private sector by selling the assets of government companies to Malaysian citizens and not to foreign investors, which aims to reduce the financial burden on the government and encourage Malaysians to enter large projects.
4. One of the factors followed by the Malaysian government is to create a stimulating environment for partnership between the private and public sectors and encourage the private sector to use labor-intensive industries and raise the capabilities of workers through practical training for individuals wishing to work in the field of manufacturing.
5. The possibility of Iraq benefiting from Malaysia's experience with the exchange rate should be at a high value for the local currency against the foreign currency as long as the Iraqi economy does not have a flexible and developed production system. However, after the economy has a flexible and developed production system, the method of the gradual floating system for the local currency is used with the aim of supporting the competitiveness of local goods.
6. Adopting such a strategy in Iraq requires a comprehensive survey of the goods entering Iraq, and identifying the goods that can be produced locally through what distinguishes Iraq from the comparative competitive advantage. This strategy requires studying the import lists, and preparing a comprehensive survey for each governorate, in terms of human, natural and capital resources, to prepare an accurate investment map that determines the locations of primary resources and the extent of the possibility of establishing certain industries in light of that, adopting the principle of government support during the incubation period for the emerging industry, and abandoning the support situation in the later stages when these industries reach the level of maturity and achieve financial independence.
7. The Malaysian experience has raised the need to take into account the entire economic structure when formulating an economic policy such as trade, agricultural or industrial policy, as all these policies represent interconnected parts, given that each one affects and is affected by the other, and what makes them is the unity of the goal, which is to increase productivity and raise the efficiency of economic performance.
8. Iraq should benefit from the Malaysian experience regarding trade policy and work to follow a flexible trade policy between protection and liberalization in a way that ensures the protection of emerging industries and the protection of local products from the greed of dumping, which is an obstacle to competition with local products. Malaysia did not neglect the agricultural sector, as it worked to



expand the base of local exports, reduce annual losses in foreign reserves spent on food imports, and focused on cash crops such as (rice, wheat, cotton and olives ..) that achieve high returns, which contributed to increasing local production.

## CONCLUSIONS

1. Through our review of the Malaysian experience, it became clear that it has achieved success in achieving economic diversification and reliance on local production by discovering competitive advantages away from oil, to transform from a rentier state dependent on oil to an industrial state by exploiting its human and natural resources and its geographical location to advance the economic reality.
2. The Malaysian experience did not come out of nowhere, but rather as a result of the efforts of the wise leadership with the presence of a government that believes in change, represented by the efforts of Muhammad Mahathir, and Malaysia was able, through the stages it has passed and the policies it has adopted, to establish a development model and move from an agricultural economy to an economy based on knowledge and technology.

## RECOMMENDATIONS

1. Iraq should benefit from the Malaysian experience regarding trade policy and work to follow a flexible trade policy between protection and liberalization in a way that ensures the protection of emerging industries and the protection of local products from the greed of dumping, which is an obstacle to competing with local products
2. Malaysia did not neglect the agricultural sector, as it worked to expand the local export base, reduce the annual losses in foreign reserves spent on food imports, and focused on cash crops such as (rice, wheat, cotton, olives, etc.) that achieve high returns, which contributed to increasing local production.

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