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Malaysia – Dalian Economic & Trade Forum

**Malaysia: Of Economic Prospects and
Investment Opportunities**

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Agenda

- **How resilient is the Malaysian economy?**
 - ❑ **Recent trends**
 - ❑ **Prospects**

- **Investment prospects and opportunities**

- **Conclusion**

Key messages

Malaysia remains resilient to external challenges

- Domestic demand remains the dominant driver of growth
- Unrelentingly consumer spending
- Private investment growth supported by public-and private-initiated projects

Macroeconomic fundamentals remain supportive of growth

- Diversified sources of growth
- Diversified export and product markets
- Stable labor market conditions and young demographic dividends
- Conducive investment destination for FDI
- Strong and stable financial system

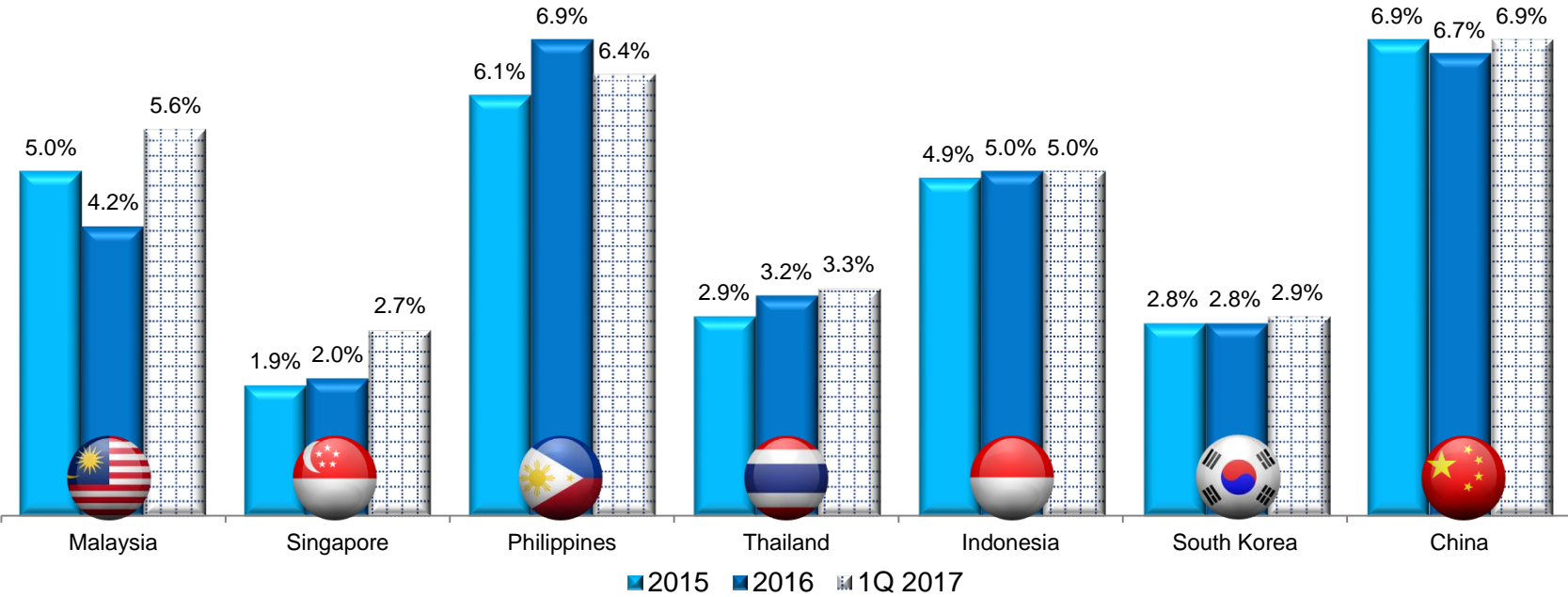
Strong pipelines of investment opportunities

- Public infrastructure projects
- Manufacturing, services, oil and gas sectors
- Construction and real estate development

The Malaysian economy remains resilient despite facing external and domestic headwinds

- While Malaysia's real GDP growth has slowed to 4.2% in 2016 (5.0% in 2015; 6.0% in 2014), it was among the fastest-growing economies.
- The economy held up strongly by 5.6% yoy in 1Q17, the highest in two years. It remains on track to meet Bank Negara Malaysia's target of 4.3-4.8% in 2017.

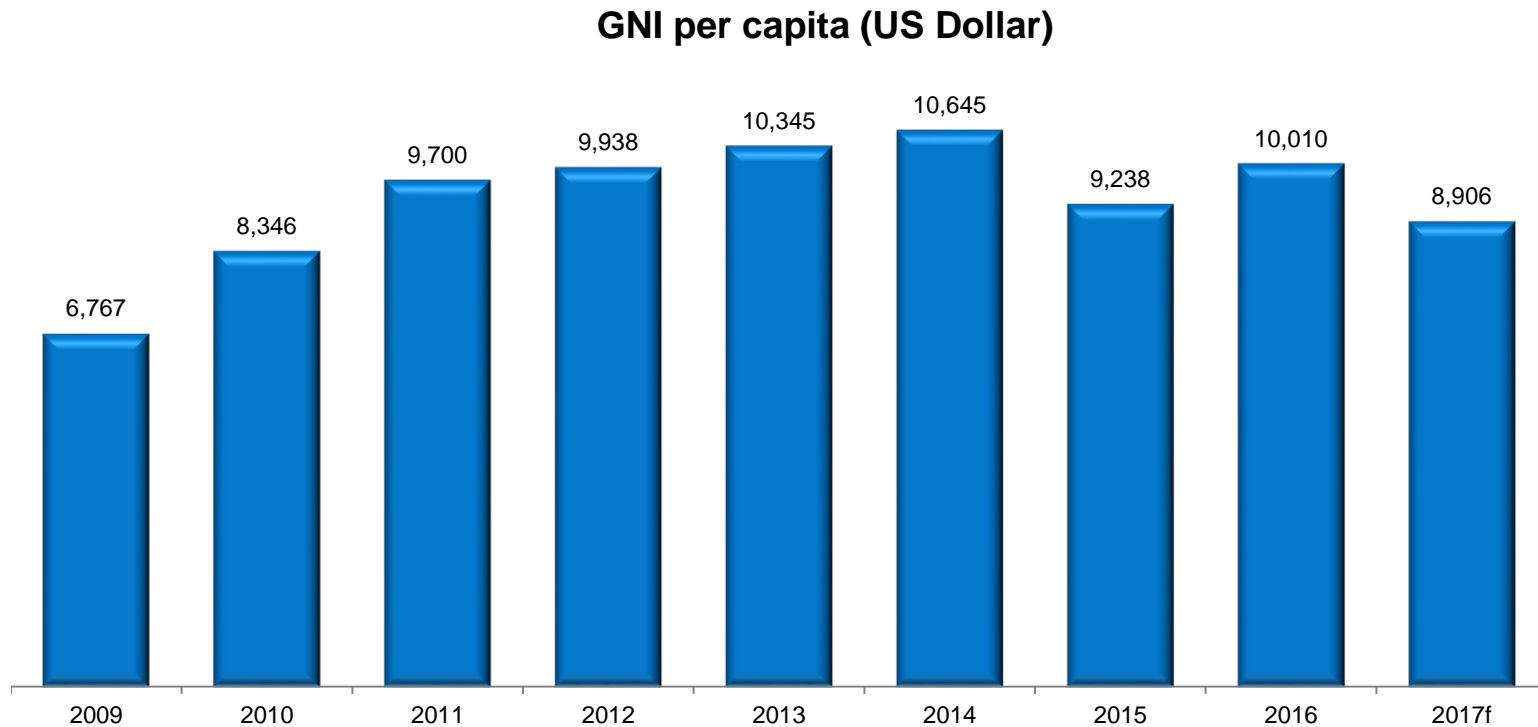
Regional comparison: Real GDP growth (% YoY)



Source: Various officials

Malaysia has moved out of the “middle-income trap”

- Six years into the implementation of the National Transformation Program, Malaysia has escaped the middle-income trap, with GNI per capita at US\$10,010 in 2016 (US\$6,767 in 2009).
- Amid challenges, Malaysia will strive to achieve high-income target of US\$12,272 by 2020, which is based on the World Bank’s GNI per capita calculation.

