



"Determinants of economic diversification in Malaysia"
- Case study: Advantages to benefit for the Algerian national economy -
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Received: 3/10/2024

Accepted: 29/5/2025

Published: 5/6/2025

Abstract

This study analyzes Malaysia's experience in economic diversification as a reference model for developing countries, with a particular emphasis on lessons applicable to Algeria. Through strategic planning, investment in human capital, and effective public-private partnerships, Malaysia successfully transitioned from a rentier economy to a diversified, innovation-driven model. The study highlights the structural reforms and public policies that enabled this transformation and relates them to Algeria's context, where reducing dependence on hydrocarbons and building a more diverse, resilient, and competitive economy remain key priorities. The study recommends institutional reforms, value-added industrial strategies, infrastructure development, and the strengthening of international partnerships as essential pillars for achieving economic diversification in Algeria.

Keywords: : Economic diversification, Malaysian experience, Algeria, investment, international partnerships

JEL Classification : F02, O53, O25, Q01, L52, O14, F63



"محددات التنوع الاقتصادي في ماليزيا"

- دراسة حالة: فوائد يمكن للاقتصاد الوطني الجزائري الاستفادة منها -

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تاريخ النشر: 2025-06-05

تاريخ القبول: 2025-05-29

تاريخ الاستلام: 2024-10-03

ملخص:

تهدف هذه الدراسة إلى تحليل تجربة ماليزيا في مجال التنوع الاقتصادي كنموذج مرجعي للدول النامية، مع التركيز على استخلاص الدروس التي يمكن أن تستفيد منها الجزائر. فقد تمكنت ماليزيا، من خلال التخطيط الاستراتيجي والاستثمار في رأس المال البشري والشراكة بين القطاعين العام والخاص، من التحول من اقتصاد ريعي إلى اقتصاد متنوع قائم على الابتكار. تبرز الدراسة الإصلاحات البنوية والسياسات العمومية التي ساهمت في هذا التحول، مع ربطها بالسياق الجزائري الذي يسعى إلى تقليص اعتماده على المحروقات وتطوير اقتصاد أكثر تنوعاً ومرونة وتنافسية. وتوصي الدراسة بإصلاحات مؤسسية، واستراتيجيات صناعية قائمة على القيمة المضافة، وتحسين البنية التحتية، وتعزيز الشراكات الدولية، كركائز أساسية لتحقيق التنوع الاقتصادي في الجزائر.

الكلمات المفتاحية: التنوع الاقتصادي، التجربة الماليزية، الجزائر، الاستثمار، الشراكات الدولية.

تصنيف JEL: F02, O53, O25, Q01, L52, O14, F63

1. INTRODUCTION

Malaysia's experience is among the experiences that succeeded in adopting a successful strategy for economic diversification, by exploiting its wealth of natural resources and exporting them, which earned it huge revenues that enabled it to invest in land exploitation and afforestation programs, and develop many sectors. It devoted its efforts to investing in infrastructure and technology, and making its system Trade is more open, by lowering the real exchange rate to maintain incentives. Among Mahathir's famous sayings, he said, "If you want Hajj, go to Mecca, and if you want knowledge, go to China." Therefore, Malaysia has begun to search for the reasons for the renaissance of Japan, which has become one of Malaysia's biggest allies in its project towards... Development and progress. Through what we discussed, we tried to raise the next problematic, which is:

"What are the mechanisms adopted by the Malaysian experience to achieve economic diversification and what are the lessons learned from them?"

-The importance of the study:

The importance of the study is that it addresses a pioneering experience in economic diversification, which presented a successful development model that combines several sectors, and thus provides a model that can be used to advance Arab economies.

2- An introductory window, naturally and economically, about the state of Malaysia

2.1- Naturally:

Naturally Malaysia enjoys the following: (Allah, 2022, p. 1460) Malaysia enjoys abundant natural resources and a strategic location in Southeast Asia, which has enabled it to build a strong and diversified economic base. These resources include oil, natural gas, minerals, tropical forests, and fertile agricultural land that has contributed to the flourishing of the agricultural sector. Early on, Malaysia recognized the importance of investing these resources in a sustainable way and worked to develop the industrial and service sectors alongside agriculture, which helped reduce its reliance on raw material exports alone.

