



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

New Malaysia in Transition: Hope and Policy Priorities

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27 August 2018

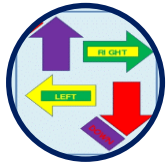
Key Messages



DISRUPTIVE THREATS to global growth



Global engine will continue to **CRUISE ALONG** in 2H18, albeit moderately. Global growth has **PEAKED** or **IS PEAKING**. **REAL RISKS** could undermine the global expansion and investors' confidence.



Advanced economies appear to **GO ON THEIR OWN WAY**; **CHINA** displayed signs of weakening momentum.



Uncertainties over **GLOBAL TRADE WAR**, **RISING OIL PRICES** and **HIGHER INTEREST RATES** have started to temper synchronized global economic growth.



EMEGING MARKETS under pressure – currencies slid on capital reversals; fears of contagion; trade battle risk.



CENTRAL BANKS are having a 'difficult time' following **THE FED**. Central banks in emerging economies are expected to **TREAD** cautiously though some were forced to **ACT IMMEDIATELY**.

Less SYNCHRONISED global economic growth prospects

Real GDP Growth

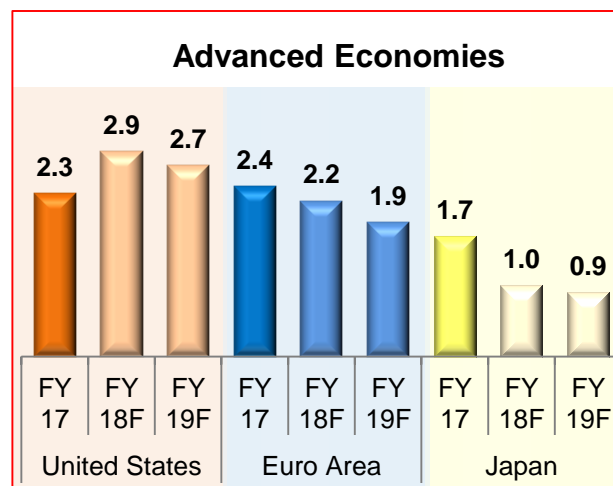
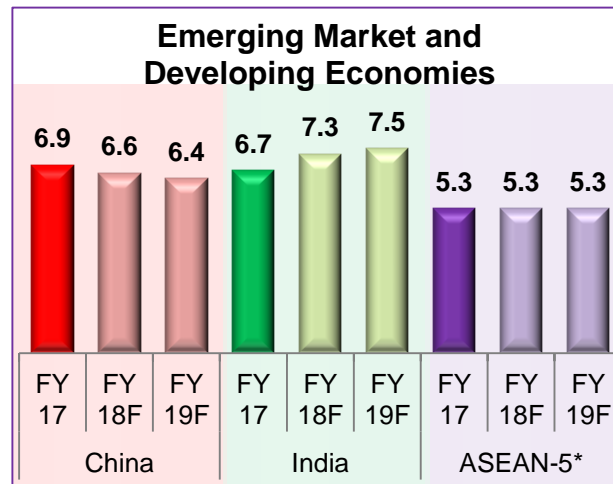
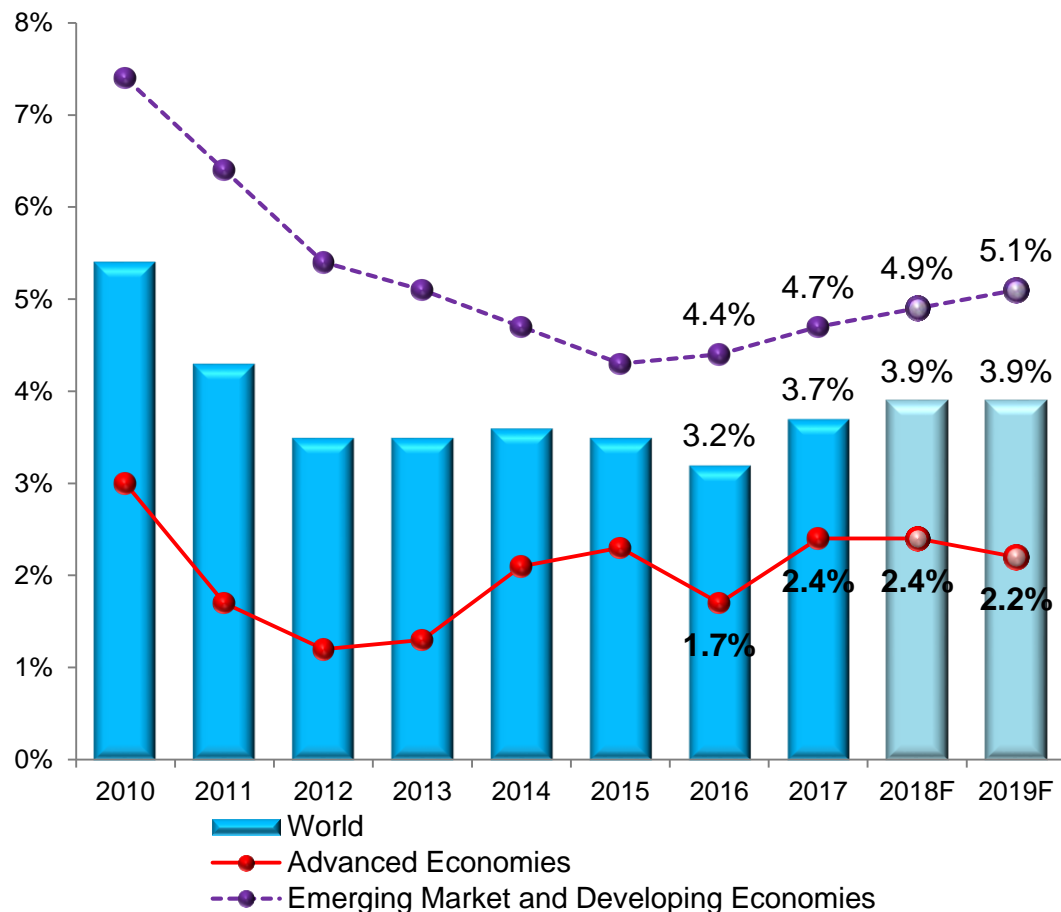
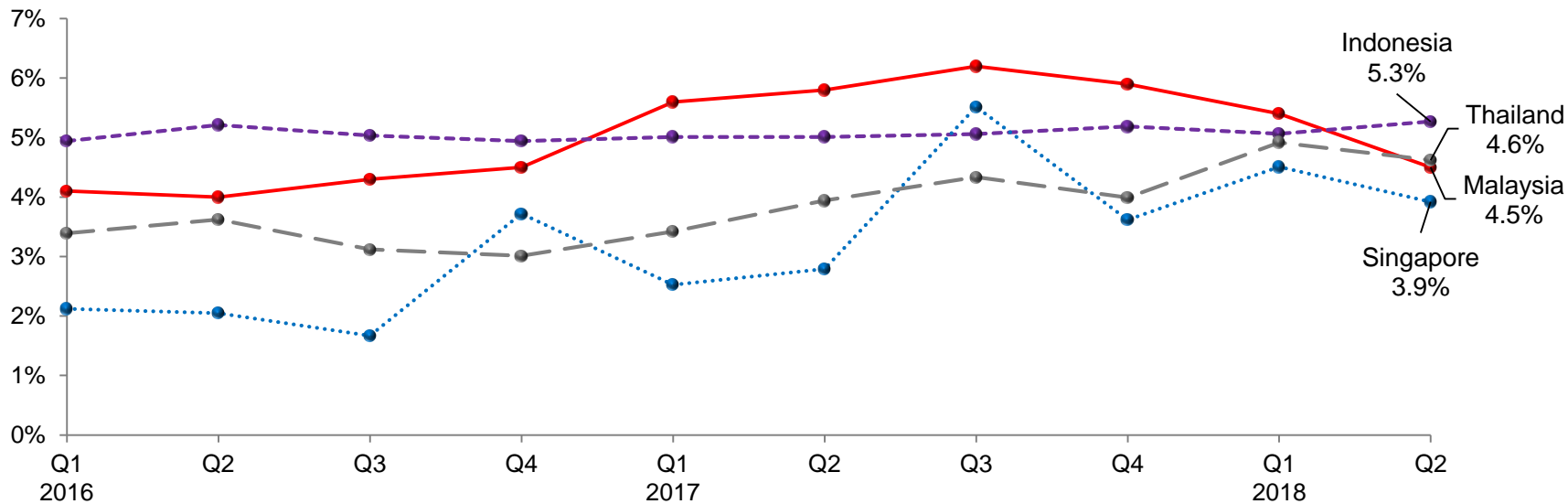


Figure denotes real GDP yoy growth (%)
 *ASEAN-5: Malaysia, Indonesia, Philippines, Thailand, Vietnam

Source: Officials; IMF (WEO, July 2018)

MIST economies still in good shape, BEWARE THE TAIL RISKS

Real GDP Growth (YoY)