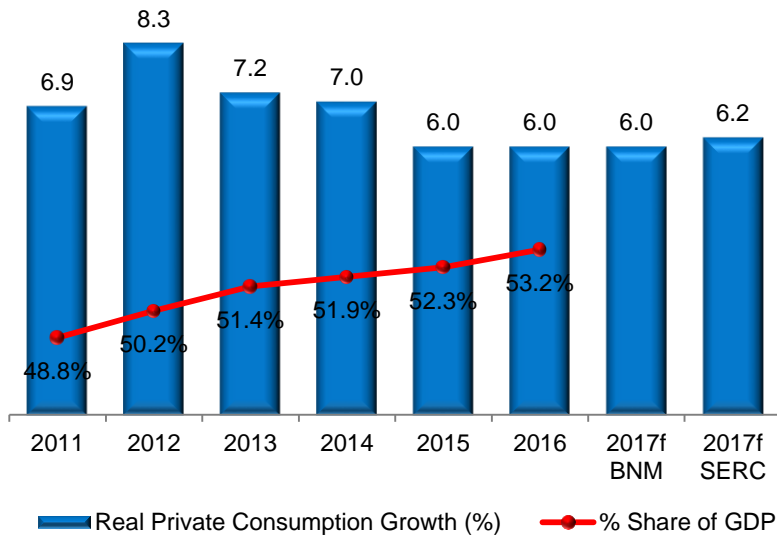


Source: Bank Negara Malaysia; PEMANDU

Private consumption still powering the economy

- Despite grappling with rising cost of living and inflation, consumer spending remains resilient to grow by 6.6% in 1Q 2017.
- Supported by continued expansion in employment and wage growth as well as income-support measures (cash handouts, tax cuts, reduction in EPF contribution rates).

Real private consumption growth trend (% YoY)



Stable labour market conditions

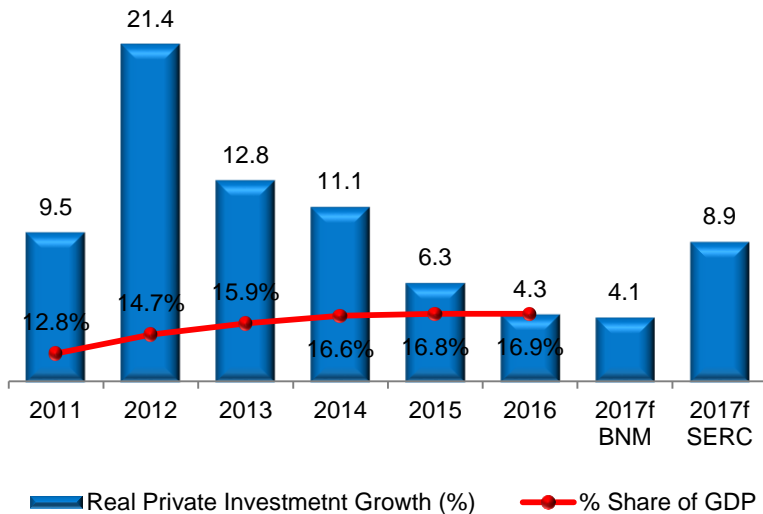


Source: Bank Negara Malaysia; SERC

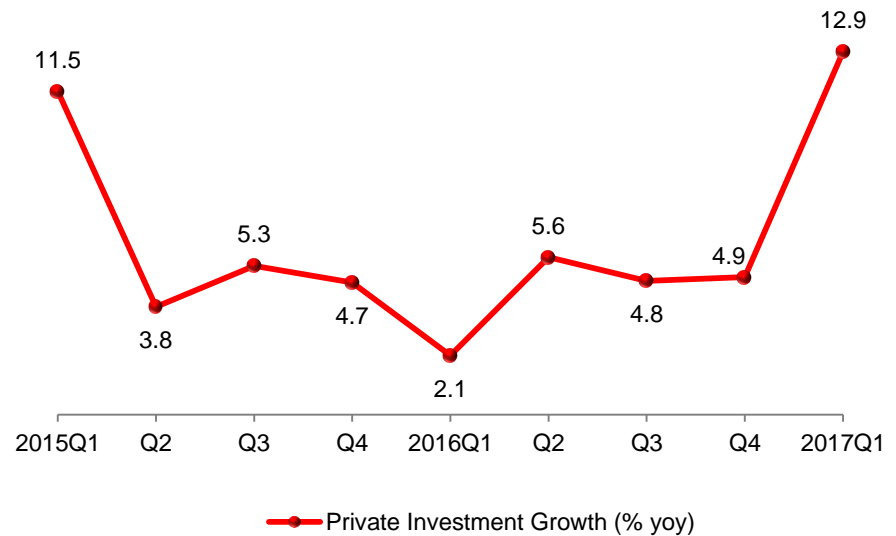
Private investment rebounded strongly in 1Q2017

- Private investment staged a strong expansion of 12.9% yoy in 1Q 2017 after trapped in lower growth trajectory since 2Q 2015.
- Driven mainly by capital spending in the services and manufacturing sectors.

Real private investment growth trend (% YoY)



Quarterly real private investment growth (% YoY)

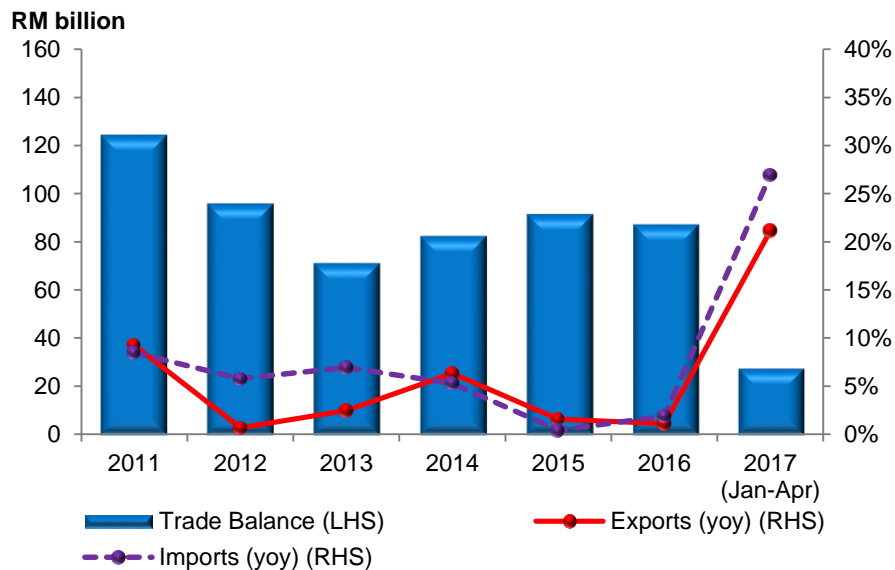


Source: Bank Negara Malaysia; SERC

Robust external trade performance

- Exports have staged a recovery since Nov 2016 (21.2% in Jan-Apr 2017 vs. 1.1% in 2016).
- Three fundamental drivers: improved global demand, tech demand and higher commodity prices. Base and weak exchange rate effects have inevitably played some part.
- Risks to trade could come from trade protectionism and disruptive policies in advanced economies.

