



社会经济研究中心
SOCIO-ECONOMIC
RESEARCH CENTRE

The 20th Malaysia Strategic Outlook Conference

**Seeking Sustainable Growth: Short –and Long-
term challenges**

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25 January 2018

Agenda

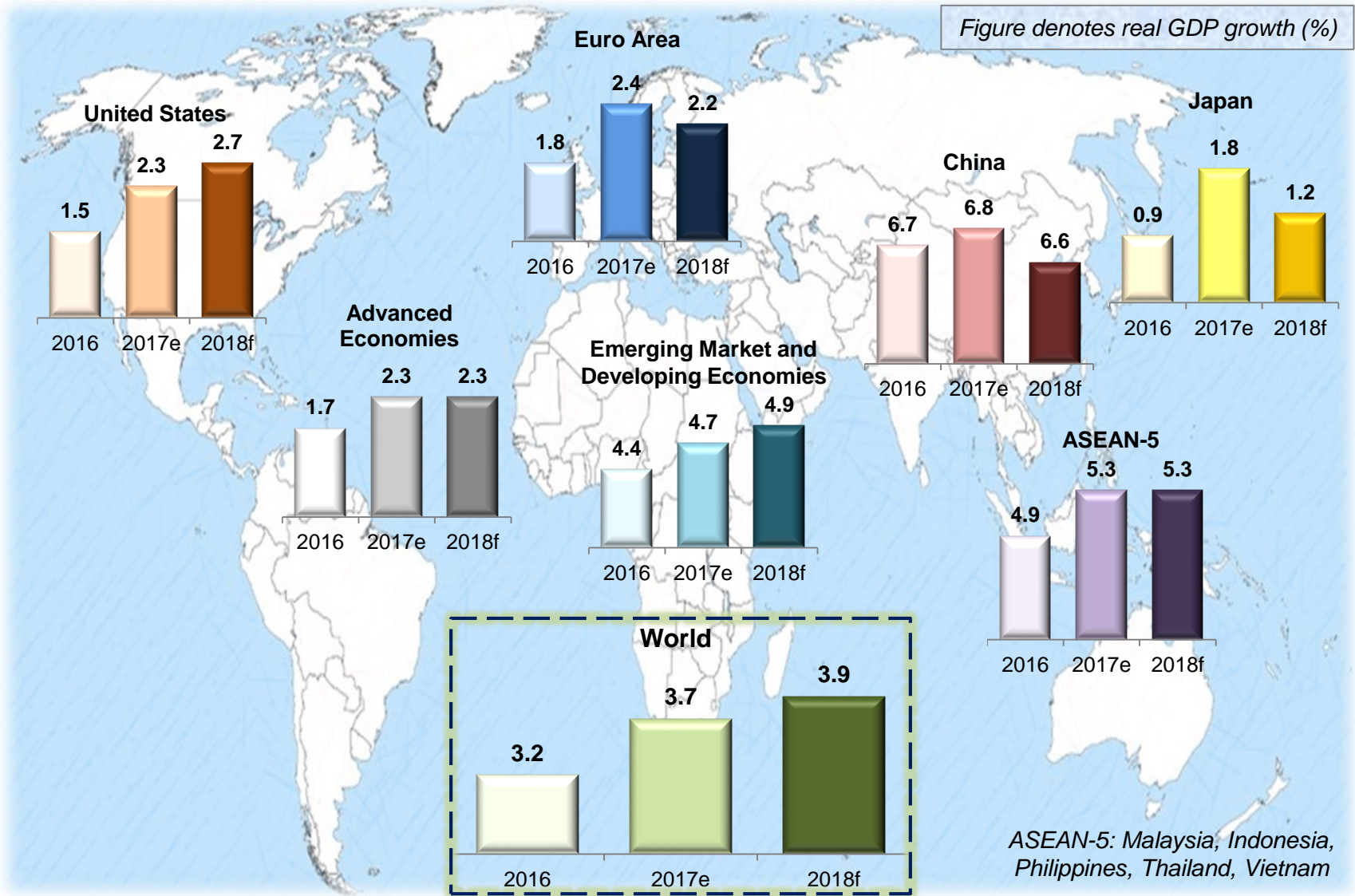


PROBING questions

- How **SUSTAINABLE** is the current global economic upswing?
- What are key **CHALLENGES** to boost potential output while building resilience against downside risks?
- Will there be a **SYNCHRONISED TIGHTENING** in global monetary policy in 2018?
- Can Malaysia stay **RESILIENT** in challenging times?
- Step up **POLICY REFORMS** to address and contain **VULNERABILITIES** to build economic resilience



Global ECONOMIC UPSWING, is the recovery COMPLETE?



Source: IMF (WEO Update, January 2018)

Mapping global prospects, **CHALLENGES** and **RISKS**

Global economy on upswing, but risks remain

- Recovery is **INCOMPLETE**; some still weak
- Short-term growth supported by improved confidence and pent-up demand
- Potential for much faster growth - **WEAK PRODUCTIVITY; AGING POPULATION**
- Improve **GOVERNANCE** and the **INVESTMENT CLIMATE**

