International Journal of Advanced Research in Economics and Finance
e-ISSN: 2682-812X | Vol. 7, No. 2, 74-84, 2025
http://myjms.mohe.gov.my/index.php/ijaref

The Global Economic Crisis 2008: Impact on Malaysia

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Received: 27 March 2025 | Accepted: 3 May 2025 | Published: 1 June 2025

DOI: https://doi.org/10.55057/ijaref.2025.7.2.6

Abstract: *This study analyses the 2008 Global Economic Crisis impact on Malaysia Economy and how Malaysia responds to recover its economy from further recession. The study argues, although the root causes of the Global Economic Crisis 2008 happened in Western Country, the impact still reach out to Southeast Asia Region and country especially Malaysia. The objectives of this study consist of three focuses, to Identify the factors that lead to the Global Economic crisis 2008, access the impact of the crisis on Malaysia and to analyse Malaysia response and strategies to mitigate the crisis. The methodology underpinned in this research was Qualitative method which focused on the use of secondary resources from reliable printed and online documents. Th Concept of Economic Security was used to explain the researched phenomenon. The finding of this research is that first, the Global Economic Crisis emerged from US are rooted from the Subprime Mortgage incentive, lead to the Housing Market bubble Burst and the involvement of financial institution like Lehman Brothers. Secondly, The Malaysia felt the impact during the second half of the crisis which affected Malaysia Financial system, its capital Flows, Foreign Exchange Rate, Banking system and Malaysia Exports and the industrial production. Thirdly, Malaysia responds by giving two stimulus packages to encourage spending, monetary policy adjustment and put its effort to stabilize the currency. This Study concludes that despites the economic security challenges that Malaysia faces from external factor from the Western Country, Malaysia still manage to recover its Economy with appropriate and fast solutions to curb the Challenges from spreading to far and secure its economy.*

Keywords: Capital Flows, Economic Crisis 2008, Economic Security, Malaysia, Recession

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1. Introduction

The financial crisis of 2008 is a turning point in human history that permanently changed the structure of the world economy. Global GDP Growth can be compared in the 2008-2009 economic where it was deeper in the history than the economic crisis of the Covid 19 pandemic as shown in Figure 1. The crisis began in the late 2007 and it aftereffects was not felt until September 2008. The sign of the crisis was seen when the lehman brothers suddenly filed for bankruptcy. The Crisis was known as a worldwide crisis where it has impact nation around the globe.