Exports accelerated



Higher exports across the board

| Major export products | 2016 | 1Q 2017 |
|------------------------------------|-------------|--------------|
| Electrical & electronics (36.6%) | 3.5% | 18.4% |
| Chemical, with products (7.5%) | 7.0% | 24.2% |
| Petroleum products (6.9%) | -0.1% | 61.0% |
| Palm oil (5.3%) | 3.3% | 31.7% |
| Machinery equipments (4.8%) | 4.2% | 3.6% |
| Manufacturers of metal (4.2%) | -4.3% | 0.6% |
| Liquefied natural gas (4.1%) | -28.2% | 5.4% |
| Optical & scientific equip. (3.7%) | 10.2% | 9.8% |
| Crude oil (2.8%) | -14.6% | 57.9% |
| Overall gross exports | 1.1% | 21.4% |

Source: Department of Statistics, Malaysia; Bank Negara Malaysia

Parenthesis indicates share of overall gross exports in 2016

Broad-based economic expansion

- All economic sectors registered positive growth in 1Q 2017.
- Services and manufacturing sectors are the dominant growth drivers.

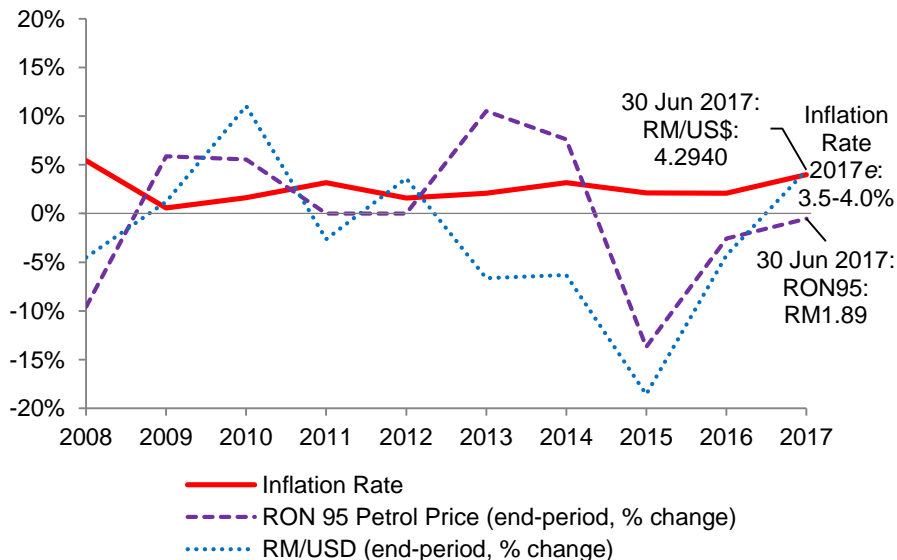
| <i>% change, 2010=100</i> | 2014 | 2015 | 2016 | 2017 1Q | 2017f (BNM) | 2017e (SERC) |
|---------------------------------------|-------------|-------------|-------------|--------------------|------------------------|-------------------------|
| GDP by demand component | | | | | | |
| Private consumption (54.0%) | 7.0 | 6.0 | 6.0 | 6.6 | 6.0 | 6.2 |
| Private investment (16.8%) | 11.1 | 6.3 | 4.3 | 12.9 | 4.1 | 8.9 |
| Public consumption (12.5%) | 4.3 | 4.4 | 0.9 | 7.5 | -0.2 | 6.3 |
| Public investment (8.3%) | -4.7 | -1.1 | -0.5 | 3.2 | 1.5 | 2.8 |
| Exports of goods and services (68.4%) | 5.0 | 0.3 | 1.1 | 9.8 | 2.2 | 7.9 |
| Imports of goods and services (60.3%) | 4.0 | 0.8 | 1.1 | 12.9 | 1.8 | 10.2 |
| GDP by economic sector | | | | | | |
| Agriculture (8.0%) | 2.0 | 1.3 | -5.1 | 8.3 | 4.0 | 5.0 |
| Mining & quarrying (8.7%) | 3.3 | 5.3 | 2.2 | 1.6 | 2.7 | 1.3 |
| Manufacturing (22.9%) | 6.1 | 4.9 | 4.4 | 5.6 | 4.3 | 5.7 |
| Construction (4.7%) | 11.7 | 8.2 | 7.4 | 6.5 | 8.0 | 8.3 |
| Services (54.4%) | 6.6 | 5.1 | 5.6 | 5.8 | 4.9 | 5.2 |
| Overall GDP | 6.0 | 5.0 | 4.2 | 5.6 | 4.3-4.8 | 5.0 |

Source: Department of Statistics, Malaysia; Bank Negara Malaysia; SERC
 Parenthesis indicates % share to GDP in 2017f from BNM

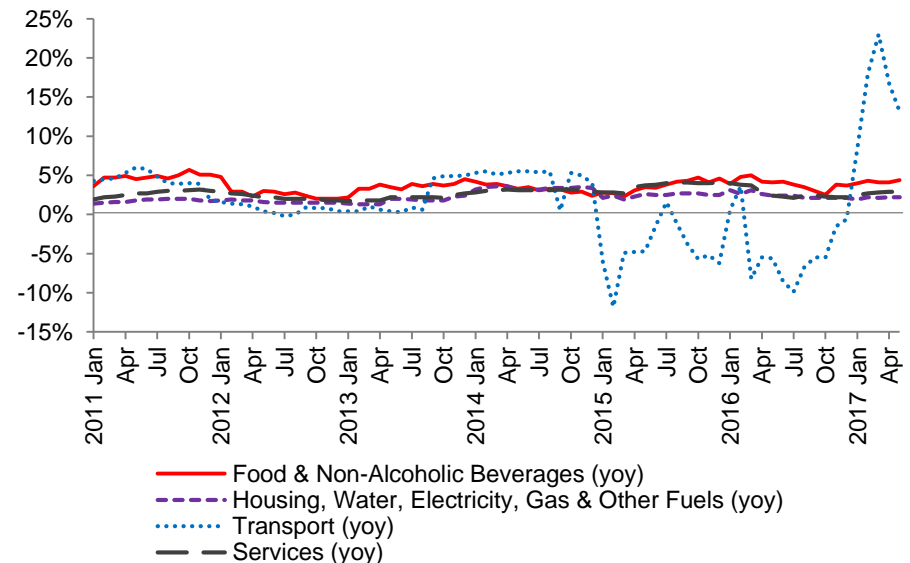
High inflation is expected to moderate gradually ...