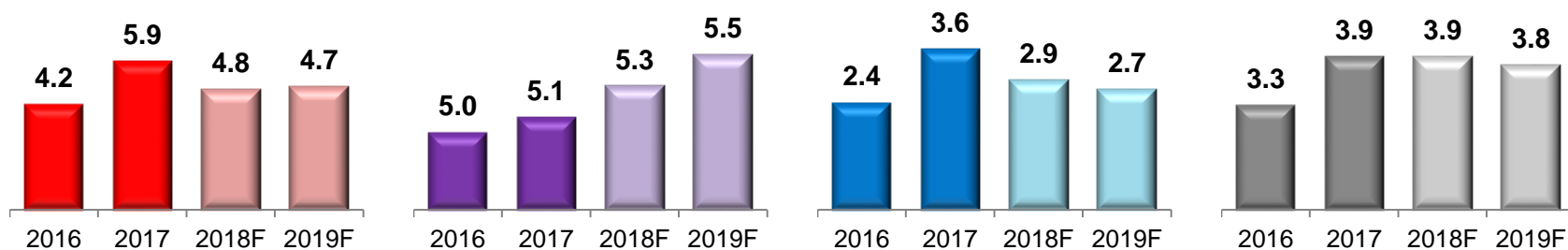


—●— Malaysia

—●— Indonesia

—●— Singapore

—●— Thailand

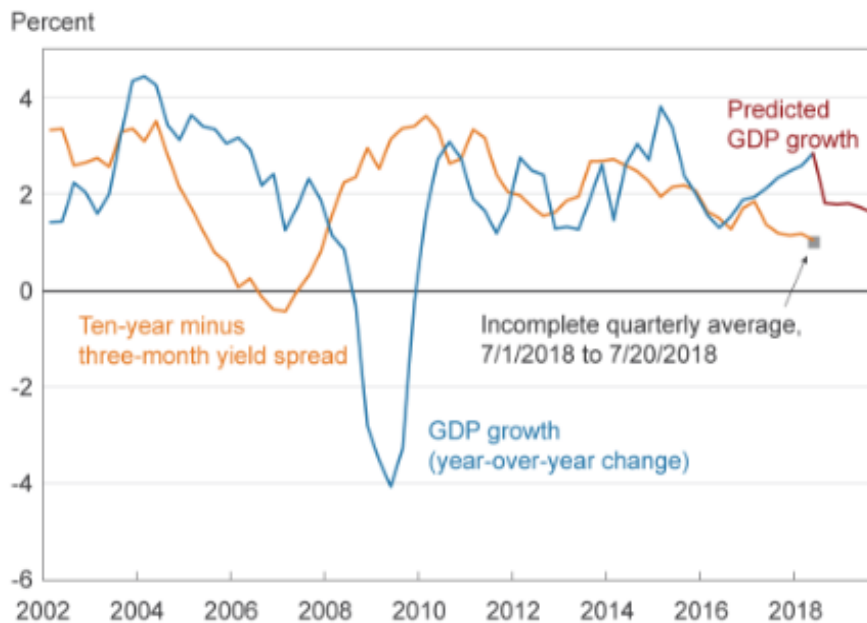


Source: Officials; IMF (WEO, April 2018); SERC (Malaysia's GDP forecasts for 2018 & 2019)

Is **INVERTED** yield curve is a harbinger of economic trouble?

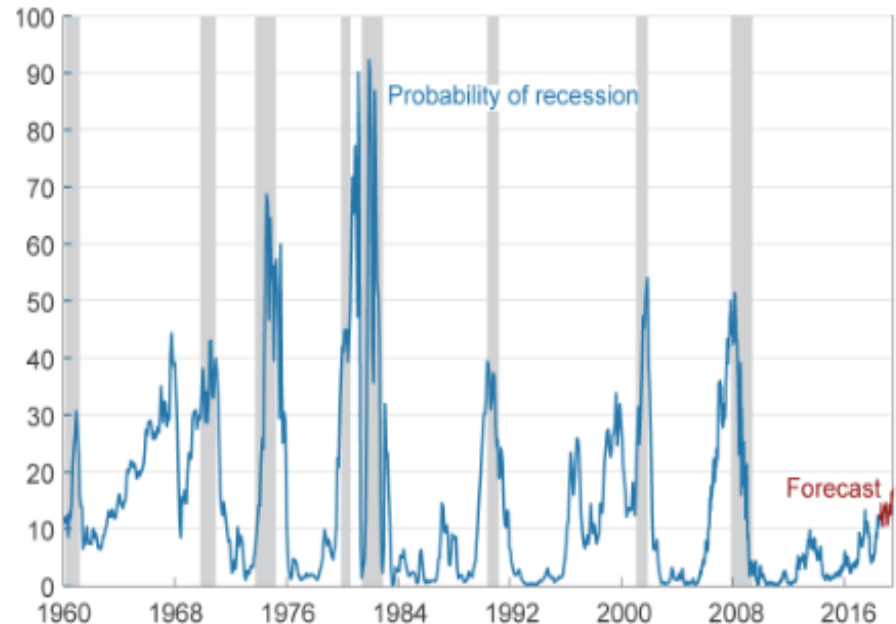
- The rule of thumb is that an inverted yield curve (short rates above long rates) indicates a recession in about a year, and yield curve inversions have **preceded each of the last seven recessions**.
- Flight to quality and safety. The Fed and central banks around the world have been buying up government debt for years, effectively depressing long-term interest rate.

Yield-Curve-Predicted GDP Growth



Sources: Bureau of Economic Analysis; Federal Reserve Board; authors' calculations.

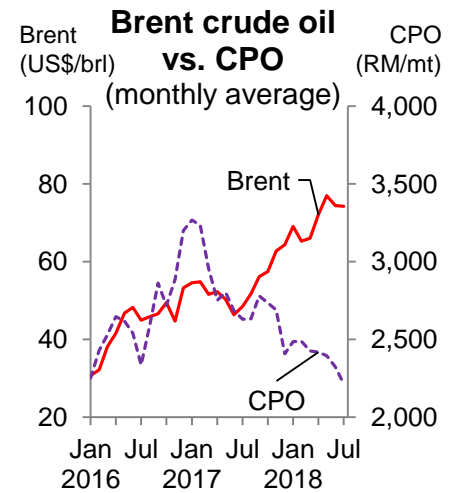
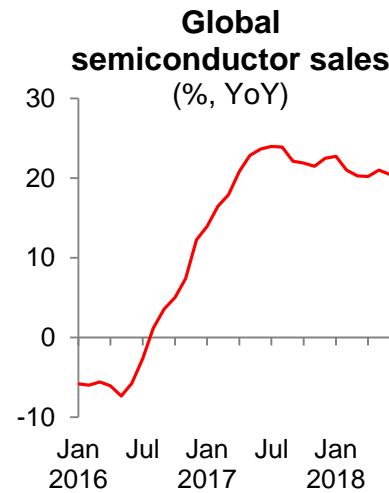
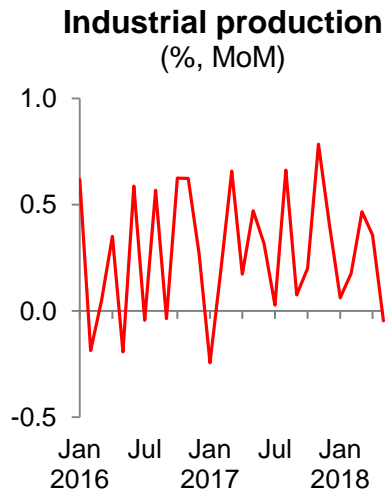
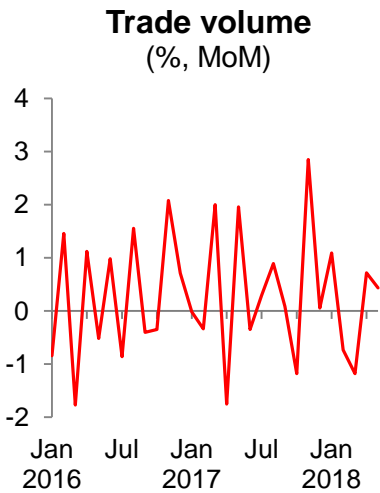
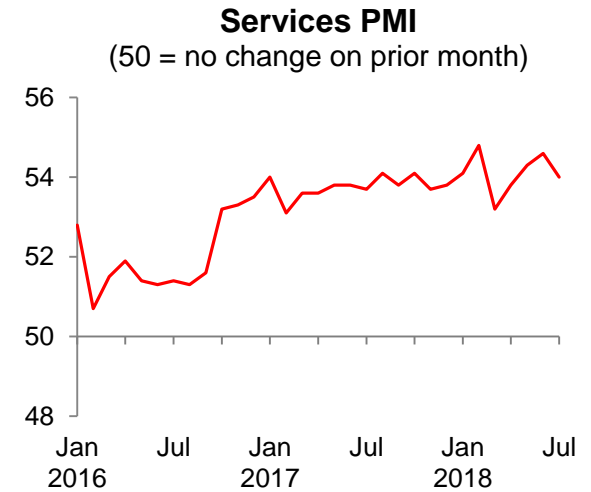
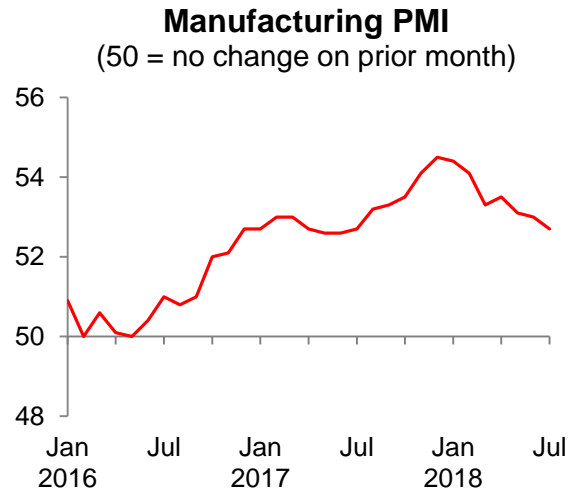
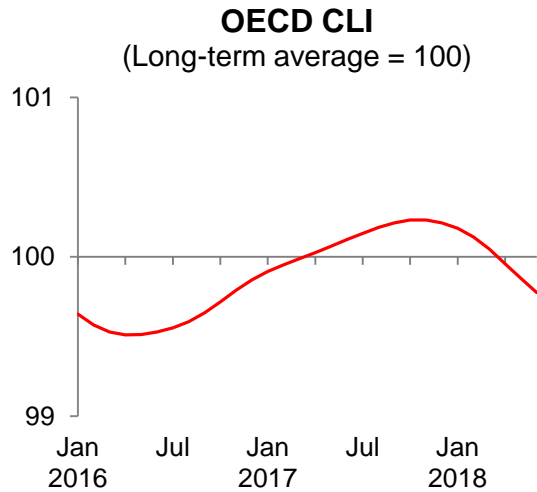
Percent probability, as predicted by a probit model