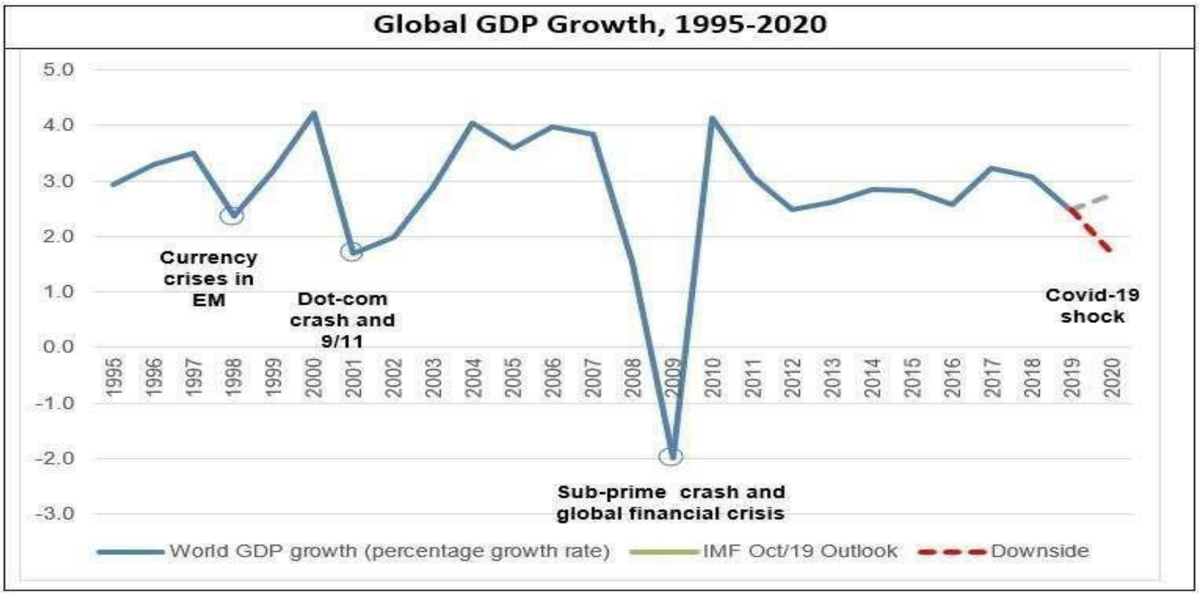

Figure 1: Global GDP Growth, 1995-2020
Sources: UNCTAD, (2020)

This phenomenon has made the stock market started to decline, increase of bankruptcies and price of housing upscale that made lot of people joblessness (Chang et al., 2013). Over the following several years, there were significant job losses and a decline in the GDP (Gross Domestic Product) of many Western and emerging nations. All economies worldwide were impacted by the global economic crisis, which essentially started in the West. It goes without saying that the US and Europe suffered the most from the crisis. The chain reaction can be seen through the global financial system whereby the downfall of the housing market in the US has made other nation react on their economic and financial due to their involvement in Global financial arena. In addition, during that time Many banks around the world experienced large losses and needed government support to remain open (Reserve Bank of Australia, 2023).

The financial crisis of 2008 is not the same as the one that Malaysia experienced in during the Asian Financial Crisis. A 2012 study by The North-South Institute found that the difference between this crisis was during that time, this crisis comes from the distruption of Southeast Asian economies which was by the uncontrolled flow of the capital and exchange rates that was already fixed (Lee, 2020). When a speculative attack on the Thai currency occurred in mid-May 1997, the ringgit experienced a drastic downturn pressure, causing the currency to drop from 2.40 to 4.90 versus the US dollar in 1997. The National Economic Action Council (NEAC) created a banking and business restructuring program in July 1998, and the new policy package gave it more of an urgency. According to Athukorala (2010), In order to address the problem in the financial system and related distress, three main organizations were established under this program over the course of the next two months, first is through a Corporate Debt Restructuring Committee (CDRC, a joint Corporation committee between the public and private sectors) to overseer the debt problems outside of legal court settlement. Second is through the purchase and well- controlled of the less performing loans from banks by the use of Danaharta company which was a company that overseer and manage assets. Thirdly is through the recapitalize a banking or financial institution to help filled in the inadequate capital through company called Dana Modal. The Government then release a stimulus program amounted to RM2 million In July 1998, just to boost the economy

However, the 2008 Financial Crisis is not originated from Asian regions itself but comes from the western the United States of America Financial institution that happened to be at the lowest point that crack others international financial institution that resulted in a deep fall of global trade and recession by late 2008 (Goh & Michael, 2010). This has phenomenon has indirectly affected Malaysia trade dependent and flows due to the Malaysia involvement in the global economic integration. Domestic demand, especially fixed investment, was also weakened by the 15% (year over year) drop in exports in the first quarter of 2009 (Harun et al, 2012). Malaysia's financial and commercial networks suffered as a result. Malaysia, which is a country that needs and depend on their exports of goods and trade has suffered large negative impact in both its investments and exports. Its Trade and Exports drop by 45% from RM64 billion in July 2008 to RM38 billion in January 2009. The stock market, which was largely influenced by foreign investors, suffered because of the large withdrawals from portfolio investments. Malaysia's GDP shrank by 1.7% and entered a recession in 2009. Lee (2020). Fortunately, Malaysia has a forty-year history of executing outstanding economic growth initiatives. The World Bank cites it as an illustration of the "rapid progress" that may be made by taking steps to create a "knowledge-based economy" (Jarman & Chopra, 2008). Overall, the implementation of economic recovery brought about by the financial crisis of 1997 has also gradually helped Malaysia to recover from the severe economic turmoil of the economic crisis 2008.