- High fuel prices-inflicted cost price pressures along with other indirect costs such as the spillover effect of the weakening ringgit pushed inflation higher to 5.1% yoy in March.
- But, it had moderated to 4.4% in April and 3.9% in May on moderating transport prices.
- Inflation is expected to increased by 3.5-4.0% in 2017 and 3.0-3.5% in 2018.

Fuel price and exchange rate changes on inflation



Inflation is largely driven by food prices and volatile fuel price

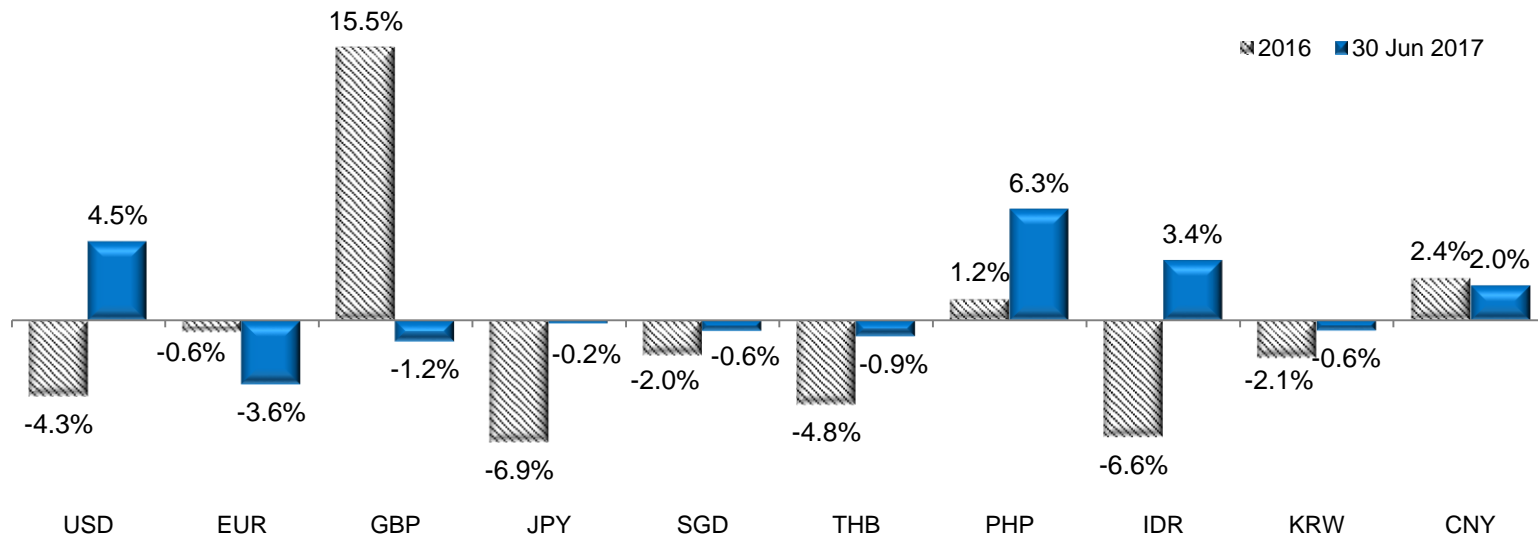


Source: Bank Negara Malaysia; Department of Statistics, Malaysia; SERC

The ringgit has stabilized amid headwind remains

- The ringgit appreciated by 4.5% against USD in the first half-year, partly supported by Bank Negara Malaysia's onshore ringgit stabilization measures and sustained capital inflows in the bond and equities markets. In terms of real effective exchange rate, the ringgit appreciated by 2.4% in the first five months of 2017.
- The ringgit volatility remains on external uncertainties associated with the pace of the US interest rate hikes, volatility in global oil prices, global political development and developments in global financial markets.

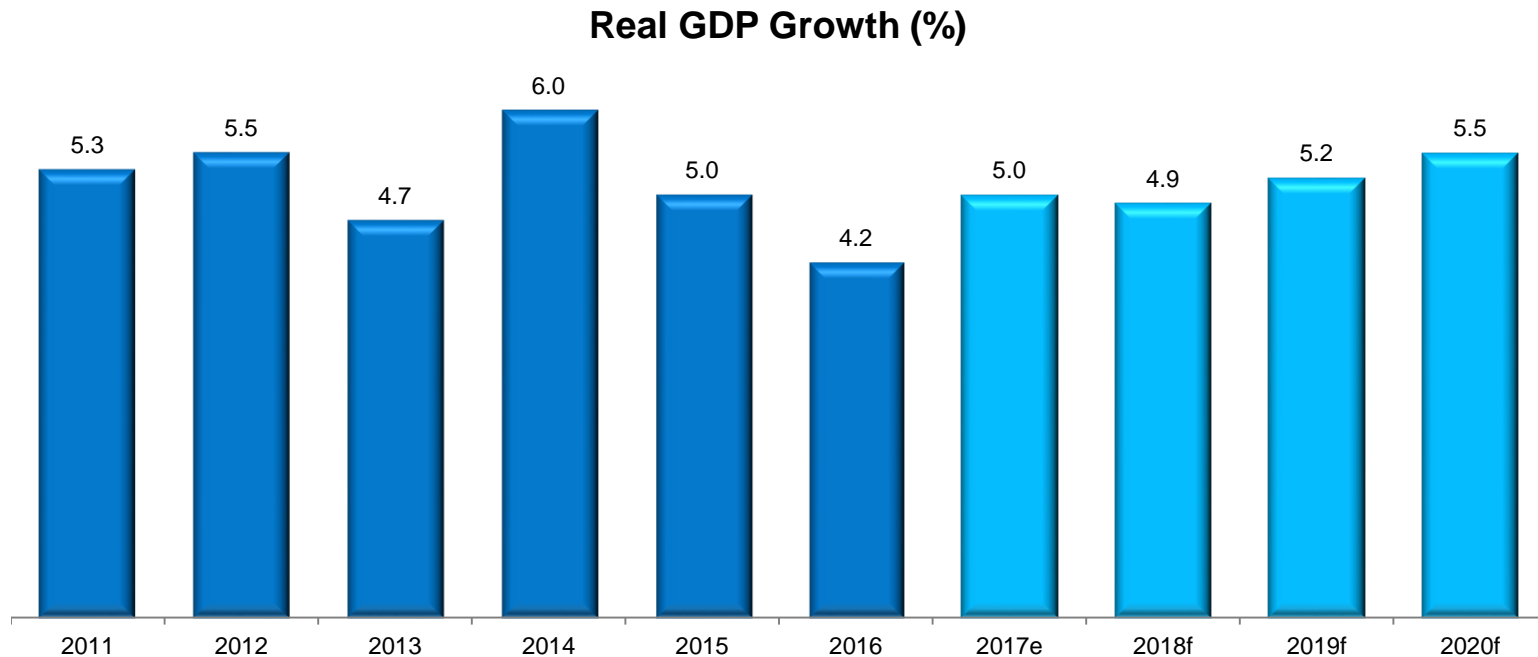
Performance of ringgit against major and regional currencies



Source: Bank Negara Malaysia

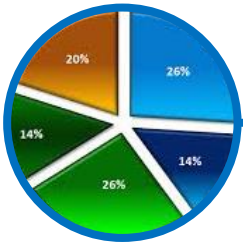
Malaysia's medium-term economic outlook remains good

- The economy is projected to grow by 5.0% pa in 2016-20 compared to 5.3% pa in 2011-15.
- Private sector expenditure will continue to support the economy. The improved income and increased employment means higher spending power.
- The implementation of ongoing and new projects related to rail, ports, highways, real estate and in major economic sectors (manufacturing, services and mining) are expected to sustain public and private investment.