Note: Shaded bars indicate recessions.

Sources: NBER, Federal Reserve Board; authors' calculations.

GLOBAL INDICATORS point to EASING global growth



Jul 2018 Brent crude oil: US\$74/brl
CPO: RM2,215/mt

Source: OECD; Markit; CPB; SIA; EIA; MPOB

Tit-for-tat **TRADE WAR: Unintended consequences**



GLOBAL REPERCUSSIONS highly disruptive and damaging on global economic growth via trade and financial channels. **TRADE** – curtail trade activity; Asian supply chains disrupted and dampen global growth. **FINANCIAL** – share prices of affected companies/industries will be re-rated on earnings concern.



On the US - SHORT-TERM GAIN, LONG-TERM PAIN. US consumers bear the brunt of the immediate damage in the form of inflation. Consumer spending dampened; businesses and retailing affected. China's tariffs on US\$50bil of imports from the US makes up 38.4% of US's export to China and 3.2% of US's total exports.



On China, MODEST IMPACT on Chinese consumers as the US is not a major source of consumer goods import. China can relatively easier than the US to find substitute sources of supply for the affected imports. US's tariffs on US\$50 billion of imports from China makes up 2.2% of China's total exports and 11.6% China's export to the US. The US threatens to slap a further US\$200 billion tariffs, while China announced a retaliation of tariffs on US\$60 billion worth of US goods.



On EU, the trade war would cloud the already **WEAKENING** economy compounded by political turmoil in Italy and Germany as well as Brexit. The US-EU agreed to put on hold any new tariffs, including fresh US duties being threatened by Mr Trump on auto imports.



On Asia, Asian's **HIGH LEVELS OF INTEGRATION OF SUPPLY CHAINS** that are likely to be disrupted. A wide network of value chains that feed components, sub-components and materials into Chinese manufacturing and assembly.

TRADE TARIFFS BATTLE between the US and China

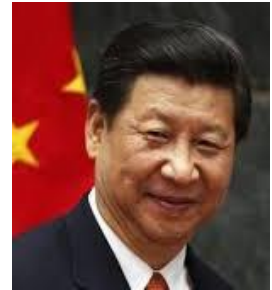
	United States	China
Stage 1	<p><u>Jan 2018 - Mar 2018</u> Blanket tariff on all countries</p> <ul style="list-style-type: none"> • Solar panels (+30%) • Washing machine (+20-50%) • Steel (+25%) • Aluminium (+10%) 	<p><u>Early Apr 2018</u> Targeted tariff on products from the US</p> <ul style="list-style-type: none"> • Fresh and dried fruits, wine, ethyl alcohol, and steel pipes (+15%) • Pork-related products and recycled aluminium (+25%)
Stage 2 (Proposal)	<p><u>Mar - Apr 2018</u> Import tariffs on products from PR China</p> <ul style="list-style-type: none"> • +25% import tariffs on 1,333 products worth US\$50bn • E.g. home appliances, machinery, electrical equipment 	<p><u>Mid-Apr 2018</u> Targeted tariff on products from the US</p> <ul style="list-style-type: none"> • +25% import tariffs on 106 products worth US\$50bn • E.g. soybeans, automotive parts and aircraft
Stage 3	<p><u>Early May 2018</u></p> <ul style="list-style-type: none"> • Negotiations begin, trade war on hold 	
Stage 4 (Effective)	<p><u>Jun – Aug 2018</u> Revived tariff</p> <ul style="list-style-type: none"> • Tariffs on US\$34bn worth of China's goods, effective 6 Jul • Remaining US\$16bn, effective on 23 Aug <p><i>Additional 25% tariffs on US\$200bn worth of goods in abeyance on China's retaliation</i></p>	<p><u>Jun – Aug 2018</u> Retaliatory tariffs</p> <ul style="list-style-type: none"> • Retaliate with similar tariffs on the US imports, with US\$34bn starting on 6 Jul and US\$16bn starting on 23 Aug <p><i>In return, announced to impose various rates of tariffs on US\$60bn of US goods</i></p>

Source: Various

The list of products hit by HIGHER TARIFFS battle



US\$50 billion



Impact:

- 38.4% of US's export to China
- 3.2% of US's total exports

Impact:

- 11.6% of China's export to US
- 2.2% of China's total exports

China's products in the US's hit list



Machinery



E&E products



Furniture



Aerospace



Motor vehicle

US's products in China hit list



Soybean



Motor vehicles



Chemical products



Propane LPG



Raw cotton

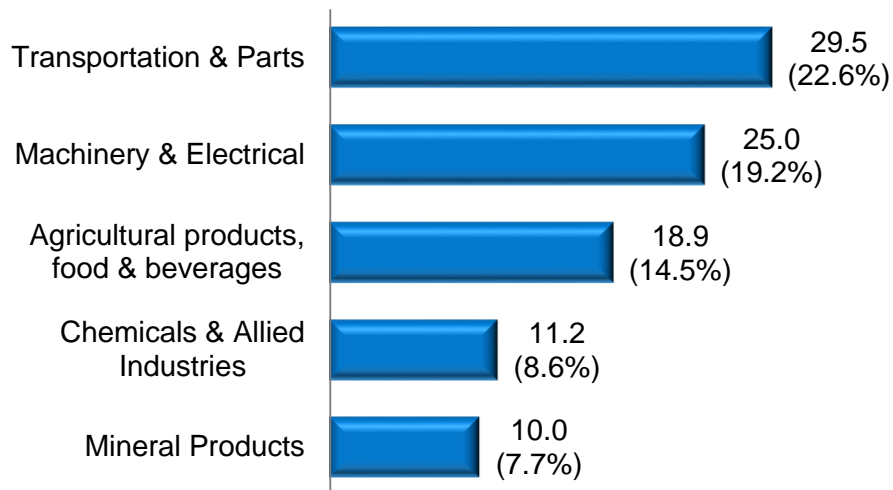
Source: US Census Bureau; National Bureau of Statistics of China

The industries most AT RISK in US-China trade war

The US industries most at risk in a trade war with China

Leading export categories by HS code

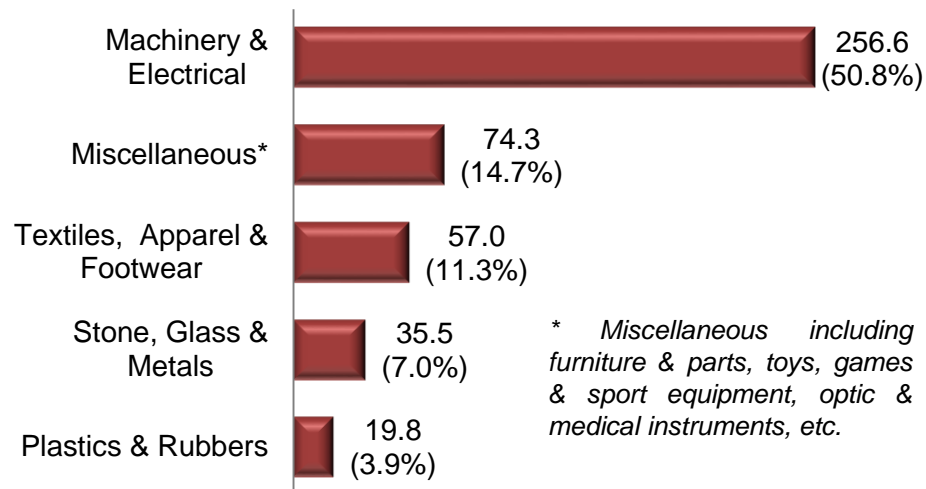
United States to China in 2017 (US\$ billion)



The Chinese industries most at risk in a trade war with US

Leading export categories by HS code

China to United States in 2017 (US\$ billion)



* Miscellaneous including furniture & parts, toys, games & sport equipment, optic & medical instruments, etc.