2. Literature Review

The literature review in this research study comprises of 2 main themes. The first theme focuses on the events of the Global Economic crisis in 2008. The highlight key of this theme is how the events occur, its significance throughout the whole world and its threatens of economy security towards the whole world that will explain the economic interdependency of states in international system. The second theme will be more centred on Malaysia economy. In this second theme, the focus will be on the evolution of Malaysia Economy since independence, how it emerges before the Crisis, what happens during the crisis in 2008 and the aftermath of the events.

2.1 The Global Economic Crisis 2008

The 2008 global economic crisis had widespread and devastating effects on economies and societies worldwide. Chang et al. (2013) highlighted its consequences, including stock market crashes, widespread bankruptcies, soaring unemployment, and home repossessions, with global unemployment increasing by 34 million between 2007 and 2009. Loo (2023) described the crisis as the result of accumulating systemic issues that compelled governments to bail out financial institutions to avert collapse. Bank Negara Malaysia (2008) traced the crisis back to the U.S. housing bubble burst and subprime mortgage failures, which triggered synchronized recessions across major economies. Duggan (2023) characterized the crisis as the most severe U.S. economic downturn since the Great Depression, with unemployment doubling, GDP dropping by 4.3%, and millions losing their homes, fueled by deregulation and risky lending practices. These analyses collectively reveal the complex and far-reaching nature of the crisis and its enduring global consequences.

Duggan (2023) further emphasized the severity of the U.S. downturn during the Great Recession, marked by surging unemployment, sharp declines in GDP, and mass home foreclosures due to predatory lending and deregulation. Kenton (2024) explained that financial crises often involve plummeting asset values, credit shortages, and defaults, which can destabilize economies at both local and global levels. Turner (2023) noted that securitization

practices, including the packaging and selling of mortgage-backed securities and collateralized debt obligations by institutions in the U.S. and U.K., significantly contributed to the crisis. Together, these perspectives outline the crisis's intricate causes and profound impacts.
As Jena (2023) described, the financial crisis of 2008 was a "black swan" event—unpredictable and devastating—resulting in global market crashes, financial losses, and homelessness. Foster and Magdoff (2009) ranked it as the second most severe crisis since the Great Depression. Bosworth and Flaaen (2009) observed the crisis's global integration, affecting Europe through financial ties and Asia via collapsing trade. Dullien et al. (2010) highlighted its impact on developing countries, primarily through trade and reduced remittances, with a 0.6% drop in global GDP in 2009. Baily et al. (2008) identified speculative reliance on rising home prices and systemic banking abuses as central causes. The U.S. Government (2011) pointed to deregulation and weakened oversight as key exacerbating factors, with decades of reform dismantling safeguards that might have prevented the crisis.

Various authors underline the global repercussions of the 2008 financial crisis. Santarelli (2024) noted its prolonged economic effects, such as unemployment and reduced consumer spending. Sacasa (2008) emphasized the need for stronger regulations and coordinated responses to prevent similar crises. Khan (2018) highlighted the U.S. government's bailout and stimulus measures to combat the crisis, while Amadeo (2022) traced its origins to panic over toxic assets at Bear Stearns, which led to extensive government interventions. Overall, these accounts illustrate the crisis's profound economic and systemic impacts and the extraordinary measures required to address it.

2.2 Malaysia Economy

Lee (2019) emphasizes the profound influence of globalization on Malaysia's development, affecting areas like trade, capital flows, labor migration, and technology. Over time, the economy transitioned from depending on tin and rubber to focusing on manufactured exports, while increased openness to foreign investments exposed it to global economic fluctuations. Azlan (2022) highlights the diversity of Malaysia's economy, with major sectors such as petroleum, Islamic banking, and electronics, and key trade partnerships with China, Singapore, and the U.S., though economic downturns have led to higher unemployment rates. Aznam et al. (2008) underline the nation's strategy of economic diversification, such as shifting from rubber to palm oil production, often in anticipation of commodity market slowdowns. Khoon and Mah-Hui (2009) point to consistent economic growth since 2000, fueled by manufactured exports and foreign investments in electronics, despite a brief slowdown during the dot-com crash.