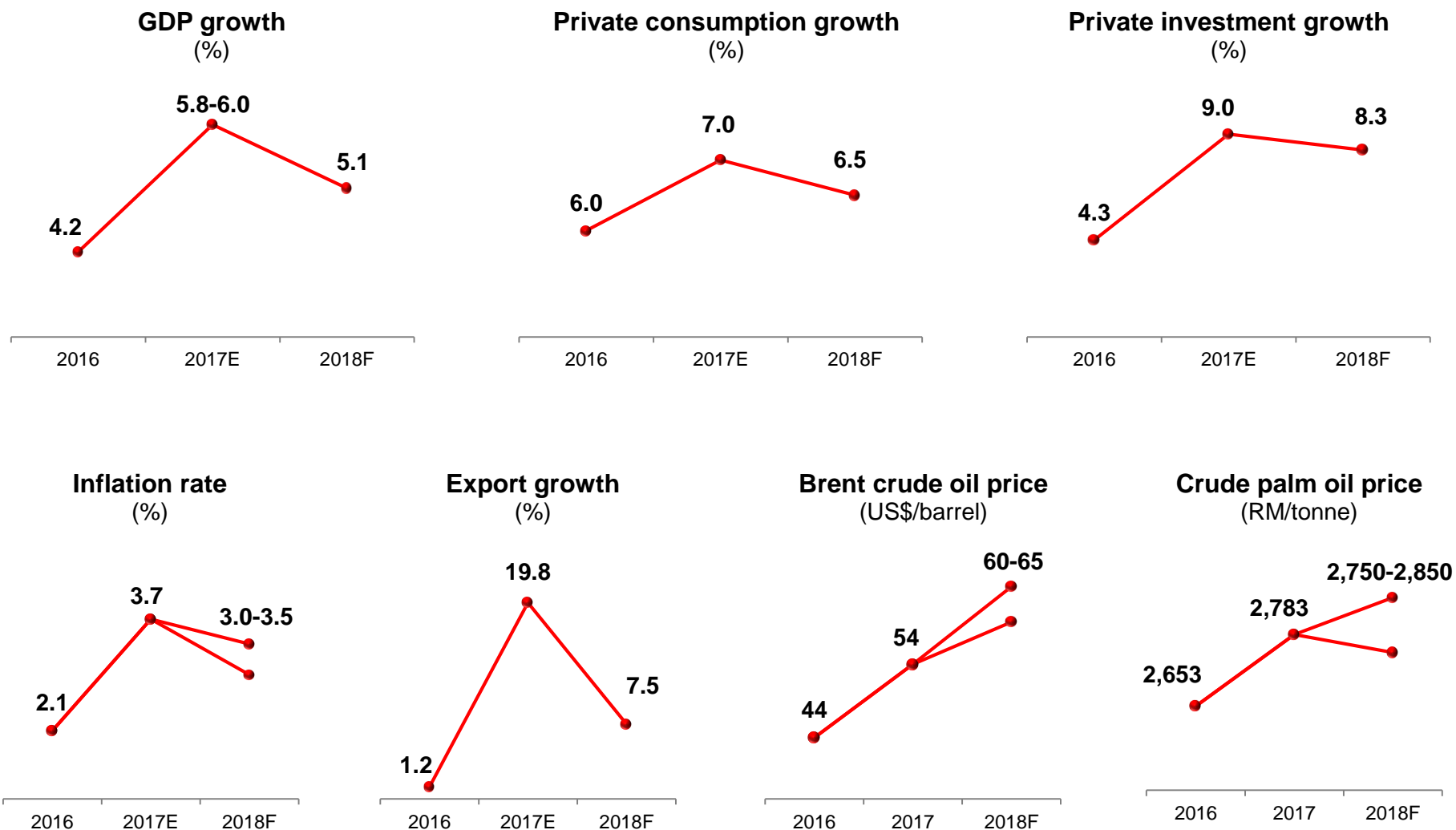
Policy risks

- Hopes fading if policy outcomes fall short of market expectations
- **POTENTIAL DISRUPTIONS**: inward-looking policies, Brexit's negotiation & geo-politics
- Volatility induced by faster than expected monetary tightening & balance sheet reduction
- Monetary policy – From **DIVERGENCE TO CONVERGENCE?**

Contain financial vulnerabilities

- Stretched market and asset valuations; increasing **LEVERAGE** (Global debt to GDP: 318% at 3Q17)
- **UNSUSTAINABLE** asset prices, credit growth and debt implosion
- Chinese to rein in **CREDIT EXPANSION AND CONTROL DEBT** (2017: 257% of GDP)

Malaysian economy: What to EXPECT in 2018? UPSIDE RISK!



Source: MOF (Economic Report 2017-18); EIA; MPOB; SERC

Sectoral outlook: Positive, BROAD-BASED EXPANSION



Services

2018F: 5.6% (2017E: 6.1%)

% share of GDP: 54.5

- Sustained domestic spending, higher tourist arrivals, logistic services and financial services
- Higher growth in wholesale and retail trade, F&B, information and communication, transport and storage as well as finance and insurance subsectors



Manufacturing

2018F: 5.5% (2017E: 6.3%)

% share of GDP: 23.0

- Export-oriented industries: sustained demand for electronics and electrical products, refined petroleum and wood products
- Domestic-market oriented: construction-related building materials, food products and transport equipment



Agriculture

2018F: 3.8% (2017E: 5.5%)

% share of GDP: 8.1

- Slower rise in CPO production and rubber output
- Livestock, fruits and vegetables



Construction

2018F: 8.0% (2017E: 7.2%)

% share of GDP: 4.6

- On-going civil engineering infrastructure projects such as ECRL, MRT SSP line, Electrified Double Track Gemas-Johore Bahru, SPE, Pan Borneo Highway and Bokor Central Processing Platform
- Slow growth in commercial and office space development due to property overhang



Mining

2018F: 1.5% (2017E: 1.7%)