Figure in parenthesis indicates % share of gross exports in 2017

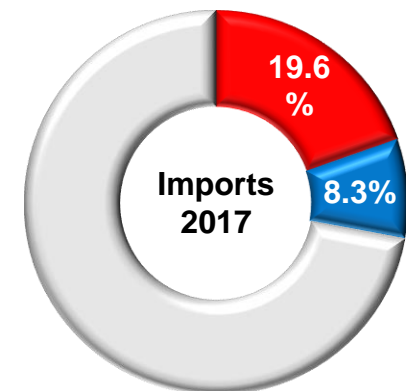
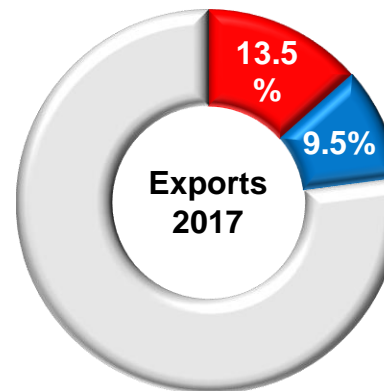
Exposure to the value chain (%)

	Indonesia	Malaysia	Singapore	Thailand		Indonesia	Malaysia	Singapore	Thailand
Wood & products	0.1	0.0	0.0	0.1	Textiles	1.1	0.6	0.3	0.7
Food products	0.2	0.1	0.0	0.1	Machinery	1.1	0.7	0.4	0.5
Electronics	3.4	6.6	2.7	3.0	Motor vehicles	0.1	0.0	0.0	0.0
Paper & products	0.1	0.0	0.0	0.0	Other transport	0.1	0.1	0.0	0.0
Chemicals	1.0	0.5	0.2	0.4	Basic metals	0.9	0.3	0.1	0.1
Electrical machinery	2.8	2.5	1.1	1.8	Total	10.9	11.4	5.0	6.8

Source: US Census Bureau; Oxford Economics

Malaysia's exports to the US and CHINA

Ranking	Exports	Imports
	2	1
	3	3



 China  United States

Major export products to China in 2017	RM mil	% share*
E&E products	50,386	39.9
- <i>Semiconductor</i>	36,332	28.8
Chemical & related products (excl. non-primary plastics)	14,449	11.5
Petroleum products	13,312	10.6
Liquefied Natural Gas	5,798	4.6
Manufactures of metal	4,529	3.6
Palm Oil	4,027	3.2
Total	126,150	

Major export products to United States in 2017	RM mil	% share*
E&E products	49,148	55.4
- <i>Semiconductor</i>	16,034	18.1
Optical & scientific equipment	5,562	6.3
Rubber gloves	5,502	6.2
Furniture & parts	3,604	4.1
Machinery, equipment & parts	3,271	3.7
Chemical & related products (excl. non-primary plastics)	3,243	3.7
Total	88,693	

Source: DOS, Malaysia

* % share to total exports to respective country

TRADE DISPUTES: Impact on global economy

Impact on GDP growth via the trade channel

(Percentage point)	Impact of US tariffs	Impact of China tariffs
China	-0.04	
US		-0.06
Asia excl. China	-0.01 to -0.03	
Global growth	-0.02	
Global trade	-0.02	

Trade disputes **ADVERSELY AFFECT THE US MORE THAN CHINA**, due to higher value-added sourced domestically (US: ~82%; China: ~64%)



High integration of EA-8 economies in China's production value chain, particularly E&E products (~18% share of value-added)

Combined impact on GDP growth via the trade and investment channels

(Percentage point)	Global growth	Global trade
Impact from trade channel	-0.02	-0.02
Impact from investment channel	-0.03	-0.04
Combined impact on GDP growth	-0.05	-0.06



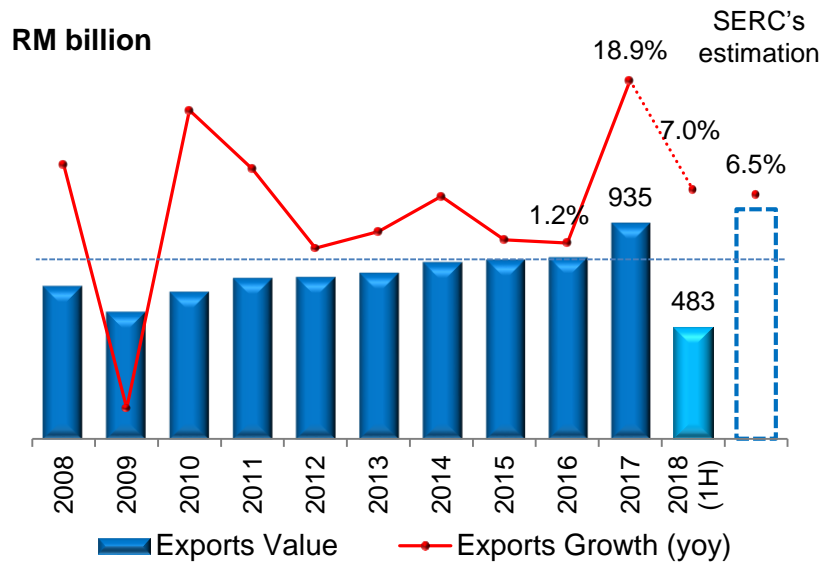
- **LOWER PROFIT** from exporters
- **DETERIORATION** in financial conditions
- **DAMPENED** business sentiments and investment activities

IMPACT on Malaysia: estimated a marginal decline of 0.05-0.15 ppt in GDP growth

Source: BNM

Exports in 2H18 will be more CHALLENGING

Exports continue to grow in 2018 ...



... due to broad-based expansion

Major export products in 2018 (Jan-Jun) [% share]	Value (RM billion)	Growth (% yoy)
E&E products [37.1%]	179.1	10.8
Petroleum products [7.9%]	38.2	6.1
Chemical & chemical products [5.6%]	27.0	17.9
Manufactures of metal [4.8%]	23.3	30.4
Machinery, equipment & parts [4.3%]	20.8	1.1
Palm oil [4.2%]	20.1	-12.4
LNG [3.9%]	18.7	-2.6
Optical & scientific equipment [3.5%]	17.1	12.9
Crude petroleum [3.5%]	16.9	18.4

- 1) The exceptionally high export levels averaging RM80 billion per month in 2H2017; 2) moderate pace of global semiconductor sales (estimated 12-16% this year vs. 23.1% in 2017); 3) slower CPO prices; and 4) trade tensions between the US and its major trading partners.
- Export growth estimates of 6.5% in 2018 and 5.9% for 2019.

Source: DOSM

Emerging markets under **PRESSURE**



The weakest link in Argentina and Turkey have stirred the **FEAR OF CONTAGION RISKS** in assets class of other emerging market economies in Asia such as India, Indonesia, and Philippines.



CAPITAL OUTFLOWS are a natural reaction to **RISING US BOND YIELDS**, a **REVIVED STRENGTH OF THE DOLLAR**, the expected **FURTHER RISE IN THE FED'S INTEREST RATE**, and further amplified by **TRADE AND GEOPOLITICAL TENSIONS**. **HIGHER CRUDE OIL PRICES** also exerted upward pressures on inflation and budget of oil-importing countries.



While damaging market volatility, it is unlikely to trigger **BROADER EMERGING MARKETS' CRISIS AND CONTAGION RISKS** should be contained. The **ECONOMIC AND FINANCIAL FUNDAMENTALS** in emerging market economies in Asia have improved and strengthened in recent years.