Ibrahim (2011) credits Malaysia's financial stability during the global crisis to reforms enacted after the Asian financial crisis, along with ample liquidity and limited exposure to subprime assets, which mitigated systemic risks. Alp (2016) explains the adverse effects of the 2008–2009 crisis on Malaysia’s highly integrated economy, where reduced exports and domestic demand prompted swift government interventions, including support from Bank Negara Malaysia. Meesook et al. (2001) attribute Malaysia's recovery from the Asian financial crisis to strong macroeconomic policies and high global electronics demand, despite vulnerabilities from currency appreciation and reliance on electronics exports. Ali and Hatta (2013) discuss the 2008 crisis’s impact on food imports, leading to higher costs and reduced purchasing power, disproportionately affecting impoverished women and children.

Mahani (2011) identifies long-term challenges such as stagnant income, modest growth, and limited private investment, which contribute to Malaysia being seen as stuck in a middle-income trap. Short-term priorities include reducing inflation, cutting deficits, and reforming subsidies. Umezaki (2019) remarks that Malaysia's per capita GDP in 2017 placed it within the middle-income category, with poverty rates dropping significantly, though it remains unable to advance beyond this stage since its transition in 1992. Rajah and Mahani (2009) highlight declining external demand as a key economic challenge, given Malaysia's high export-to-GDP ratio. Recessions in developed economies have reduced export and FDI inflows, leading to contractions in agriculture, construction, and services. Bakhtyar (2017) explains the 2008 crisis's impact on Malaysia's gas consumption, which dropped for a year, revealing an inverse relationship between gas usage and net exports. Ishak et al. (2023) describe the sharp decline in the stock market during the 2008–2009 financial crisis, with significant dividend cuts in banking and stock sell-offs further harming the economy, illustrating its dependence on trade. Lee and Ng (2015) discuss Malaysia's reliance on domestic and international borrowing to fund development amid persistent fiscal deficits, with excessive debt potentially hindering progress. Bekhet and Yasmin (2014) analyze the global financial crisis's impact on Malaysia's export-reliant economy, which prompted the government to introduce RM67 billion in stimulus packages to stabilize economic conditions.

3. Conceptual Framework

The concept of economic security, as defined by Zub (2024), involves protecting the economic sphere and national interests from destabilizing factors through regulatory, organizational, and technological measures. Kadala et al. (2023) describe it as a vital tool for safeguarding national interests, countering negative influences, and ensuring stable economic growth. It is considered a non-traditional threat that challenges state sovereignty during peacetime. Miroshnichenko et al. (2023) highlight various approaches to economic security, emphasizing its roles in resource efficiency, competitive advantage, and achieving strategic goals.

During the global economic crisis, Malaysia's economic security faced multiple challenges. Ali and Hatta (2013) explain that financial stability, a key component of economic security, was compromised by external shocks, although Malaysia's stable financial sector mitigated some impacts. Employment security, as noted by Nambiar (2009), was also threatened, with the crisis exposing vulnerabilities in export-driven industries and causing unemployment. The theory of economic security is essential in this research, as it underpins many of Malaysia's broader issues, including the effects on critical services such as education and healthcare.

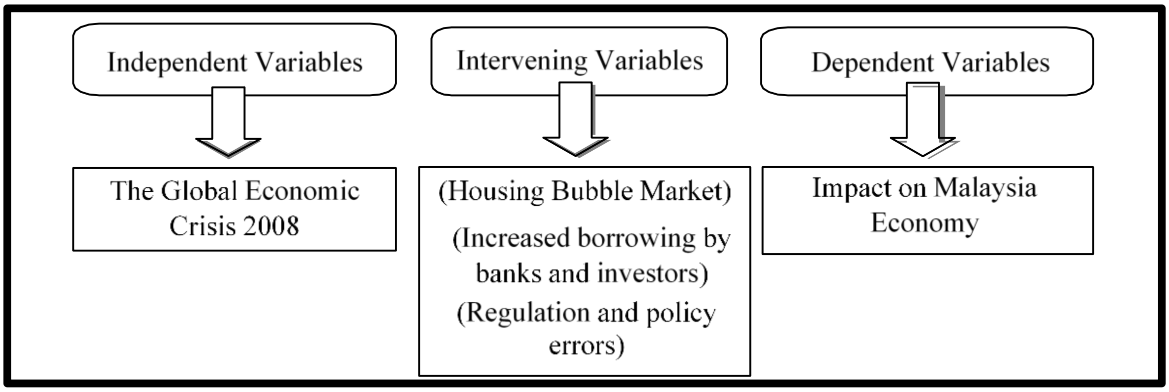

Figure 2: Research Framework
Sources: Illustrated by Author (2025)