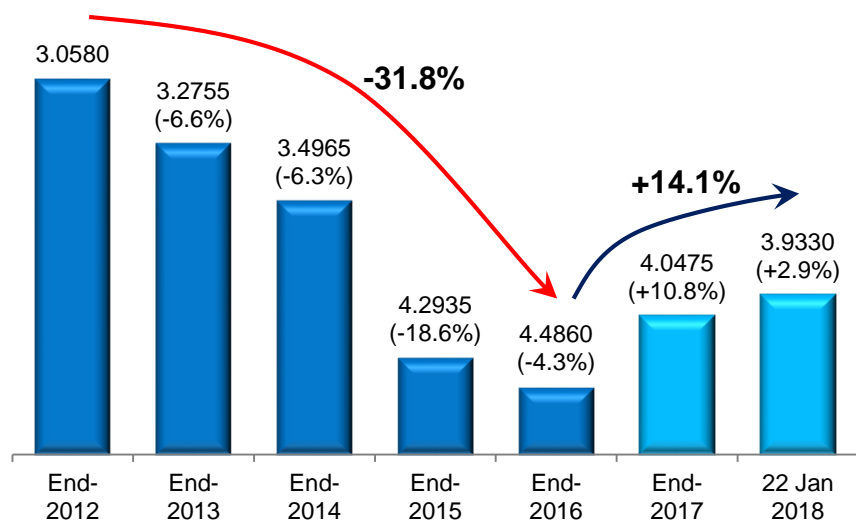
% share of GDP: 8.4

- Higher natural gas output
- Malaysia agrees to extend oil output cuts until end-2018
- Brent price to average US\$60-65 per barrel in 2018 vs 2018 Budget's US\$52

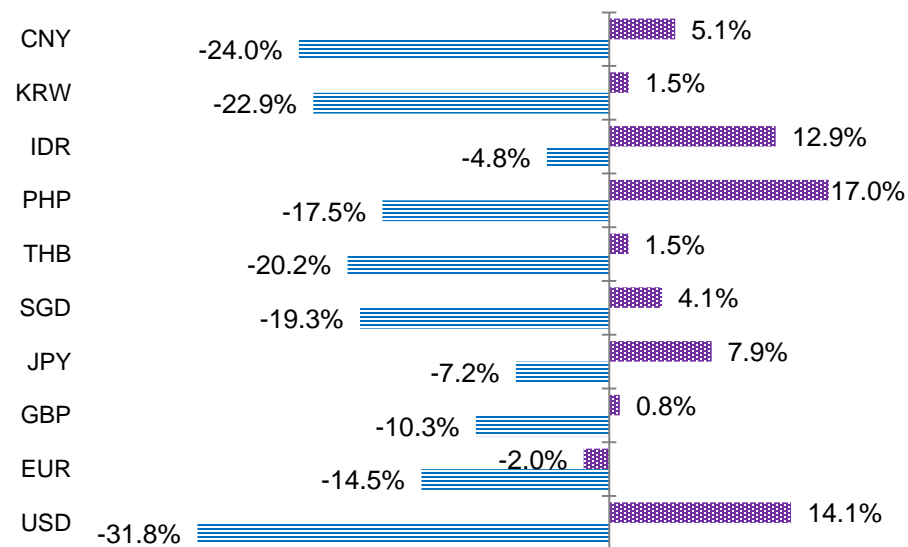
The ringgit does not reflect its **FUNDAMENTAL** value

- **POSITIVE FUNDAMENTALS:** Brightening economic growth prospects, firming commodity prices, the onshore ringgit stabilization measures, prospect of domestic interest rate normalization, continued current account surplus, accumulation of foreign reserves.
- **COUNTERACT DAMPENING FACTORS:** Strong US dollar, higher US interest rates and yields, flows into the US dollar assets, geopolitical risks and developments in global financial markets.
- End-2018F: RM3.80-3.90/US\$1

Ringgit movement against USD



Ringgit performance

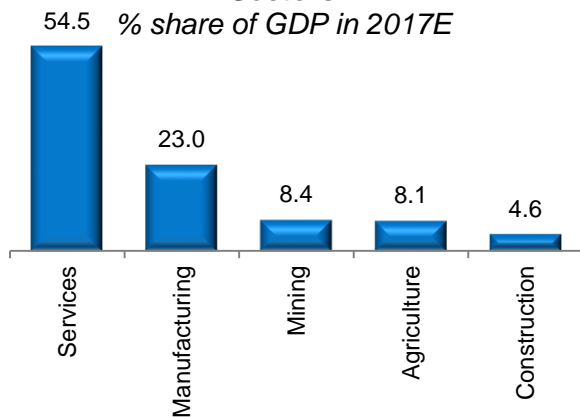


Source: Bank Negara Malaysia

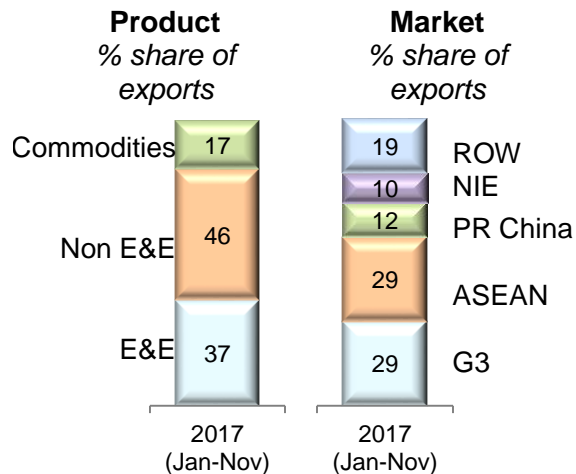
Macroeconomic FUNDAMENTALS supportive of growth