Emerging markets vulnerabilities HEATMAP

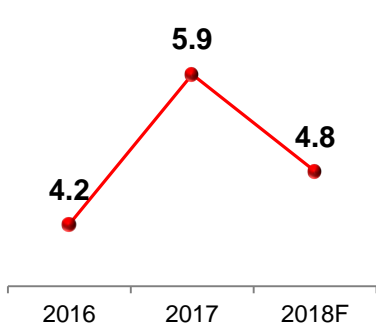
Least vulnerable ■ ■ ■ ■ Most vulnerable

	MAL	IDN	THA	PHL	CHN	IND	KOR	ARG	TUR
External Financing Vulnerability Index	0.47	0.47	0.33	0.33	0.33	0.47	0.27	0.73	0.87
Current Account Balance/GDP (% , 2018f)	2.5	-2.1	8.1	-1.5	1.1	-2.1	4.7	-5	-5.9
(Current Account Deficit -Net FDI)/GDP (% , 2018)	5.4	0	9.9	2.5	2.4	-0.4	5.6	-2.6	-4.6
Reserve Coverage Ratio (2018f)	1	1.1	1.9	2.9	2.7	1.8	1.6	0.5	0.4
Short-Term External Debt/Total External Debt (% , 2018f)	41	15	40	18	57	15	26	25	25
External Debt/GDP (% , 2018f)	59	35	32	24	14	23	26	41	57
Domestic Financial Vulnerability Index	0.57	0.48	0.43	0.53	0.48	0.43	0.43	0.4	0.67
Non-Financial Corporate Debt/GDP (% , Δ in 2012-2017)	6	5	2		30	-6	0	3	24
Households Debt/GDP (% , Δ in 2012-2017)	4	1	6		18	2.1	14	1.5	-1
Private Sector Real Credit Growth (% y/y, 2012-17 average)	6	8	6	13	14	4	5	10	12
Consolidated Foreign Claims/Domestic Credit (% , 2017)	32	38	26	22	4	15	12	41	49
Foreign Holdings of Local Currency Govt. Debt (% , Dec, 2017)	29	40	16		2	5	11		19
Foreign Holdings of Equities (% , June, 2017)	13	18	18	14	9	21	28	12	19
Nominal Home Prices (% y/y, 2012-2017 average)	9.3	6	3.5	10.4	3.1	14	1.9		14.1
Policy Vulnerability Index	0.28	0.39	0.44	0.67	0.39	0.61	0.33	0.78	0.67
2018-End Inflation Forecast (vs. Central Bank Target)	2.0	4.3	1.6	4.4	2.3	4.3	2.3	20.9	10.0
Current Real Interest Rates	1.2	0.2	-0.1	-0.7	0.8	1.7	-0.6	2	-1
Fiscal Balance/GDP (% , 2018f)	-2.7	-2.4	-0.9	-0.5	-4.2	-6.5	2.2	-4.9	-3.8
Gross Government Debt/GDP (% , 2018f)	54	29	40	33	51	67	38	52	28
World Bank Worldwide Governance Indicators (2017 release)	0.31	-0.18	-0.32	-0.35	-0.42	-0.19	0.75	-0.03	-0.46
WEF Global Competitiveness Index (2017-18)	5.16	4.7	4.7	4.36	5	4.6	5.1	4	4.39
Parliamentary/Presidential Elections in 2018-2019	May 18	Apr 19	Feb 19			May 19		Oct 19	Jun 18

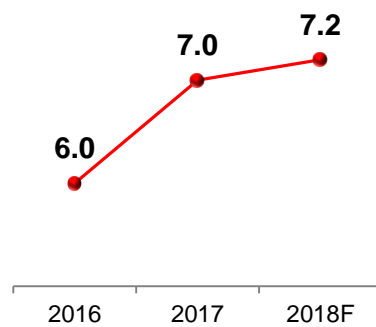
Source: Institute of International Finance (June 2018)

Malaysia's key ECONOMIC INDICATORS

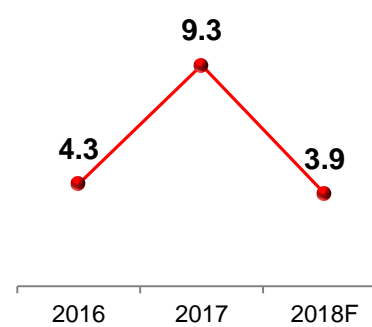
Real GDP growth (%)



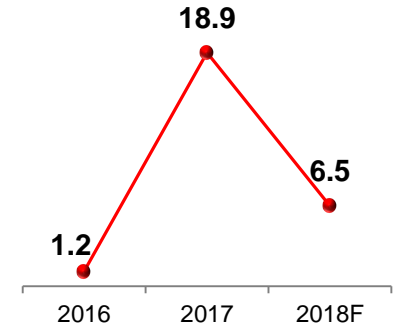
Private consumption growth (%)



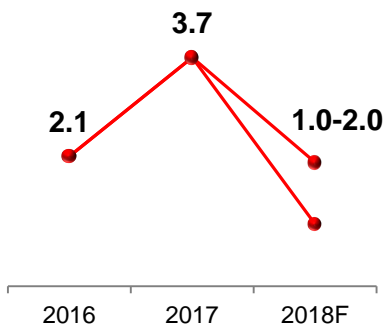
Private investment growth (%)



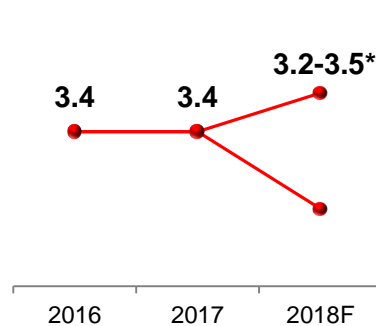
Gross export growth (%)



Inflation rate (%)

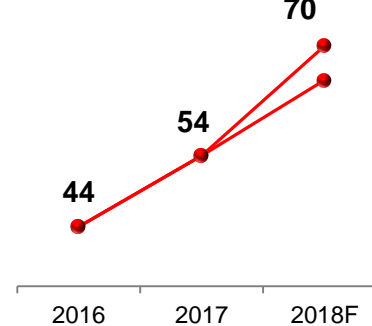


Unemployment rate (%)

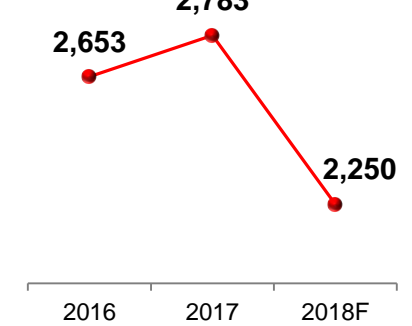


* BNM's estimates

Brent crude oil price (US\$/barrel)



Crude palm oil price (RM/tonne)

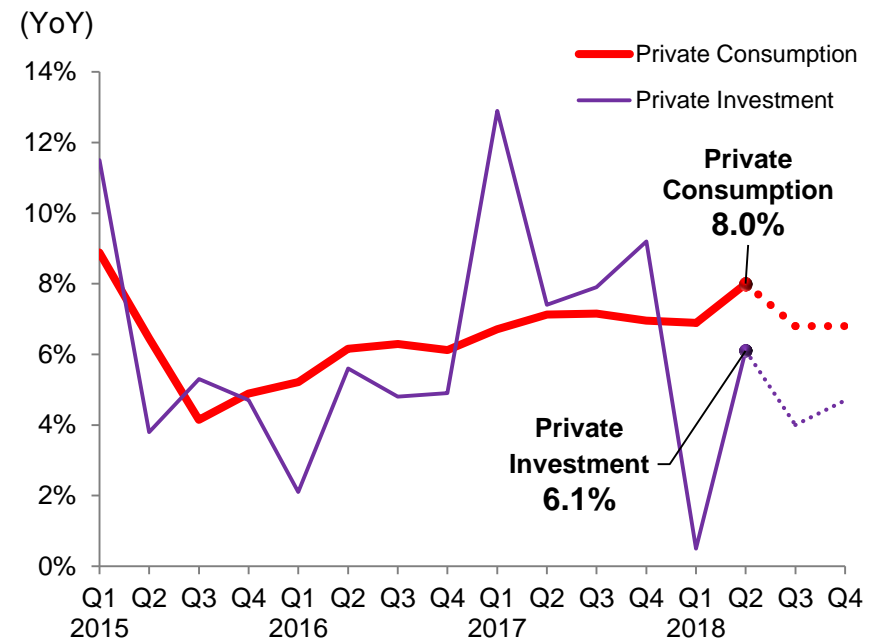
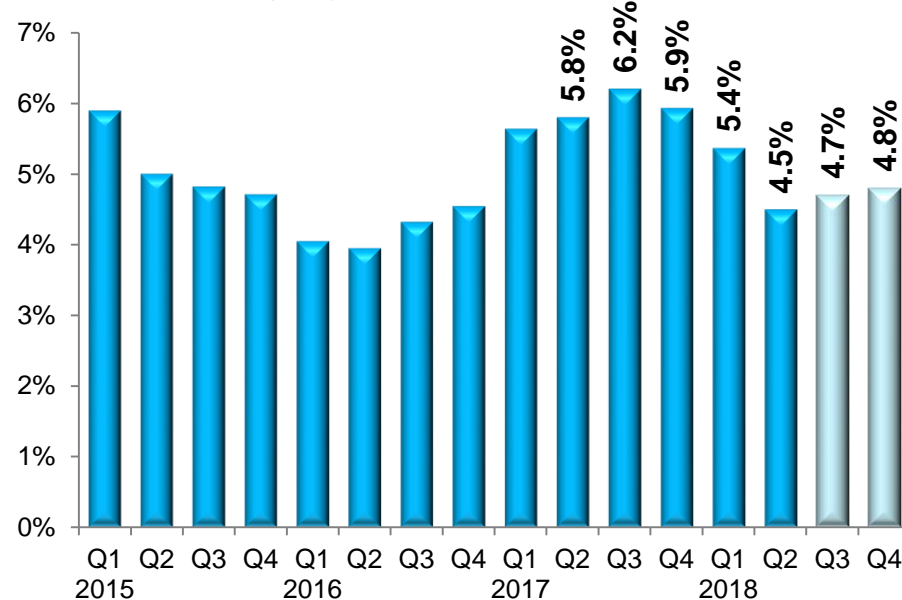


Source: DOS, Malaysia; BNM; EIA; MPOB; SERC

Private CONSUMPTION on track but INVESTMENT cautious

- The three months “tax holiday” from the zerorised of GST rate in Jun-Aug, the payment of cost of living aid and the stabilisation of fuel prices (RON 95) are expected to keep consumer spending steady estimated 7.2% in 2018.
- Despite private investment growth gained traction in 2Q18 (6.1% yoy vs. 0.5% in 1Q), both domestic and foreign investors would tread cautiously until clarity emerges on the new Government’s policy directions.