Moreover, the country's rich ethnic and cultural diversity—including Malays, Chinese, Indians, and other minorities—has enriched the business environment and promoted innovation and entrepreneurship. Malaysia has benefited from its multilingual and multicultural society by attracting foreign investment and expanding international trade relations. This diversity has also enabled the country to build a tolerant and open society, which positively impacted education, skills development, and technology transfer.

To maximize its potential, Malaysia has launched national development programs and strategic economic transformation plans, focusing on manufacturing industries, information technology, tourism, and financial services—making it one of the most dynamic economies in the region. Effective policies have been implemented to support entrepreneurship, provide incentives for investors, and develop infrastructure, alongside institutional reforms aimed at improving the business climate and enhancing Malaysia's competitiveness both regionally and globally.

2.2 Economically:

Malaysia is a Southeast Asian country strategically located between the Indian Ocean and the South China Sea. It is a federal state with a stable political system, and its economy has seen consistent growth due to its rich natural resources and early focus on industrialization.

Instead of providing an exhaustive description of Malaysia's geography and administrative setup, this paper highlights the key structural and policy factors that enabled economic diversification. Malaysia's economic transformation began with strong government planning through successive national development plans, an export-oriented industrialization strategy, investment in human capital, and the promotion of high-tech sectors like electronics.

The government's role was central through institutions like MIDA (Malaysian Investment Development Authority), and policies focused on SME support, infrastructure development, and science and technology. These measures helped reduce the country's dependence on oil and agriculture and opened the path for a robust and competitive industrial base

In 2024, Malaysia ranks prominent in timber and mineral production. It remains one of Asia's largest lumber producers, benefiting from its extensive forests and diverse wood products. In terms of mineral resources, Malaysia continues to produce many important minerals such as tin, iron, gold, copper, and phosphate, in addition to oil and coal. It also added to the exploitation of rare earth elements, such as bauxite, tinore, silica sand and choline, which It is vital for the development of modern technologies and clean energy. The value of these mineral resources was approximately 4.11 trillion Malaysian ringgit (about 982 billion US dollars) (ceice, 2024) The trend towards exploiting rare, non-radioactive elements is one of the priorities of the current government, as these elements contribute to the development of batteries.'

for electric vehicles and other modern technologies, which enhances Malaysia's role in the global supply chain and increases opportunities for economic growth. Current efforts include plans to enhance manufacturing activities related to these minerals, which includes converting them into finished products in Malaysia rather than simply extracting and exporting them as raw materials. This approach aims to increase the added value and develop the local industry in a sustainable manner.

Table1: represents the strengths and weaknesses of the Malaysian economy

Strengths	Weaknesses
<ul style="list-style-type: none"> • Various exports; • Dynamics of the services sector • Good infrastructure; • High R&D; • Supporting investment through developing the local financial market; 	<ul style="list-style-type: none"> • An economy dependent on external demand; • Private sector indebtedness is very high; • Erosion of price competitiveness in the economy linked to rising labor costs; • Persistence of regional disparities.

Source: Amina Hanaa Jabi, Issa Hijab, The necessity of economic diversification in countries rich in natural resources in Malaysia, Business and Trade Economics, 2017, p. 308.

3- indicators of the success of the Malaysian experience:

After Malaysia was just a country that relied on exporting raw materials by 80%, it succeeded in transforming within a short period into a country exporting goods and manufacturing and raising the country to the upper middle income category. Moreover, development indicators improved steadily, reducing poverty by 49.3%. The population living below the poverty line in 1970 increased to 6% by 2002, well before the adoption of the Millennium Development Goals and across all ethnic groups. So how did Malaysia achieve its economic diversification?

3.1 Industrial sector:

The industrial sector has been a major source of economic growth in Malaysia. It is credited with Malaysia assuming a leading position and leading the economic pyramid of Southeast Asian countries, and considering it one of the most prominent pioneering development experiences in the global economy since the 1970s, as it is considered one of the highest developed countries in the world. (Naima, 2018) The industrial sector has played an important role in achieving comprehensive economic development during the last four decades, so that this sector has become a major source of foreign currency and foreign exchange reserves that Malaysia earns by exporting its industrial products to a large number of countries in the world. Thanks to the development of... The industry is one of the main countries in the field of technological exports. Since its independence in 1957 AD, it has sought to create and implement a development strategy based on supporting and developing local industries capable of competing locally and internationally, which has made this sector an essential source of economic growth and comprehensive economic and social development, thus benefiting from technology innovation and creativity for human resources (Al-Qurashi, 2019, p. 5).