DIVERSIFIED sources of growth

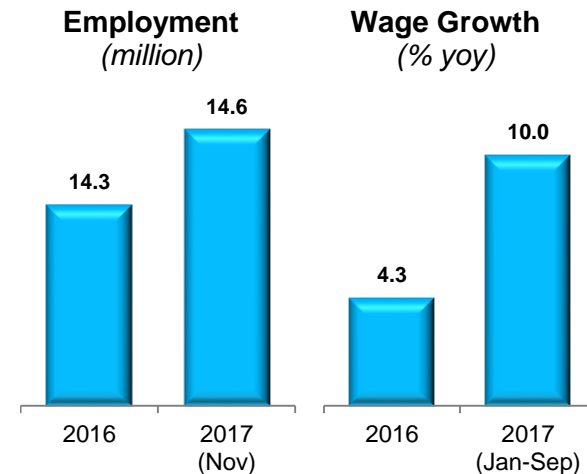
Malaysia GDP by Economic Sectors



DIVERSIFIED export markets and products

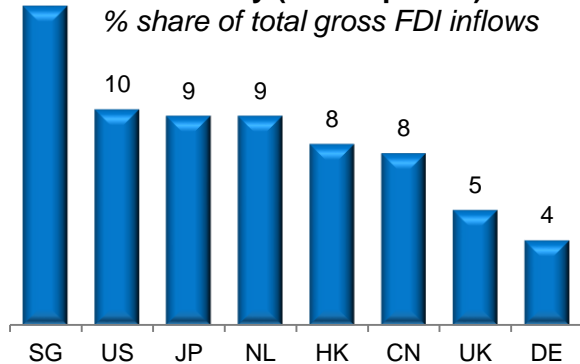


STABLE labour market conditions

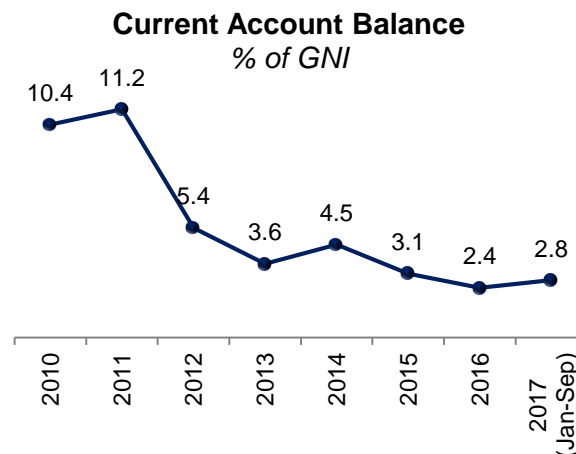


CONDUCTIVE investment destination for foreign investors

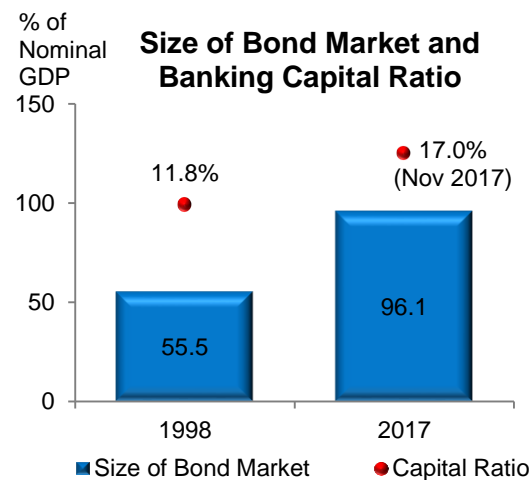
Gross FDI Inflows by Source Country (Jan-Sep 2017)



CURRENT ACCOUNT BALANCE reflects strong investment



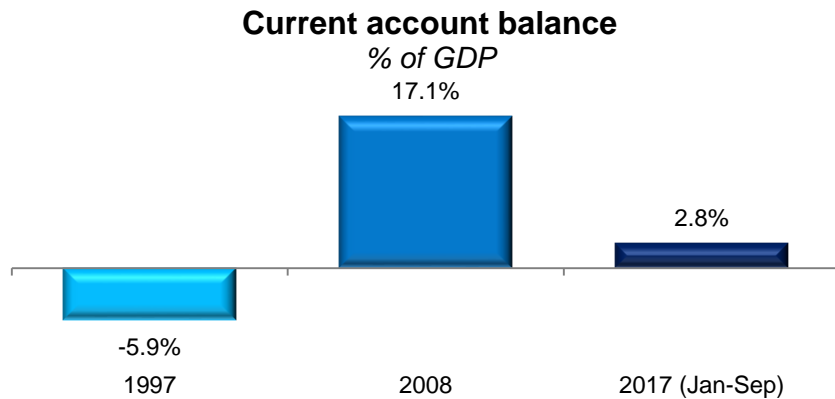
DEEPER markets and strong financial buffers



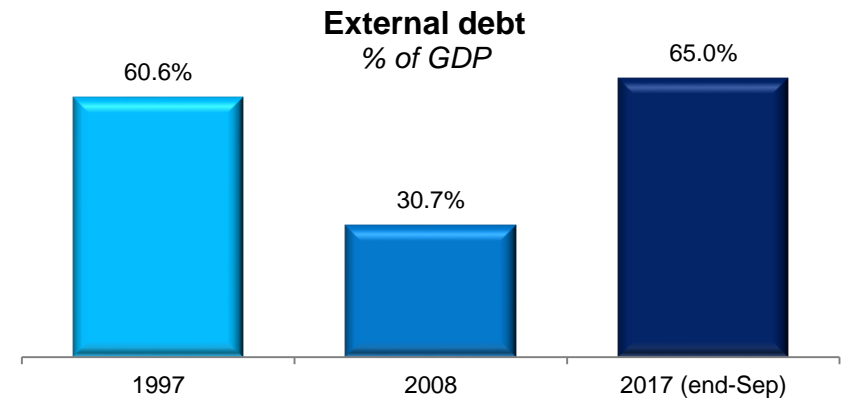
Source: MOF; DOS, Malaysia; BNM (MHS Nov 2017; AR2016) Notes: Numbers may not add up due to rounding and exclusion of import duties.