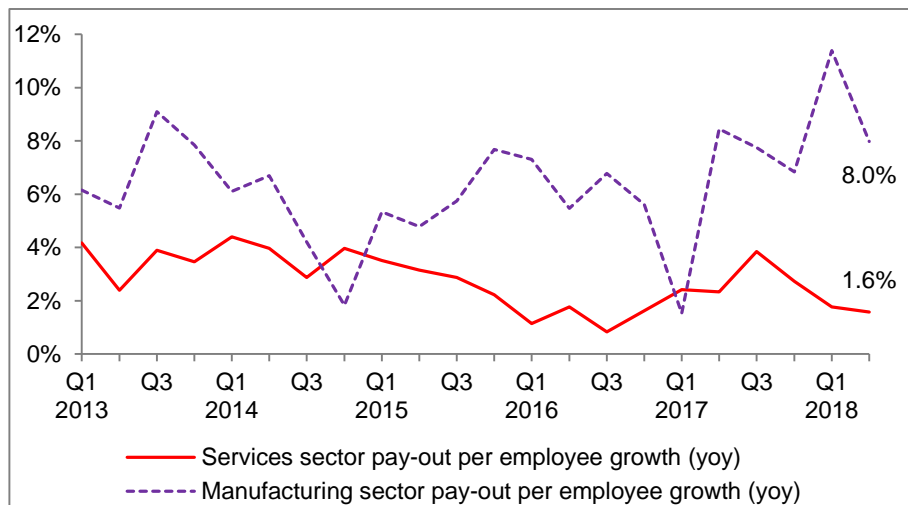
Real GDP Growth (YoY)



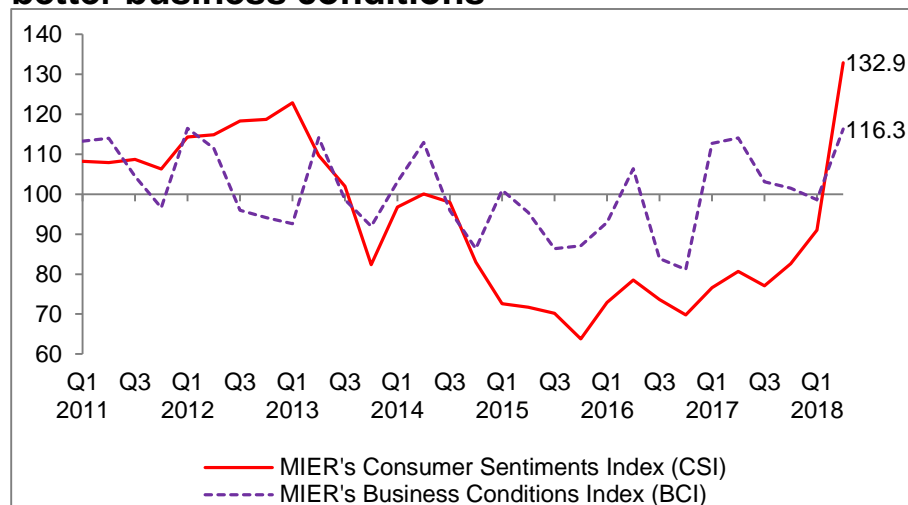
Source: DOS, Malaysia; SERC

Consumption RESILIENCE; IMPROVED investment sentiment

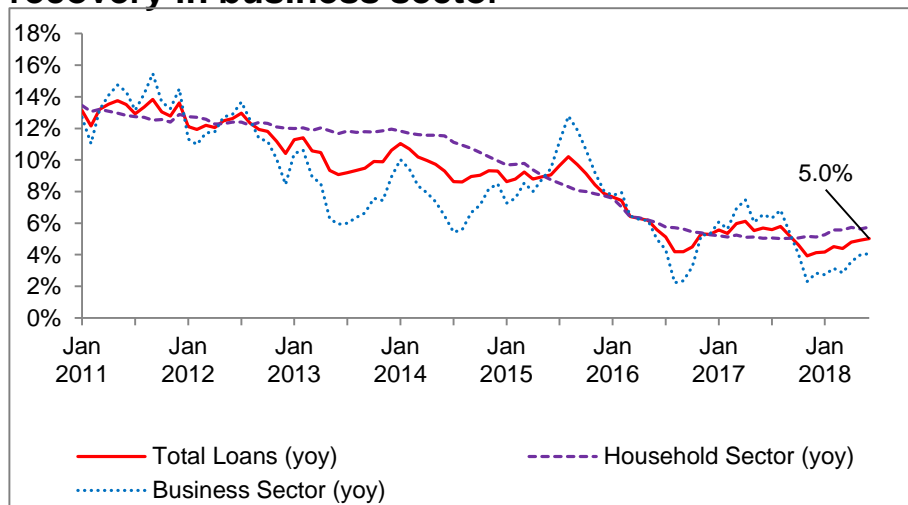
Higher pay-out in manufacturing sector



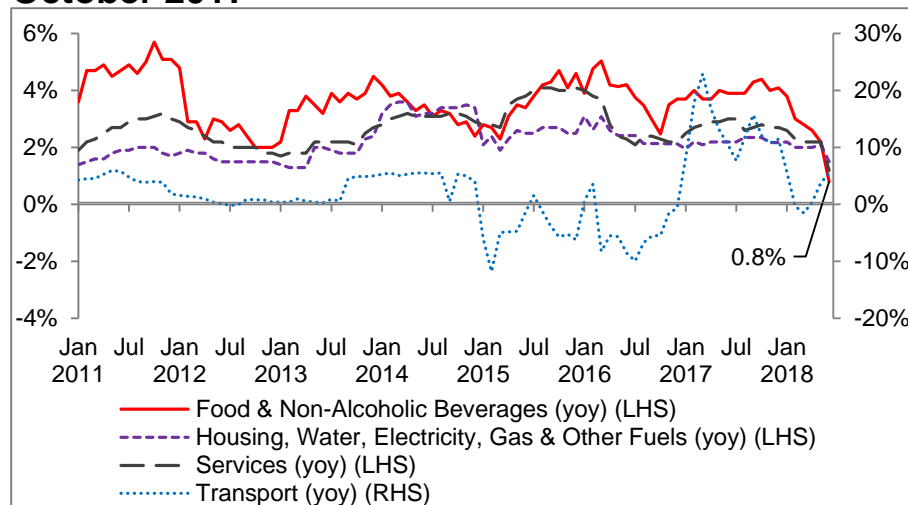
Consumer sentiments rise to 21-year high; better business conditions



Higher loan growth in Apr-Jun, driven by loan recovery in business sector



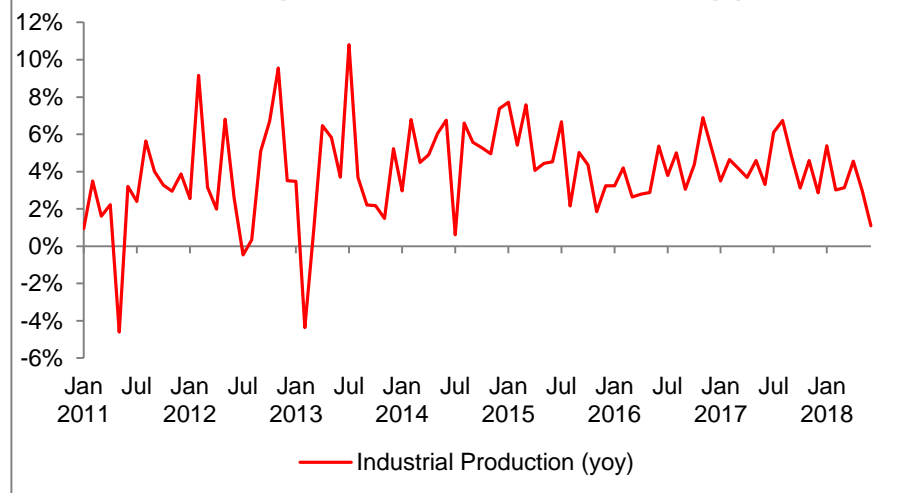
Food prices continued to moderate since October 2017