Source: Bank Negara Malaysia; SERC

Malaysia is in a position of strength to withstand negative shocks



Diversified economic and trade structure

Structural transition towards high-value added sectors with varied export products and markets



Well-developed and resilient financial system

Strong capital and liquidity buffers with continued access to financing



Adequate reserves and manageable external debt

Ample international reserves and increased foreign asset holdings act as buffer against external shocks

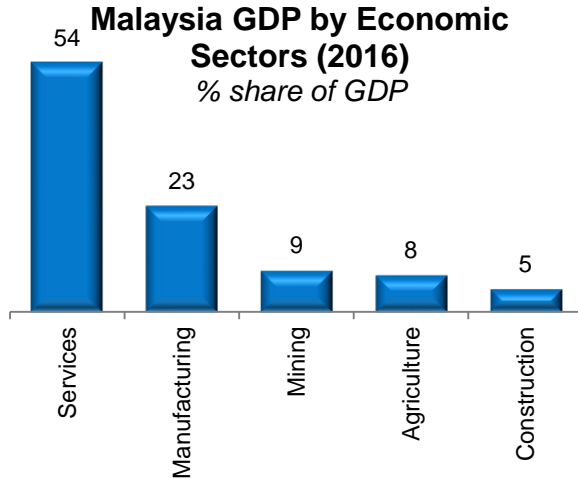


Policy space and flexibility

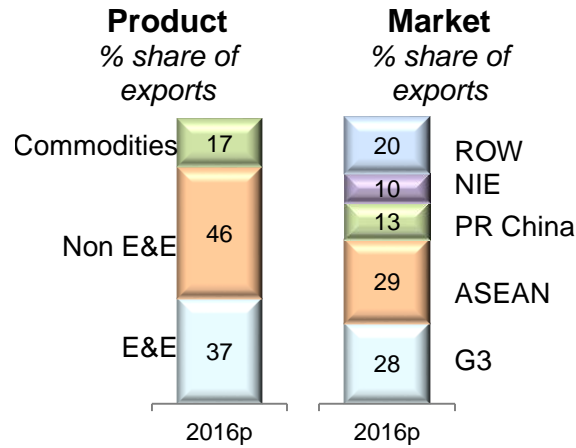
Flexible exchange rate and monetary policy space

Macroeconomic fundamentals remain supportive of growth

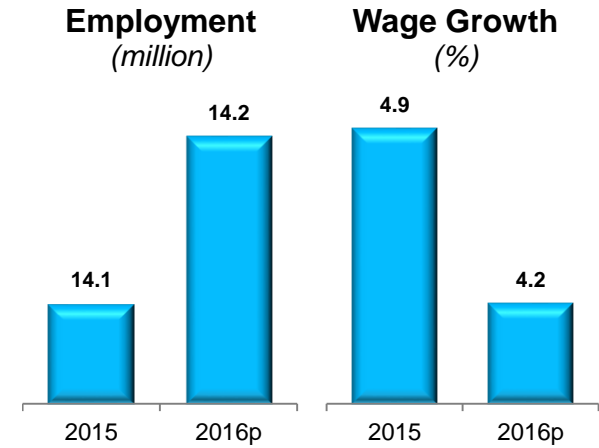
Diversified sources of growth



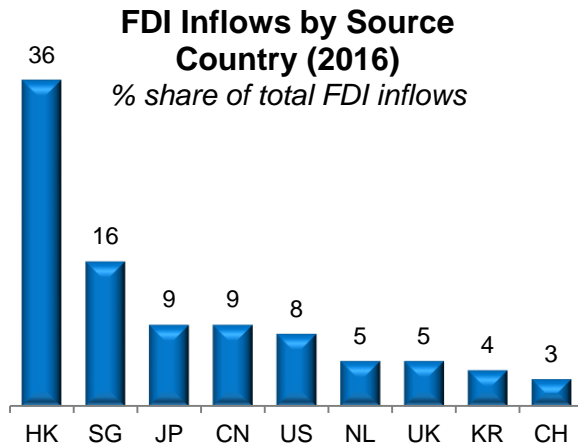
Diversified export market and product



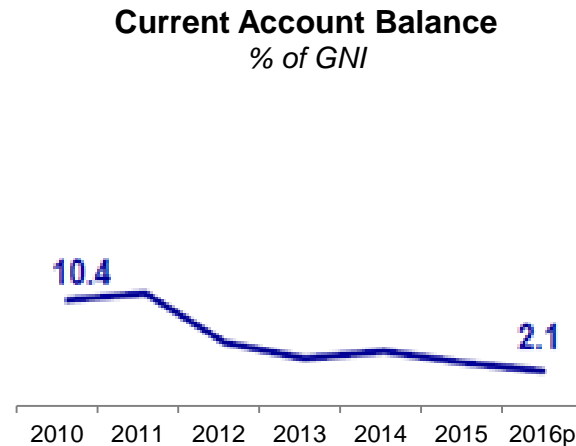
Stable labour market conditions



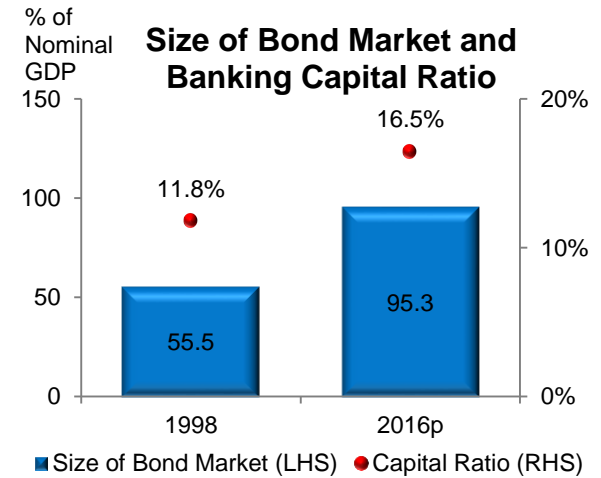
Conducive investment destination for foreign investors



Current account balance reflects strong investment



Deeper markets and strong financial buffers



Source: Bank Negara Malaysia

Why investing in Malaysia?