Malaysia's SUSTAINABILITY heatmap

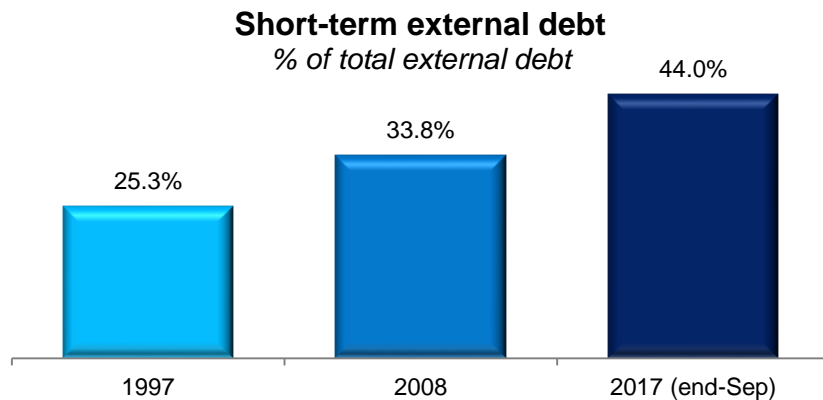
SHRINKING current account surplus



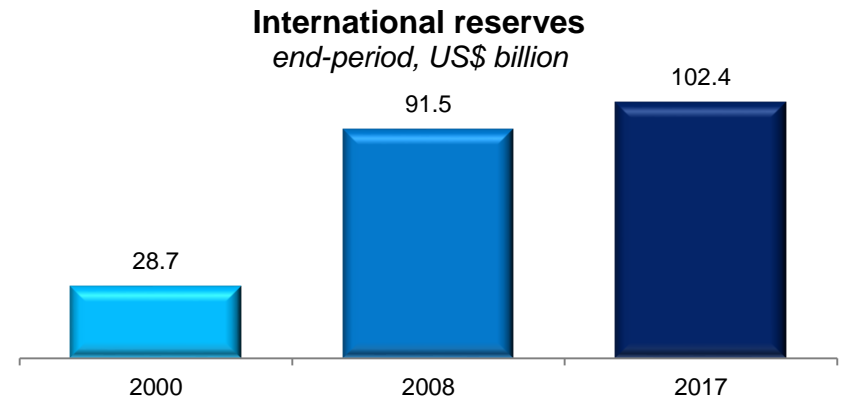
HIGHER external debt (reclassification & exchange rate revaluation)



RISING short-term external debt



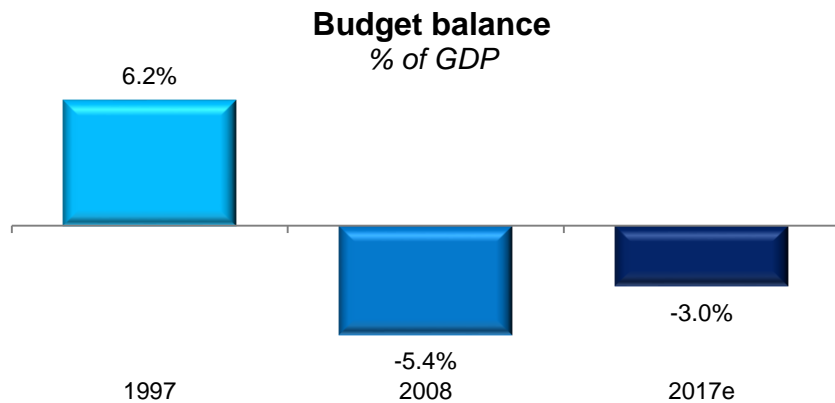
RESERVES ADEQUACY (7.2 months of retained imports; 1.1 times short-term external debt)