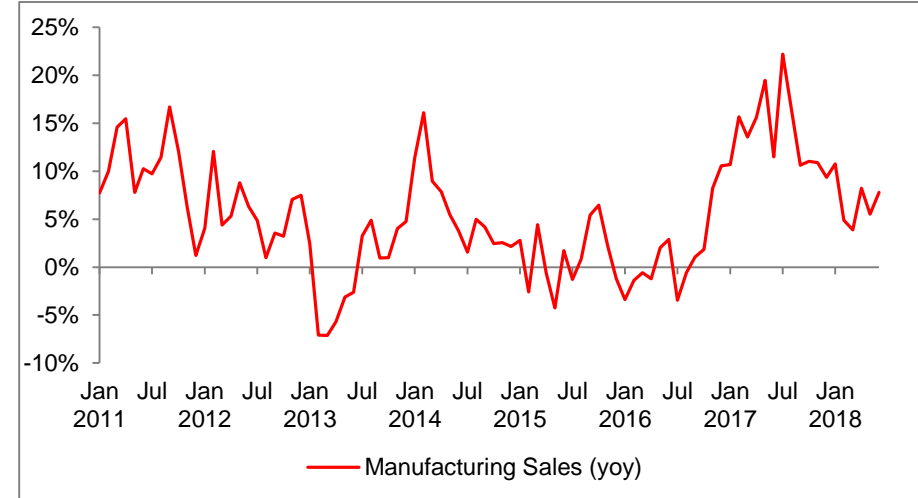
Source: DOS, Malaysia; MIER; BNM

Malaysia: ACTIVITY INDICATORS remain on track

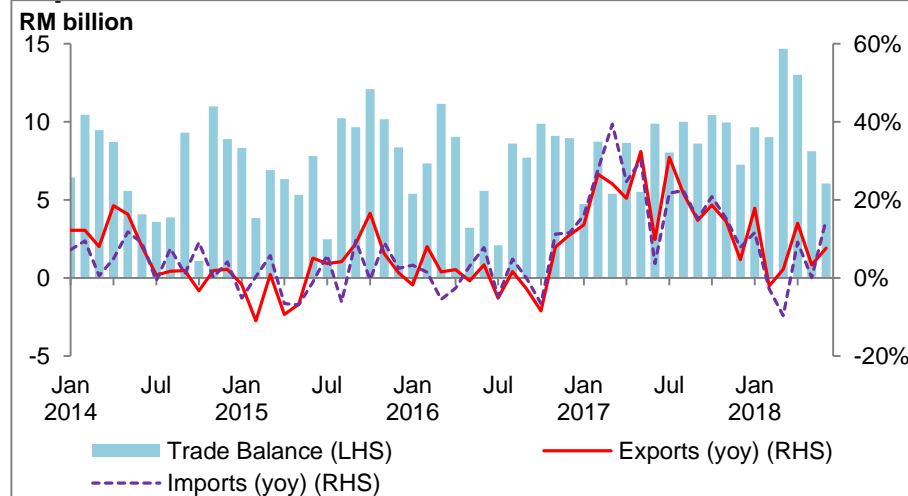
Manufacturing production continues to grow steadily; mining activities remained sluggish



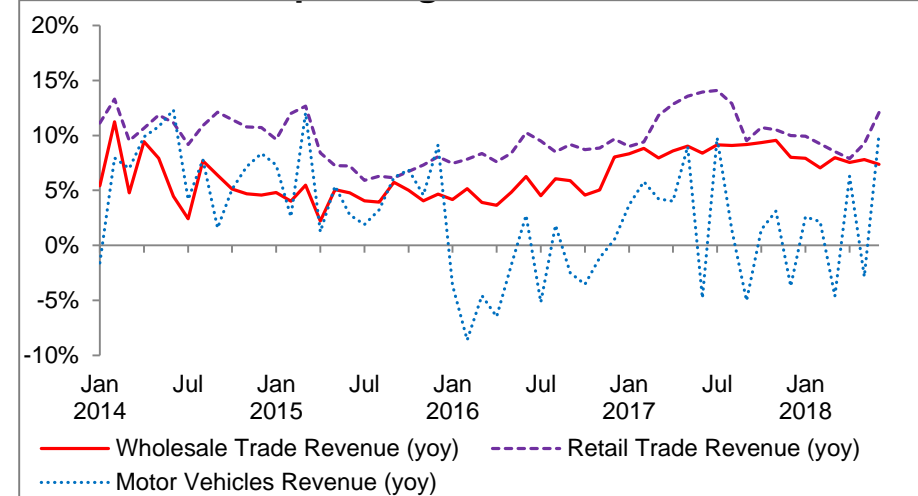
Manufacturing sales still on positive growth track



Uncertainties on trade war could temper exports outlook



Three months tax holiday (zero-rated GST) boosted retail spending. Will it be a one-off?



Source: DOS, Malaysia

Malaysia economy in **TRANSITION**



MAINTAIN POSITIVE GROWTH MOMENTUM. Based on 4.9% growth in 1H18, we estimate this year's GDP growth at 4.8%, underpinned largely by consumers demand and exports, albeit negative sentiment risks from the trade tariffs battle and damaging market volatility.



EXPORTS are expected to rise at a moderate pace (2018E: 6.5% vs. 18.9% in 2017). In the first half of 2018, exports up 7.0% yoy, with the drivers coming from electronics and electrical products as well as higher crude oil prices.



PRIVATE CONSUMPTION (2018E: 7.2% vs. 7.0% in 2017), thanks to cost of living allowance, stabilized fuel prices, zerorised GST and personal income tax rate cut. The introduction of SST on 1 Sep is expected to take some heat off consumer spending.



PRIVATE INVESTMENT growth had a very subdued start of 3.4% yoy in the first half of 2018 on lingering uncertainty ahead of the General Election 14, will likely to pace cautiously given the political and new government's policies transition as well as external headwinds. But, **GOOD GOVERNANCE** and **TRANSPARENCY** will enhance investment prospects over the medium-term.

Growth OUTLOOK for 2019

4.7%

STILL POSITIVE ECONOMIC GROWTH. Baseline GDP growth estimate is 4.7% for 2019, supported by sustained global growth and trade as well as domestic demand.



EXPORTS are expected to rise at a moderate pace (2019E: 5.9% vs. 6.5% in 2018), supported by moderate global demand and recovery in commodity prices.



PRIVATE CONSUMPTION (2019E: 6.8% vs. 7.2% in 2018) as households' spending normalize amid the stabilization of fuel prices and the implementation of SST.

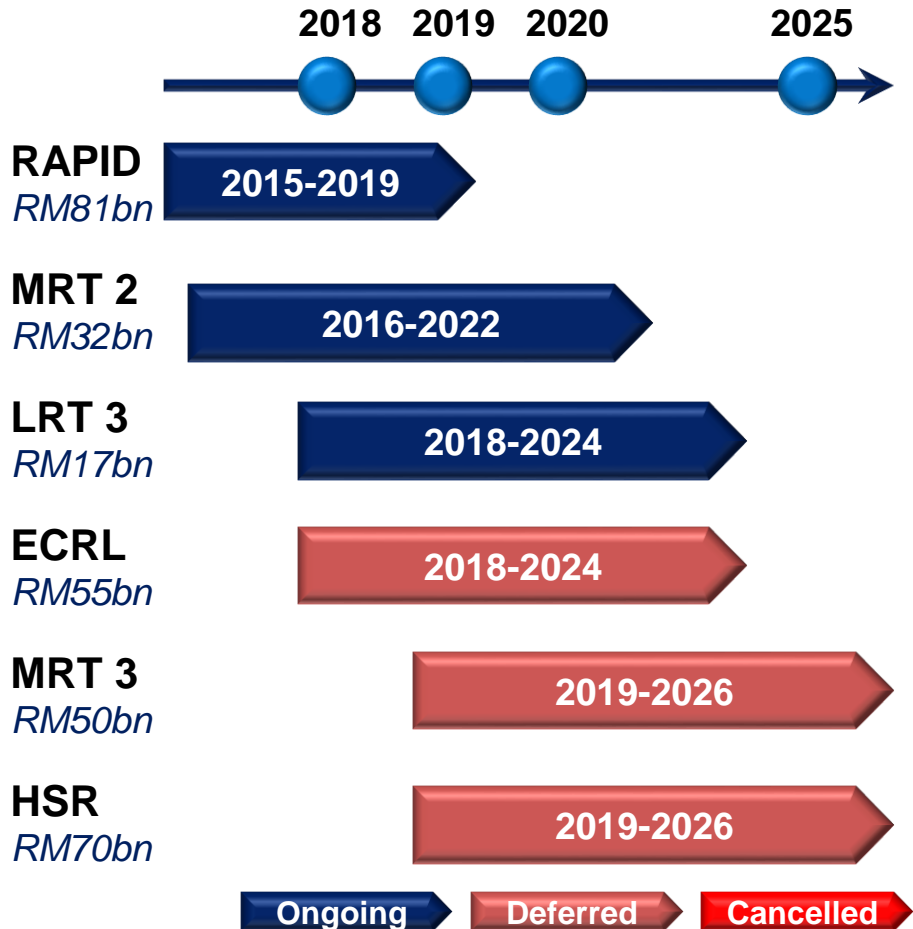


PRIVATE INVESTMENT growth (2019E:4.1% vs. 3.9% in 2018) will improve slightly on continued cautious about external environment due to the likely protracted trade war between the US and China. The review and cancellation of major infrastructure projects will continue to impact private investment.