Strategic location in South East Asia



Liberal investment policies
(Manufacturing & selected services sectors can be wholly foreign-owned; freedom to repatriate Capital, Interest, dividends and profits – No Restrictions)



Strong banking system and developed capital markets



Harmonious industrial relations

Political and economic stability



Transparent policies



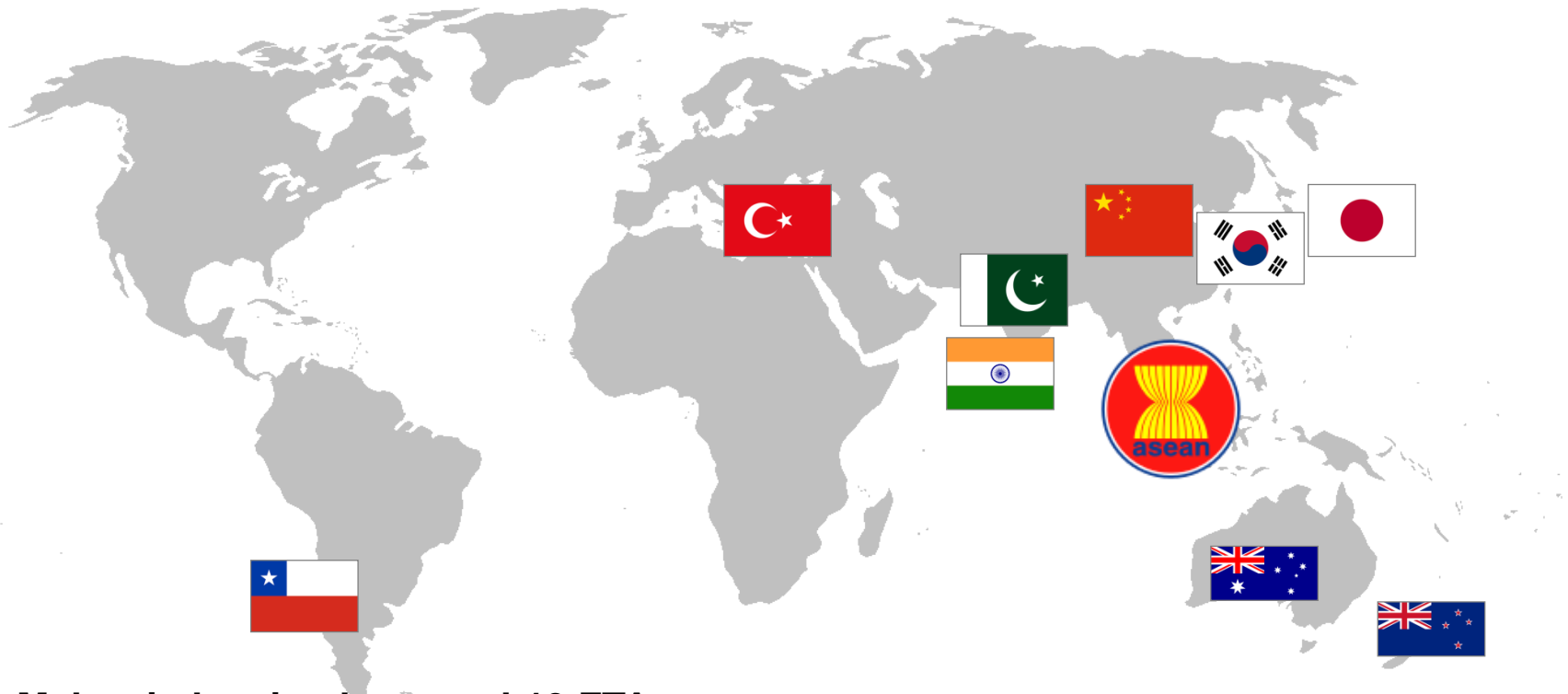
Well developed infrastructure and connectivity



Young, trainable and educated workforce



Malaysia is gateway to ASEAN & Asian economies



Malaysia has implemented 13 FTAs:

Multilateral

- ASEAN
- ASEAN-China
- ASEAN-Korea
- ASEAN-Japan
- ASEAN-India
- ASEAN-Australia-New Zealand

Bilateral

- Japan
- Pakistan
- New Zealand
- Chile
- India
- Australia
- Turkey

FTAs under negotiation:

- RCEP
- Malaysia-European Union
- ASEAN-Hong Kong

Malaysia's competitiveness ranking touchpoints

23rd in ease of doing business

-World Bank Doing Business Report 2017

8th in Asia as a destination for investment by global multinational companies (MNCs)

- Asia Business Outlook Survey (ABOS), The Economist Corporate Network, 2017

3rd in Protecting Investors

-World Bank Doing Business Report 2017

24th in most competitive economy

-World Competitiveness Yearbook, IMD 2017

3rd most preferred retailing location

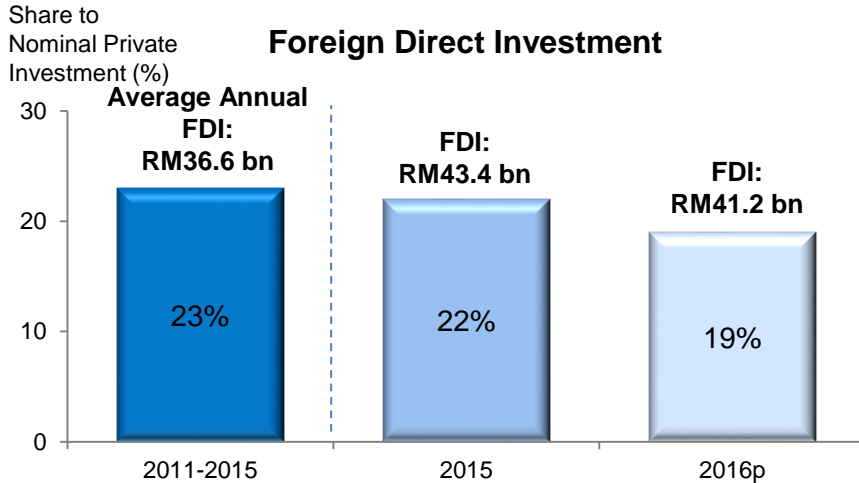
-A.T. Kearney's Global Retail Index 2016

3rd most preferred services location

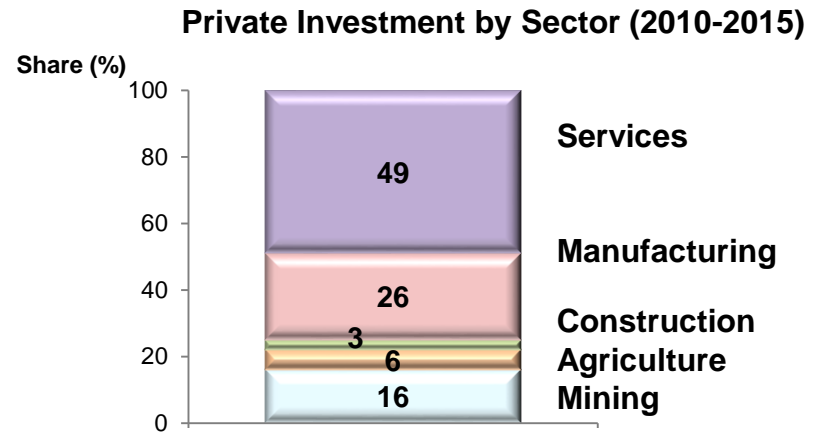
-A.T. Kearney's Global Services Location Index 2016

Private investment trend touchpoints

Malaysia continues to attract FDI, but in lower amounts



Services and manufacturing sectors account for 75% of private investment activity