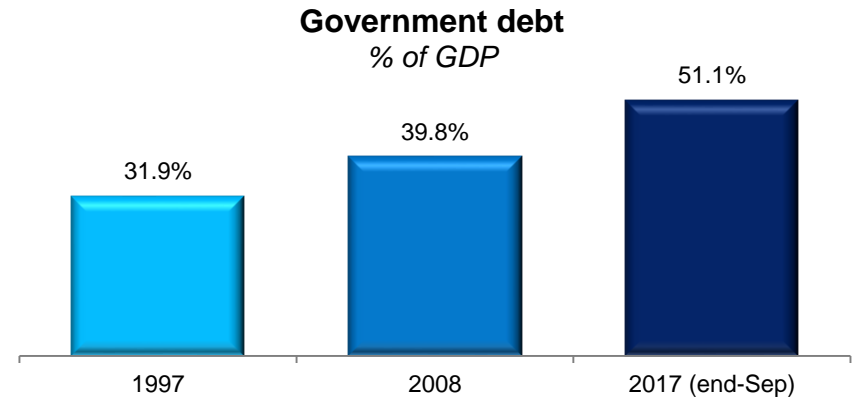
Source: BNM; CIMB Research

Malaysia's SUSTAINABILITY heatmap

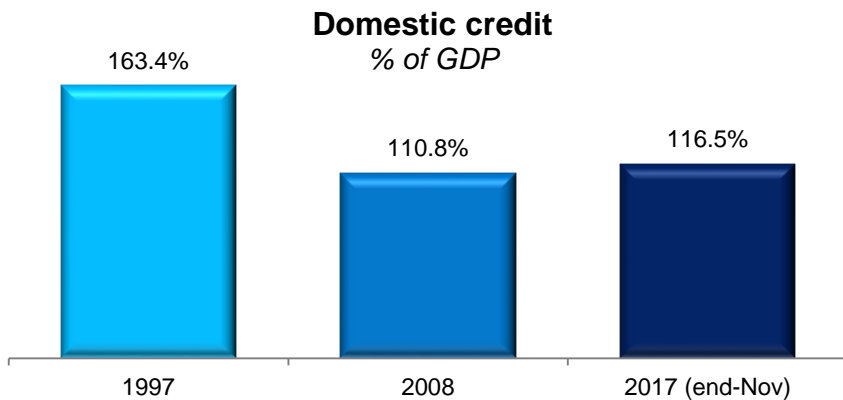
FISCAL CONSOLIDATION remains on track



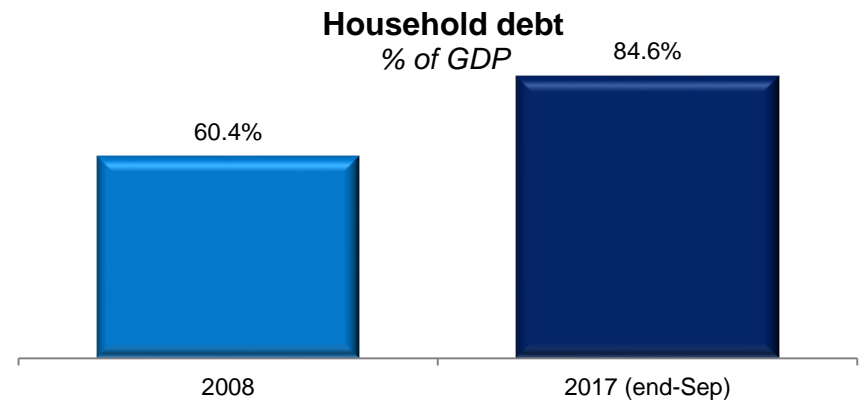
GOVERNMENT DEBT is contained below the self-imposed target of 55% of GDP



HIGH DOMESTIC CREDIT vulnerable to economic shock



HOUSEHOLD DEBT remains high amid moderate household credit



Source: BNM; CIMB Research

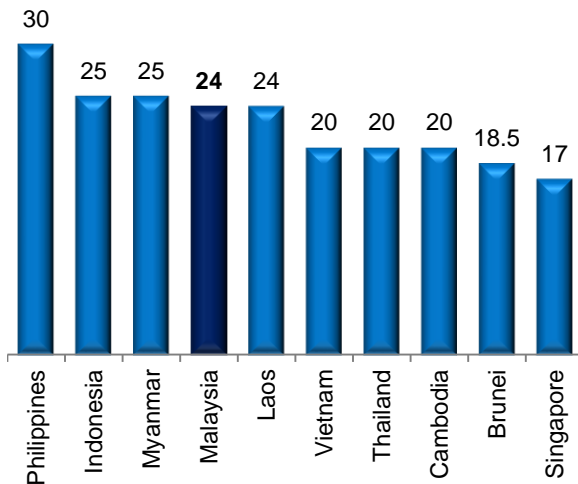
Four SHIFTING TRENDS casting a CHALLENGING FUTURE for Malaysia



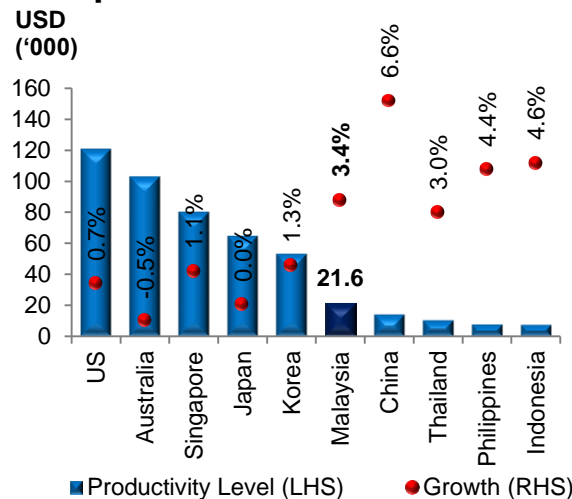
#1 Driving **COMPETITIVENESS** and productivity

- Global competition to cut **CORPORATE TAX** heats up
- Malaysia's **PRODUCTIVITY** growth is lagging behind
- Strategies and initiatives
 - ❑ Push for a **COMPETITIVE TAX STRUCTURE**
 - ❑ Restructure and improve the management of **FOREIGN WORKERS**
 - ❑ Actively encourage the adoption of **4TH INDUSTRY REVOLUTION**
 - ❑ Create dedicated pool of investment funds or align existing fund to drive 4th Industry Revolution agenda nationally