Figure 3: Represents the annual growth rate of GDP from 1961 to 2023 AD



Source: World Bank national accounts data and OECD national accounts data

Comment about Figure 3: The graph shows Malaysia's GDP growth by annual percentage from 1961 to 2023. Here are some basic notes:

****Volatile growth**:** Clear fluctuations can be observed in GDP growth over the years. These fluctuations include periods of rapid growth followed by periods of slowdown or even contraction.

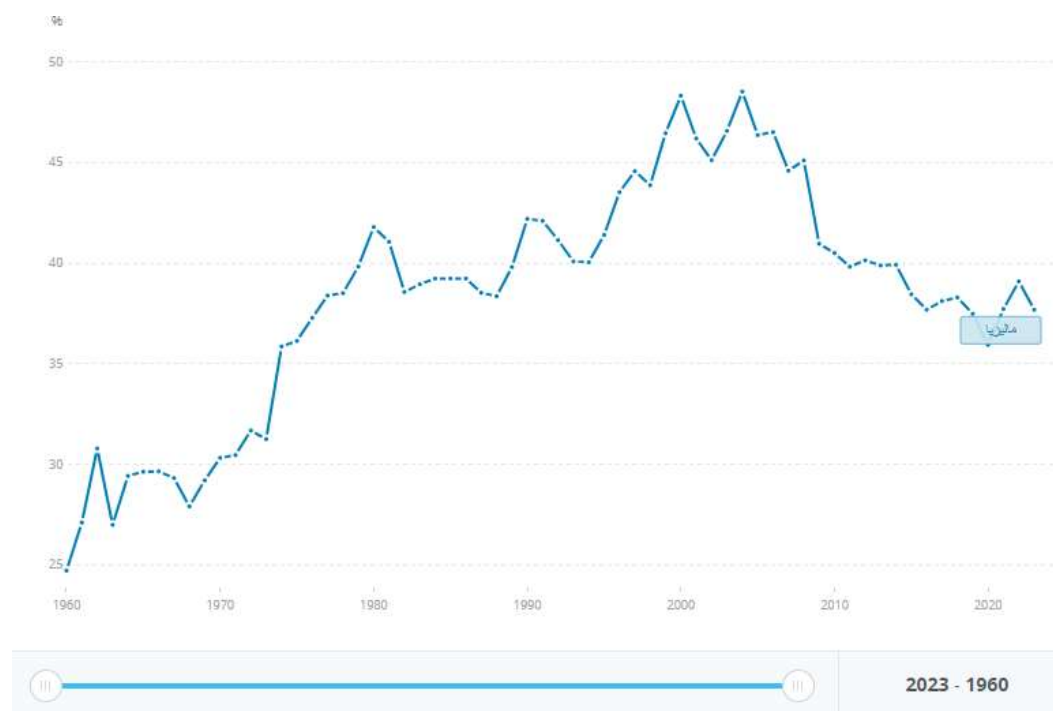
****Periods of crises**:** There are sharp declines that clearly emerge in years associated with global or local economic crises, such as the Asian financial crisis in the late 1990s and the global financial crisis in 2008.

****Strong post-crisis recovery**:** After every major crisis, a strong recovery emerges, such as after the 1998 and 2008 crises, indicating the resilience of the Malaysian economy.

****Sustainable growth**:** Despite fluctuations, the overall growth trend remains positive in the long term, with steady growth achieved in recent decades.

****Impact of the COVID-19 pandemic**:** In 2020, there is a significant contraction in GDP as a result of the COVID-19 pandemic, but the economy recovers strongly in the following years. Overall, this graph reflects the development of the Malaysian economy over the decades, with a clear impact of global and local events on annual growth .

Figure N4: The contribution of industry to the GDP in Malaysia for the years 1960-2023.



Source: World Bank national accounts data, OECD national accounts data

Comment about Figure 4: The chart displays industry's contribution to Malaysia's GDP from 1960 to 2023. Here are some basic notes:

****Gradual increase until the 1990s :** We notice a gradual increase in the contribution of industry to GDP starting from the 1960s until the late 1990s. This reflects the expansion of industrial activity during that period as a result of economic policies that encouraged industrialization and export.

****Peak at the beginning of the millennium**:** The industry's contribution reached its peak in the early 2000s, exceeding 45%. This growth reflected the strength of the industrial sector at the time, supported by growth in manufacturing and electronics.