Key quality projects to increase efficiency, productive capacity and employment

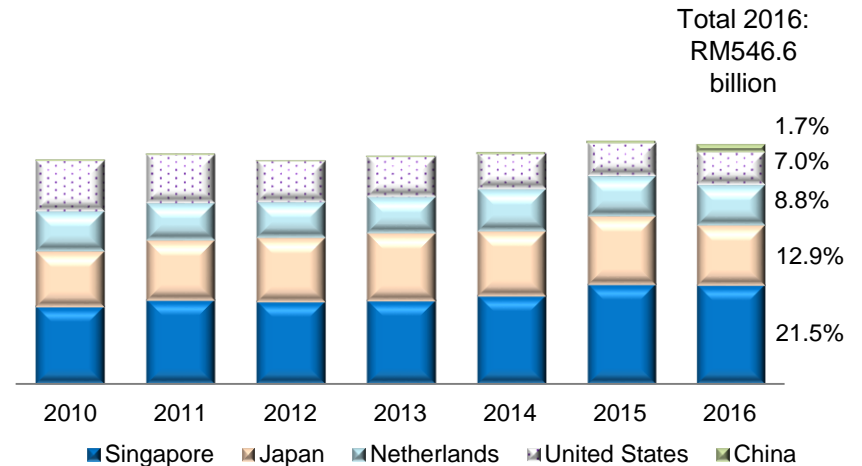
Services

- **Transport and storage**
Oil and gas storage terminals, seaports and aircrafts
- **Telecommunication**
4G/LTE network expansion

Manufacturing

- **Electrical and electronics (E&E)**
- **Resource-based industries**

FDI stocks in Malaysia are well diversified



Source: Bank Negara Malaysia

Investment opportunities in infrastructure and real estate



Kuantan Port

Pan Borneo Highway West Coast Expressway



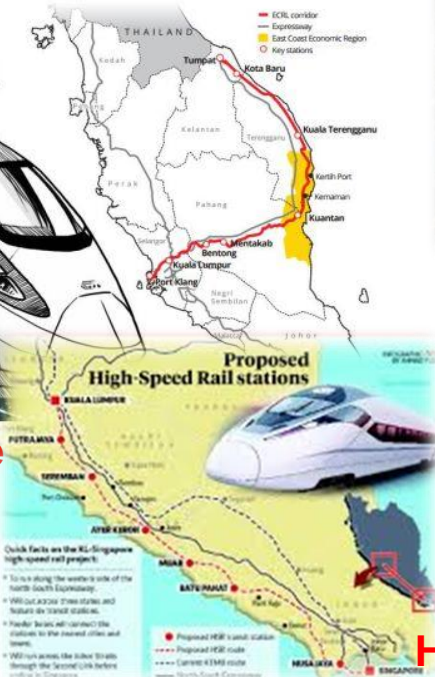
Bandar Malaysia

EAST COAST RAIL LINE (ECRL) PROJECT

- > A **600km** rail line
 - > Project to start in **2017**
 - > Construction of the **five-year ECRL**
 - > No payment for **first seven years**
- The 3 phases**
- 1st Phase:** Klang Valley to Kuantan
 - 2nd Phase:** Kuantan to Kuala Terengganu
 - 3rd Phase:** Kuala Terengganu to Kota Baru and Tumpat



East Coast Rail Line



Malacca Gateway

Iskandar Malaysia

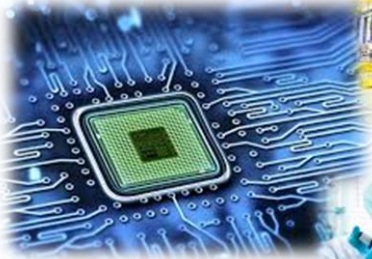


KL-Singapore High Speed Rail

Investment opportunities in the manufacturing sector

High technology, capital intensive & knowledge driven industries

- Alternative energy sources
- Aerospace
- ICT
- Advanced electronics
- Optics and photonics
- Petrochemicals
- Medical devices
- Pharmaceuticals
- Biotechnology



Industries manufacturing intermediate goods

- Machinery & equipment
- Components & parts
- Moulds and dies



Resourced-based industries

- Oil & gas
- Food & agro based
- Value-added products from natural resources

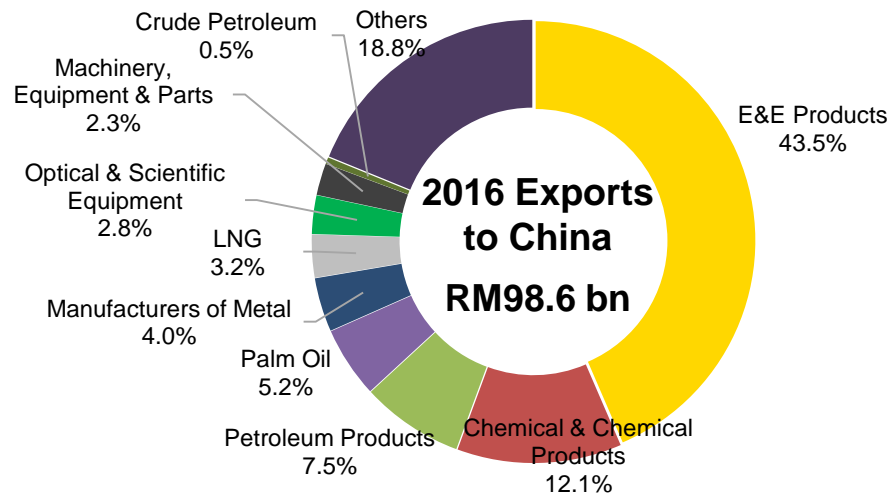
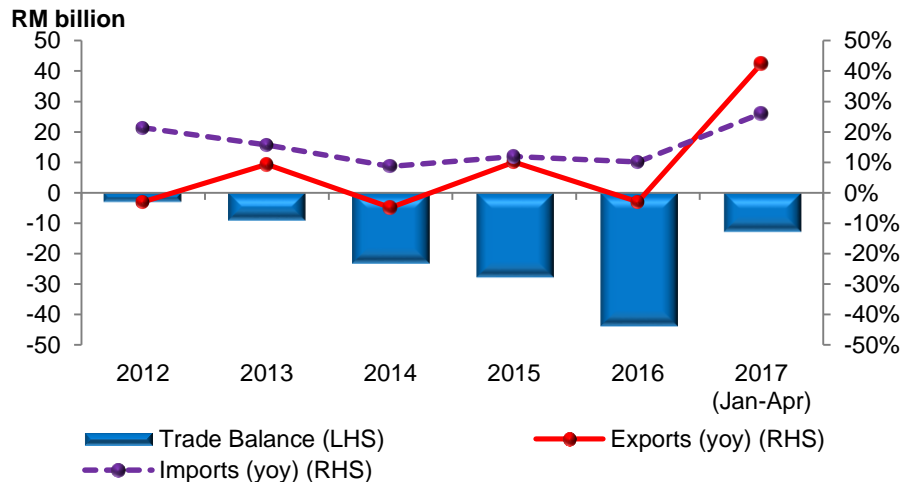
Investment opportunities in the services sector

- Regional establishments
- Shared services outsourcing
- Data centre
- Healthcare
- Logistics
- Tourism
- Education
- Environmental Management
- E-commerce