Analysis

The 2008 Economic Recession, which caught many stakeholders off guard, was rooted in significant systemic negligence. A primary trigger was the Subprime Mortgage Crisis. Subprime mortgages catered to borrowers with credit scores below 620, offering them access to loans despite high default risks. However, these loans came with elevated interest rates, leading to widespread financial instability (Kagan, 2024). Subprime Adjustable-Rate Mortgages (ARMs) were particularly problematic, peaking at 50% of the subprime market in 2006. These loans initially had low fixed rates, but their subsequent rate hikes after 2004 triggered defaults and refinancing challenges. This chain reaction contributed to the collapse of the housing market. The bubble, inflated by speculative investments and lax lending standards, burst when tightened regulations decreased demand, leaving many unable to afford their mortgages (Kosakowski, 2024). The financial market's vulnerabilities were amplified by the extensive use of Mortgage-Backed Securities (MBS), which bundled high-risk mortgages into investment products. Financial institutions played a significant role by promoting MBS, but the system's fragility became evident as property values dropped and defaults rose. Lehman Brothers, heavily invested in subprime loans, filed for bankruptcy in 2008, marking a pivotal moment in the crisis and exposing the devastating interplay of regulatory lapses and excessive risk-taking (Kenton, 2023).

The 2008 Economic Crisis profoundly disrupted Malaysia's financial system, notably through capital flows and stock market volatility. Global instability made investors cautious, leading to a sharp decline in Foreign Direct Investment (FDI) as they focused on recovering domestic markets. Malaysia experienced a plunge in net financial and capital flows from -RM37.7 billion in 2007 to -RM118.5 billion in 2008, with portfolio outflows being the primary driver (Khoon & Lim Mah-Hui, 2010; Ali & Hatta, 2013). Although FDI averaged RM5 billion per quarter from 2006 to 2008, it failed to counteract these outflows. Earlier FDI surges, tied to investments in electrical, electronics, and aluminium processing sectors, were reversed by the third quarter of 2008 due to the global financial fallout (Nambiar, 2012). The stock market also suffered as foreign investors repatriated funds, causing the Kuala Lumpur Composite Index (KLCI) to decline from 1393 points in January 2008 to 876 points by December 2009, impacting trading volumes largely driven by international players (Khoon & Lim Mah-Hui, 2010). Furthermore, the crisis weakened the Malaysian ringgit, which depreciated from RM3.464 to RM3.693 per US dollar in early 2009 due to capital outflows and reduced export demand, particularly in Asian markets (Khoon & Lim Mah-Hui, 2010). Despite these challenges, Malaysia's banking sector displayed resilience, having minimal exposure to U.S. subprime products. The risk-weighted capital ratio (RWCR) stood strong at 13.1% in 2008, reflecting the lessons learned from the 1997 Asian Financial Crisis (Ali & Hatta, 2013). However, Malaysia's export-dependent economy witnessed a decline in manufactured goods exports, especially electronics and machinery, with export contributions shrinking from 78.4% in 2007 to 74.1% in 2008. This decline contributed to a contraction in the Industrial Production Index (IPI), which fell by 19.8% in January 2009 due to decreased output in manufacturing and mining sectors. Ultimately, Malaysia's deep integration with the global economy exposed it to the cascading effects of the financial crisis.

Malaysia's response to the 2008 economic crisis began with the introduction of the First Stimulus Package (SP1) on November 4, 2008, amounting to RM7 billion, or roughly 1% of the nation's GDP. Its primary objective was to bolster domestic demand through public sector expenditure. Key allocations included investments in affordable housing, public infrastructure, rural development projects, and the High-Speed Broadband initiative, along with incentives to stimulate private sector involvement (Khoon & Lim Mah-Hui, 2010; Ali & Hatta, 2013).