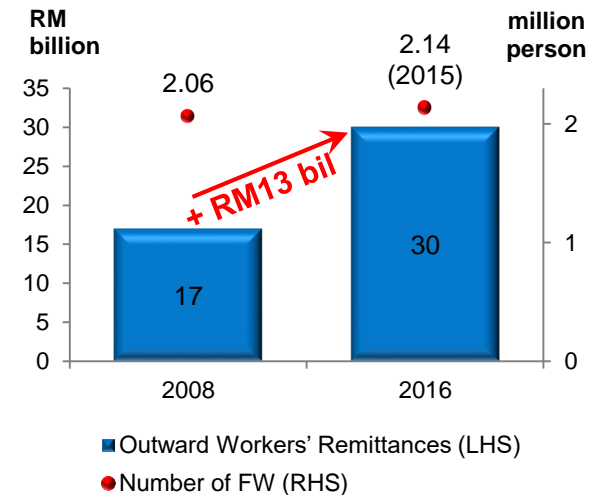
Regional corporate tax rate comparison



Regional labour productivity comparison in 2015



Higher FW remittances

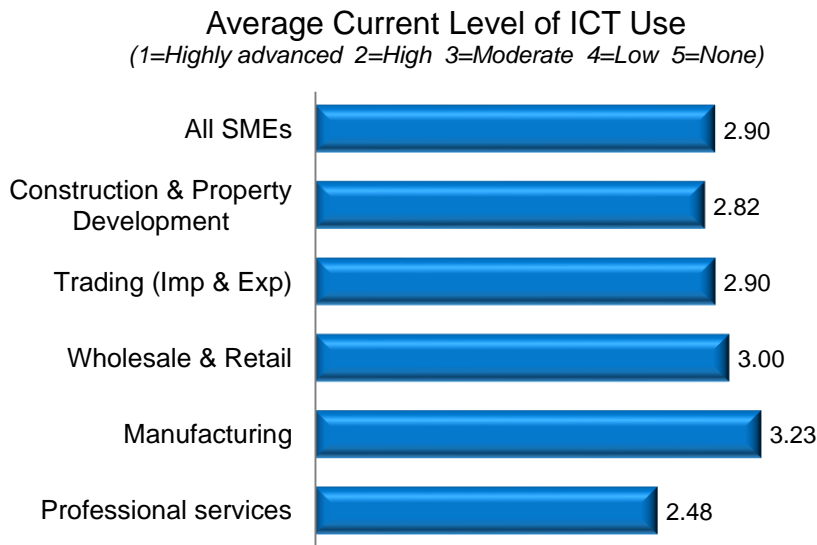


Source: EY; MPC; BNM; EPU

#2 DIGITAL TECHNOLOGIES and transformation

- **TRANSPORT** – seamless connectivity, safety, reliability and speed
- **CONNECTIVITY/COMMUNICATION** – investment in ICT to scale benefits of digitalization, broadband speed and reliability of coverage
- **SPACE/HOUSING** – sharing of economy
- **MANUFACTURING FOR THE FUTURE**
- **CONSUMER CULTURE** (taste, fashion and lifestyle)

Moderately usage of ICT



Malaysia National E-Commerce Strategic Roadmap to double the e-commerce growth

	2015	2020 <i>business as usual</i>	2020 <i>with intervention</i>
e-Commerce contribution (RM billion)	68	114	170+
e-Commerce growth (% CAGR)	12.8 <i>2012-2015</i>	10.8 <i>2015-2020</i>	20.8 <i>2015-2020</i>

Source: National E-Commerce Strategic Roadmap; SERC

#3 Rising GLOBAL COMPLEXITY

- According to PwC, emerging markets will continue to be the growth engine of the global economy. By 2050, **CHINA** could be the **LARGEST ECONOMY** in the world, with India in second place and Indonesia in fourth place. **MALAYSIA** will improve to 24th placing from 27th in 2016.

Emerging market will dominate the world's top 10 economies in 2050 (GDP at PPPs)

	2016		2030		2050
China	1	China	1	China	1
US	2	US	2	India	2
India	3	India	3	US	3
Japan	4	Japan	4	Indonesia	4
Germany	5	Indonesia	5	Brazil	5
Russia	6	Russia	6	Russia	6
Brazil	7	Germany	7	Mexico	7
Indonesia	8	Brazil	8	Japan	8
UK	9	Mexico	9	Germany	9
France	10	UK	10	UK	10
Malaysia	27	Malaysia	25	Malaysia	24

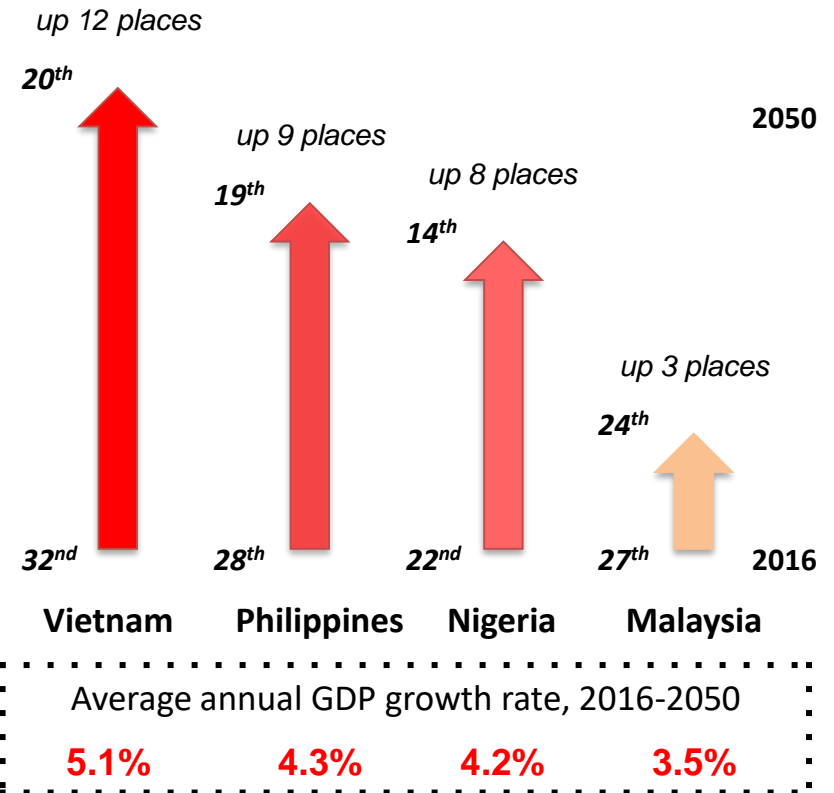


E7 economics



G7 economics

Vietnam, the Philippines and Nigeria could make the greatest moves up the rankings by 2050



Sources: IMF for 2016 estimates, PwC analysis for projection 2030 & 2050

The CHINA'S FACTOR in Malaysia's growth



Some of China's companies in Malaysia



Malaysia is China's

- #11 - export destination
- #7 - source of imports
- #7 - top preferred tourism destination in 2016

China is Malaysia's

- #1 - source of imports (19.6% share in Jan-Nov)
- #2 - export destination (13.4% share in Jan-Nov)
- #6 - gross FDI flow (RM8.5bn @7.6% in Jan-Sep)
- #10 - FDI stock (RM15.5bn @2.8% at end-Sep)
- #3 - tourist arrivals (+8.1% yoy to 1.9m in Jan-Oct)