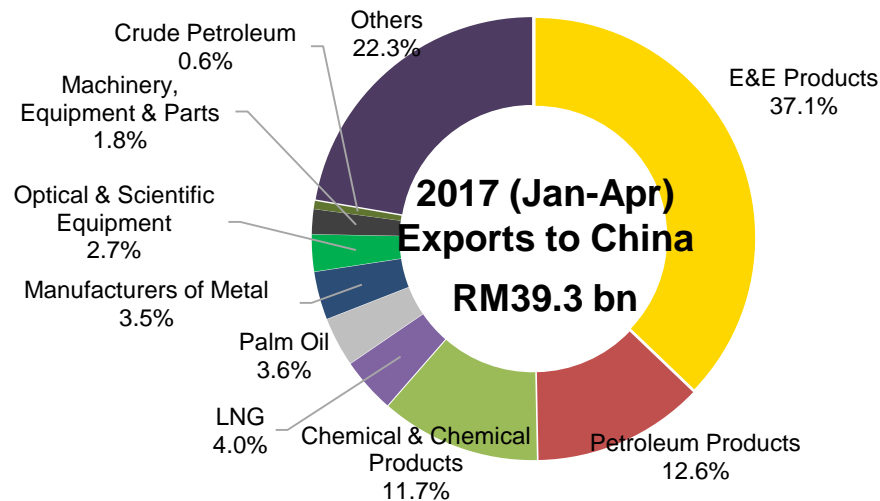
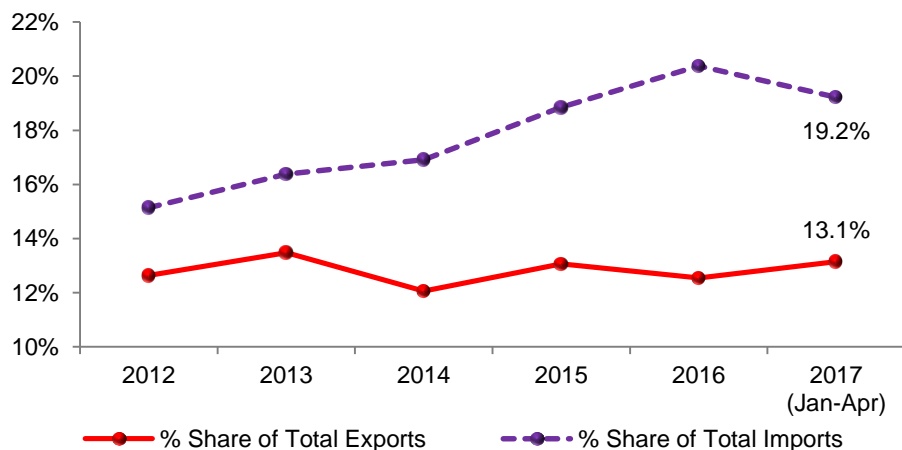


Malaysia-China's trade fact sheet

Malaysia incurred trade deficit with China since 2012



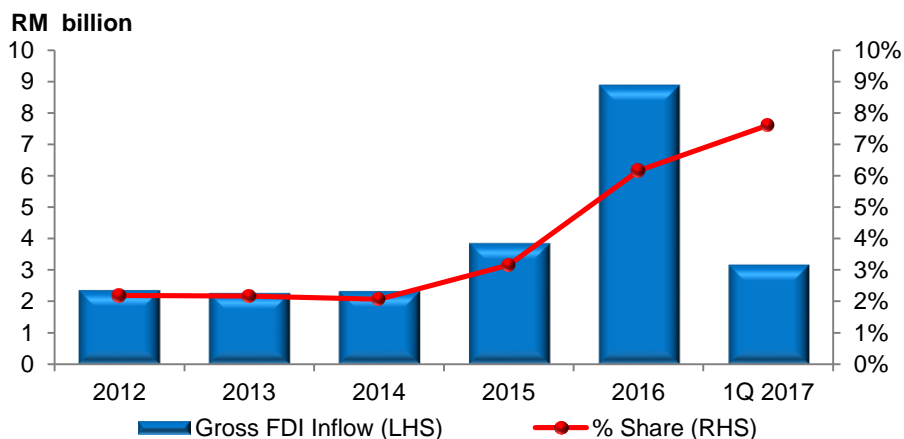
Malaysia's export share to China remains flatish while imports share marked at high side



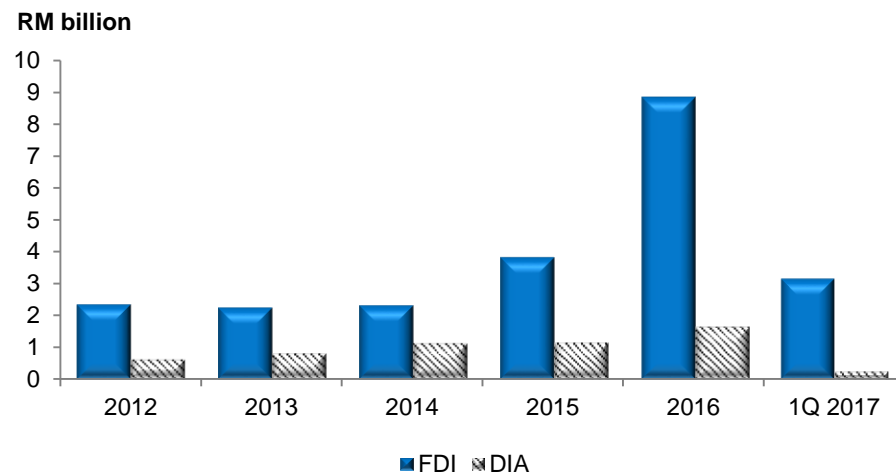
Source: Bank Negara Malaysia; Department of Statistics, Malaysia

Malaysia-China's investment fact sheet

In 2016, China ranked 6th in FDI source for Malaysia (7th in 2015 and 10th in 2014)



China's FDI vs Malaysia's direct investment in China



| 2001-2010 (10 years) | Number of Projects Approved | Investment Amount (RM million) | 2011-2015 (5 years) | Number of Projects Approved | Investment Amount (RM million) | 2016 | Number of Projects Approved | Investment Amount (RM million) |
|------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| Basic Metal Products | 16 | 2,680.0 | Basic Metal Products | 18 | 7,335.8 | Electronics & Electrical Products | 8 | 1,774.5 |
| Chemical & Chemical Products | 17 | 180.7 | Electronics & Electrical Products | 11 | 3,506.9 | Non-Metallic Mineral Products | 4 | 1,429.0 |
| Wood & Wood Products | 10 | 85.5 | Non-Metallic Mineral Products | 4 | 724.6 | Basic Metal Products | 1 | 1,308.0 |
| Others | 109 | 471.9 | Others | 73 | 1,246.1 | Others | 20 | 263.4 |
| Total | 152 | 3,418.2 | Total | 106 | 12,813.4 | Total | 33 | 4,774.8 |

Source: Bank Negara Malaysia; MIDA

Listing of China's investment projects in Malaysia



Conclusion

- Malaysia's medium-term economic prospects looking good
- Economic and financial fundamentals remain supportive of growth
- The government remains committed to create a conducive investment ecosystem
- Strong pipelines of investment opportunities (public infrastructure projects, high value creation manufacturing, services, oil and gas, construction and real estate development)



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谢谢
THANK YOU

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