However, SP1 faced criticism for being inadequate in size and experiencing slow disbursement, with only 32% of the funds utilized by mid-2009. As a result, the government introduced the Second Stimulus Package (SP2) in 2009, a larger measure valued at RM60 billion, or 10% of GDP. SP2 addressed wider concerns, such as reducing unemployment, supporting the private sector, and expanding infrastructure. Notably, nearly 50% of its funds targeted small and medium-sized enterprises (SMEs) via financial aid and guarantees, with significant portions also allocated for infrastructure maintenance and employment training initiatives (Nambiar, 2012). Together, these initiatives positioned Malaysia among ASEAN countries with the most aggressive policy-driven recovery strategies (Khoon & Lim Mah-Hui, 2010).

Monetary policy adjustments were pivotal in Malaysia's strategy to recover from the 2008 economic crisis. Bank Negara Malaysia (BNM) took decisive actions, such as reducing the Overnight Policy Rate (OPR) from 3.5% in 2008 to 2% in 2009, aimed at lowering borrowing costs, encouraging private sector investments, and boosting consumer spending (Zainal Abidin, 2011). Additional measures were implemented to ensure floating loan repayments were adjusted accordingly, increasing disposable incomes and supporting domestic consumption (Bank Negara Malaysia, 2009). Moreover, the Statutory Reserve Requirement (SRR) was lowered from 4% to 1% by March 2009, enhancing liquidity within the banking sector and enabling sustained lending to both businesses and consumers. These initiatives played a crucial role in stabilizing the banking system and ensuring the effective transmission of monetary policy (Fernando, 2021; Athukorala, 2010). Efforts to stabilize the Malaysian ringgit included further OPR cuts to counteract the U.S. Federal Reserve's near-zero interest rate policy. However, these reductions placed downward pressure on the ringgit, prompting BNM to intervene in the foreign exchange market. This intervention led to a notable decline in foreign reserves, from USD 120 billion in mid-2008 to USD 81.9 billion by April 2009 (Athukorala, 2010). To manage foreign exchange volatility, BNM introduced real-time surveillance systems and the Appointed Overseas Office (AOO) system to strengthen ties with global investors and mitigate potential risks. Such measures, coupled with transparent monetary policies and robust financial regulations, successfully enhanced confidence in Malaysia's economy (Abdul Aziz, 2013; Kong & Baharin, 2019).

4. Conclusion

The analysis highlights how the 2008 Global Economic Crisis, originating in the U.S. housing market collapse, exposed significant vulnerabilities in global financial systems, including Malaysia's. The crisis was fueled by risky financial practices such as subprime mortgages and excessive leveraging. These issues led to the collapse of major institutions like Lehman Brothers and triggered a worldwide contraction in economic activities, affecting even distant economies like Malaysia, deeply integrated into the global trade and financial networks. Malaysia's reliance on exports and foreign investment amplified its exposure to external shocks during the crisis. Reduced global demand, particularly from key trade partners like the U.S. and EU, led to significant declines in industrial production, especially in sectors like electronics. This drop in exports caused rising unemployment and reduced GDP growth. While Malaysia’s banking sector proved resilient due to prior reforms, the crisis exposed the structural weaknesses of an overly export-dependent economy, emphasizing the risks associated with limited economic diversification. In response, Malaysia implemented robust policy interventions, including two fiscal stimulus packages, monetary policy adjustments, and measures to stabilize the currency. The government's first stimulus package focused on infrastructure, while the second targeted financial assistance and job creation. Bank Negara Malaysia (BNM) reduced interest rates and reserve requirements to improve liquidity and support borrowing while intervening in foreign exchange markets to stabilize the ringgit. These measures, amounting to 10% of Malaysia's GDP, demonstrated the government's capacity for swift adaptation and helped mitigate the crisis's impact. The analysis also underscores the need for Malaysia to adopt long-term strategies for resilience. Economic diversification is crucial to reduce dependence on exports from narrow sectors like electronics. Strengthening financial safeguards and developing robust policy frameworks are necessary to shield the economy from future external shocks. Ultimately, the 2008 crisis served as a wake-up call, revealing systemic risks and prompting Malaysia to re-evaluate its economic strategies to ensure sustained growth and stability.

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