Some of China's projects in Malaysia



East Coast Rail Line
(est. RM55bn)



Malaysia-China Kuantan Industrial Park
(secured RM30bn foreign investment)



Melaka Gateway Deep Sea Port
(est. US\$7.2bn)

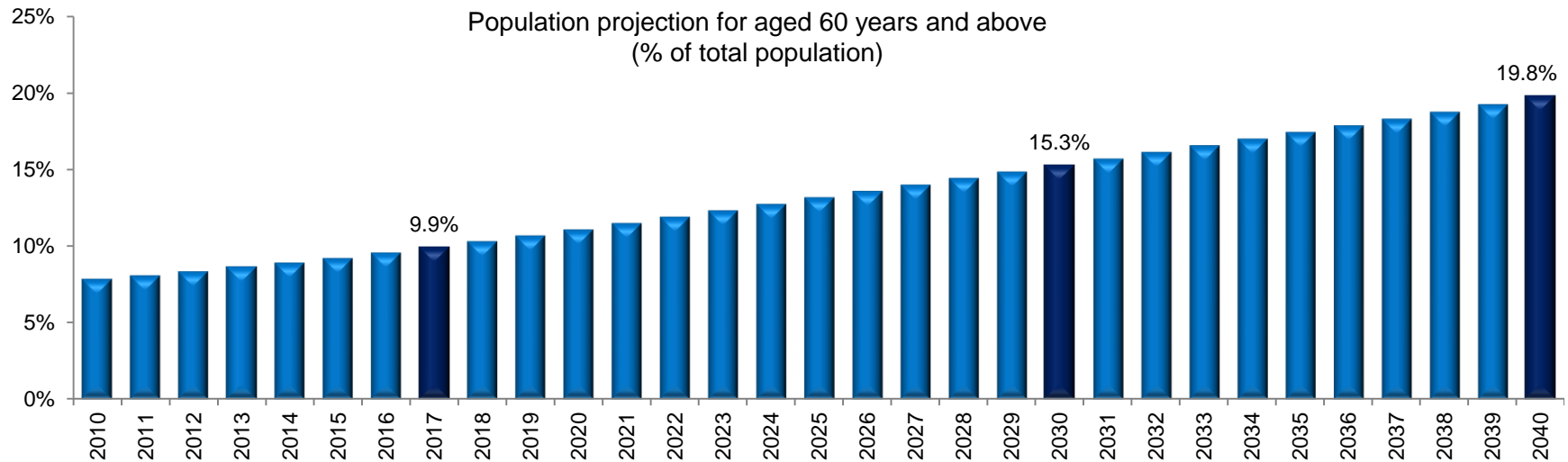


Penang Second Bridge
(around RM4.5bn)

Sources: DOS, Malaysia; BNM; Tourism Malaysia; China Customs; China Tourism Academy

#4 AGEING population

- Malaysia will become an ageing population by 2030 when **15% OF OUR POPULATION** will be aged 60 and above (9.9% or 3.2 million in 2017).
- The ageing population and lifestyle illnesses are drivers of growing healthcare expenditure; dampening productivity, deter investment and elderly people spend differently.
- **FISCAL COST ON HEALTHCARE, SOCIAL PROTECTION AND HOUSING** will be substantial for elderly population.
- The combined pressures of ageing and the retirement savings gap might redefine the concept of retirement into the future (tapered retirement).



Sources: DOS, Malaysia

Strengthening the **QUALITATIVE** sources of growth



Sustaining **QUALITY** investment

- Unfavourable corporate tax rate
- Improve ease of doing business and business regulations
- Increased Total Factor Productivity (TFP) and capita intensity
- Contain overinvestment in property sector



DIGITALISATION, labour skills and productivity

- Building a connected ecosystem
- Digital technology investments on business operation and productivity
- Uneven distribution of technological change benefits
- Investing in workforce skills – anticipating future skills needs



Uplift the potential of **SMEs**

- Facilitate SMEs in e-commerce via digitalization technology investment
- High value creation in manufacturing and services
- Manufacturing for the future requires reinventing through a strong pipeline of innovations in materials, ICT, automation of production processes, robotics and digitalisation to deliver goods and services



Supportive **FISCAL, MONETARY** & financial policies

- Setting right fiscal priorities
- Structural reforms
- Prioritize social and economic expenditure and transfer to foster a balance and inclusive growth
- Prudent monetary policy; safeguard financial stability; contain excessive leveraging

Conclusion

- Malaysia's **ECONOMIC GROWTH OUTLOOK REMAINS POSITIVE**. Real GDP growth for 2018 is now projected to rise by 5.1% (estimated 5.8-6.0% in 2017), with domestic demand still taking the lead, albeit slower.
- While the welcome cyclical global activity upturn and sustained domestic demand provides an opportunity for Malaysia to carry forward its current growth momentum, there are **MEDIUM- AND LONG-TERM CHALLENGES** that could limit potential for much faster growth.
- **POLICY FOCUS ON QUALITATIVE GROWTH FACTORS**, namely supportive tax policies and regulatory environment, growth inclusiveness, stronger productivity growth, further enhancement of technological capacity and labour skills, digitalization as well as the driving of e-commerce growth would help to sustain quality growth.
- The government should **EASE THE COST OF RESTRICTIVE LAWS AND REGULATIONS** to provide better conditions for businesses to thrive over the medium-term.
- **MONETARY, FINANCIAL AND CREDIT POLICIES** should continue to remain growth-supportive whilst maintaining price and financial stability.
- **SETTING RIGHT FISCAL PRIORITIES MATTER**. Future fiscal stance should continue to prioritize social and economic expenditure and transfer to foster a balance and inclusive growth so as the benefits of economic growth can reach out to all.



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谢谢
THANK YOU

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