****Decrease after 2000**:** After reaching the peak, the industry's contribution to GDP began to gradually decline. This can be attributed to several factors, including the shift of the economy towards services, and an increased focus on non-industrial sectors such as tourism and financial services.

****Relative stability in the last decade**:** In recent years, the industry's contribution appears to have stabilized somewhat, hovering around 35-40%. This indicates a relative balance between different economic sectors in Malaysia. Overall, this graph reflects the economic transformations that Malaysia has witnessed over the decades, from an agricultural economy to a strong industrial economy, and then the shift towards economic diversification.

4- Production sector:

In 2024, oil production in Malaysia will reach remarkable levels. According to data from the Joint Data Initiative (JDI), Malaysia's oil production stood at 542,000 barrels per day in February 2022, but witnessed fluctuations, falling to 509,000 barrels per day in March and April of the same year. Malaysia's quota under the OPEC+ alliance agreement is scheduled to reach 595,000 barrels per day by September 2024. In another context, Petronas, Malaysia's national petroleum company, expects its domestic oil and gas production to peak in 2024, at two million barrels of oil equivalent per day, with most production remaining from natural gas (Fitchsolutions, s.d.). Despite the challenges that Malaysia faced in previous years, including a decline in production during 2021 to less than 600,000 barrels per day for the first time since 1989, continued efforts to improve production and increase investment in the oil and gas sector are expected to enhance the country's future performance. .. (www.aswaqpress.com, 2023) 3- Agriculture sector In 2024, Malaysia's agriculture sector continues its vital role in achieving economic diversification, with positive impacts on the value of the local currency due to exports in foreign currencies. This sector contributes significantly to achieving self-sufficiency and reducing dependence on imports, in addition to supporting livestock through the cultivation of food crops such as wheat and barley (offshore-technology, s.d., pp. .offshore-technology) International Agricultural Exhibition 2022 (MIACES'22): The Malaysia International Agricultural Exhibition and Summit 2022 (MIACES'22) was held in Malaysia, marking a major event in the agricultural commodities and primary industries calendar internationally. This exhibition aims to open new markets for agricultural commodity exports, strengthening Malaysia's position as a major agricultural hub.

5- The agricultural commodities sub-sector:

Malaysia's agricultural commodities sub-sector, which includes palm oil, rubber, timber, cocoa and pepper, continues to be a major driver of the economy. This sector contributes significantly to export earnings, creates employment opportunities, and provides income to small stakeholders Boosting the economy: Agricultural Industries and Commodities Minister YP Datuk Haja Zuraida Kamaruddin said the rising prices had not only boosted the economy, but also helped oil palm producers and technology companies recover from Covid-19 difficulties. The Minister emphasized the importance of advancing the agricultural commodity sector in the sustainability ecosystem, giving Malaysia new horizons for growth and helping realize potential opportunities. Growth in this sector is expected to continue as more agricultural commodity industry players, producers, investors, and stakeholders increase sustainable production in Malaysia. Target sectors: palm oil, rubber, timber, cocoa, pepper and kenaf. Target countries: Nigeria, Rwanda, India, Bangladesh, Pakistan, Kazakhstan, Indonesia, Iran, Ghana, Senegal, Kenya, China, Thailand, Vietnam, Philippines, Saudi Arabia, Egypt, Uzbekistan, Nigeria, UAE, Sri Lanka, Exhibition objectives Promote Malaysia as an international hub for agricultural commodities; Consolidating Malaysia as a

leading agricultural commodity produce internationally; Enabling MIACES as an international trade fair; | Providing a global market for higher-level transactions; Presentation of innovations and technologies.

6- Tourism sector:

In 2024, Malaysia continues to make significant efforts to develop the tourism industry, by engaging the private sector and offering many benefits, as well as engaging individuals in volunteer tourism programmes. The following is a summary of some of the efforts and policies related to tourism development in Malaysia: (Brahmiyeh, June 2022, pages 1224-1225) 1. Integrated Promotion Plan 2018-2020: This plan aims to attract 83 million tourists and generate tourism revenues estimated at RM7 billion by 2020. It included the following promotional policies: - Using the latest technologies to improve promotion, advertising. - Taking advantage of international events: such as the Commonwealth Heads of Government Meeting, the OPEC Economic Leaders Meeting, and the World Information Technology Conference. - Infrastructure development: major projects such as high-speed rail and the East Coast Railway. - Encouraging smart partnerships: with tourism industry leaders to develop encouraging tourism packages, charter flight operations, promote shopping, and focus on high-quality tourism markets and niche tourism such as ecotourism, cruises, diving, and health tourism. (Brahmiyya, June 2022, pp. 1224-1225) 2. Incentives and financial and technical support: The Malaysian government provides incentives and financial and technical support to boost the tourism industry:

6.1 Tourism Infrastructure Fund:

It aims to provide financial assistance to existing and new companies in tourism-related activities and services. This includes long-term financing with an interest rate ranging from 4% to 5.5% with a subsidy rate of up to 1.75% annually, and the maximum financing reaches 80% of the invested capital. - Special Tourism Fund: supports the government's efforts to develop the tourism industry among small and medium enterprise owners. It offers long-term financing that may reach 20 years in the case of acquisition financing, with a grace period of up to three years. The minimum financing is RM50,000, and the maximum is RM10 million. Results and developments in 2024: Malaysia continued to attract large numbers of tourists, which contributed to strengthening the local economy. The government continues to improve tourism infrastructure and provide incentives to new and existing tourism companies. - Many international events and exhibitions have been organized to promote tourism, such as the "Malaysia International Agriculture Exhibition and Summit" and other major events. Through these ongoing efforts, Malaysia seeks to strengthen its position as a major tourism destination globally, while achieving sustainable economic growth through the tourism sector.

7- Key Lessons for Algeria

In light of the challenges facing the Algerian economy—primarily its heavy reliance on hydrocarbon revenues and the increasing volatility of global markets—economic diversification has become a critical strategic priority. While Algeria can draw inspiration from Malaysia’s successful experience, particularly in innovation and investment in human capital, it is essential to tailor these lessons to Algeria’s unique context and leverage its geographic position, natural resources, and evolving international partnerships.

Practical Solutions for Algeria:

- 1. Strengthen International Partnerships:**
Algeria should build on agreements with key global partners such as China, India, Russia, and Italy, extending beyond trade to encompass technology transfer, human capital development, and joint ventures in renewable energy, manufacturing, and logistics.
- 2. Develop Smart Infrastructure:**
Investment in upgrading and modernizing ports (such as Djen Djen and Mostaganem) and connecting them to multimodal transport networks will position Algeria as a regional logistics hub and attract further foreign investment.
- 3. Promote Human Capital Development and Innovation:**
Reform education and technical training programs to align with the needs of a modern, diversified economy; encourage scientific research; and foster stronger university-industry and international collaborations.
- 4. Improve the Business Climate and Reduce Bureaucracy:**
Accelerate administrative and digital reforms to facilitate business creation, attract investment, and ensure governance and transparency in public procurement.
- 5. Support SMEs:**
Provide targeted financial and tax incentives and integrate small and medium-sized enterprises into national and global value chains, especially in manufacturing, agri-food, and technology sectors.
- 6. Direct Investment toward High-Potential Sectors:**
Focus on expanding petrochemicals, solar energy, ecotourism, cultural tourism, and the agri-food industry.

Achieving this vision requires close cooperation between the government and the private sector, the activation of strategic international partnerships, and the adoption of best practices from successful global experiences. Algeria possesses the resources and potential to become a leading model for economic diversification if these policies are implemented in an integrated and sustainable manner.

8 - Conclusion:

As a conclusion to the above from this experience, which aims to create economic diversification, most of what the state of Malaysia offers to developing countries, especially Algeria, is that progress and reform do not often require additional or external resources, and that peoples and societies can create opportunities from environmental factors, both internal and external. , because what is known is that the abundance of resources and wealth sometimes does not achieve development, progress, and evolution. What societies need is conviction, culture, and philosophy to

rise from the lowest to what is highest, and this is done on a participatory scale between political authorities and peoples together.

Results:

****** The study underscored the importance of economic diversification as a tool for achieving sustainable growth and reducing reliance on a single sector. Malaysia's successful transition from a resource-based economy to a diversified one serves as a prime example.

******The study identified several factors contributing to Malaysia's economic diversification success, including:

- Investment in infrastructure.
- Encouragement of foreign direct investment.
- Development of human capital.
- Implementation of sound industrial policies.
- Long-term strategic planning.
- Public-private sector cooperation.

****** The study demonstrated that sound government policies play a crucial role in steering the course of economic development, encouraging investment, and developing local capabilities.

****** The study offered practical lessons that Algeria can adopt in its journey towards economic development, such as focusing on economic diversification, diversifying income sources, developing local competencies, and promoting innovation.

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