DOWNSIDE RISKS to GDP growth: DEEPENING TRADE TARIFFS BATTLE; AGGRESSIVE RISE IN THE US INTEREST RATES DRIVE INDUCE CAPITAL REVERSALS AND FINANCIAL MARKET VOLATILITY



Deferred or cancelled mega projects: manageable impact



On-going projects help mitigating the impact on growth:



In early stages of construction or have yet to commence



Spreading effects (contained impact in single year) due to long period of development



Depend on the localisation vs. imported of construction related material and services



Manageable impact on domestic employment

The ringgit is UNDER PRESSURE (end-2018: RM4.10-4.15; 1Q19: 4.05-4.10; 2Q: 4.00-4.05; 3Q: 3.95-4.00; 4Q:3.95-4.00)

- Post the 14th General Election's political and policies transition; net selling of domestic equities and bonds; surging U.S. Treasury yields; the expectation of further US interest rate hikes; fears of contagion risk in emerging markets and a revived strength of the dollar would weigh on the ringgit.
- What could provide **COUNTERACT STRENGTH** to support the ringgit are strong fundamentals, the clarity of policies, the fiscal and debt path and the affirmation of Malaysia's sovereign ratings.

Ringgit movement against the USD

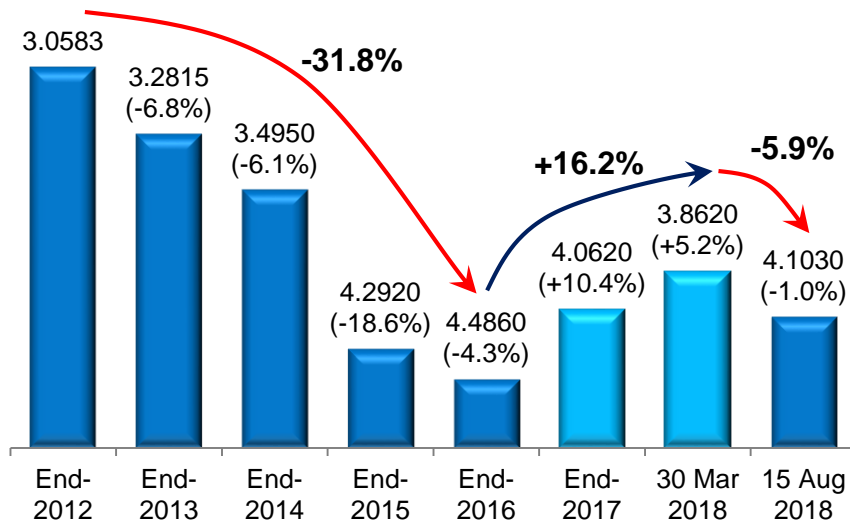
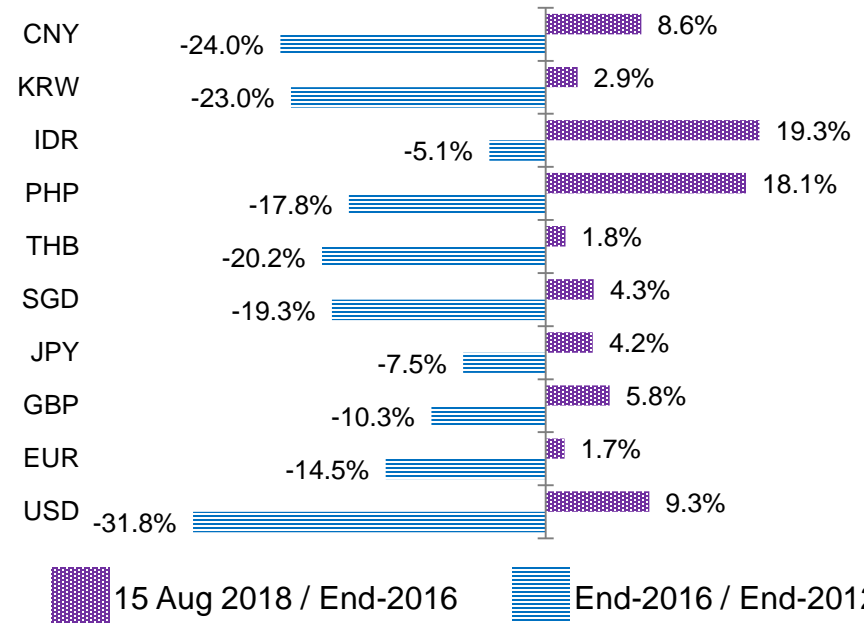


Figure in parenthesis denotes changes from end of previous year
Source: BNM (end-period; rates at 12:00)

Ringgit movement against regional currencies

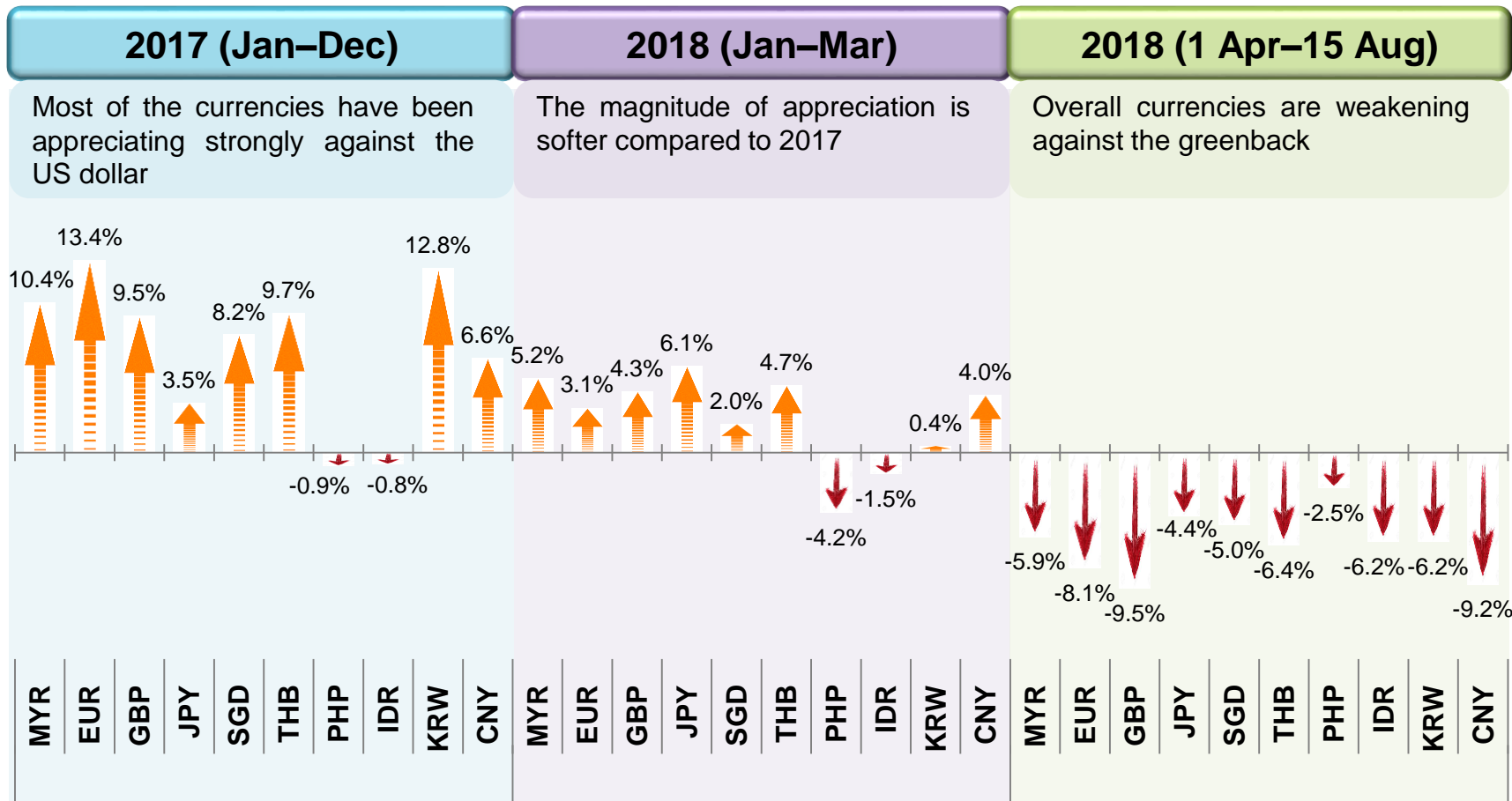


15 Aug 2018 / End-2016 (Purple bar)
End-2016 / End-2012 (Blue bar)

Regional currencies SUCCUMBED to the US dollar

- The US dollar index strengthened by 6.4% against a basket of foreign currencies (measured in real effective exchange rate (REER)) in the first seven months of 2018.

Major and regional currencies vs. the US dollar *

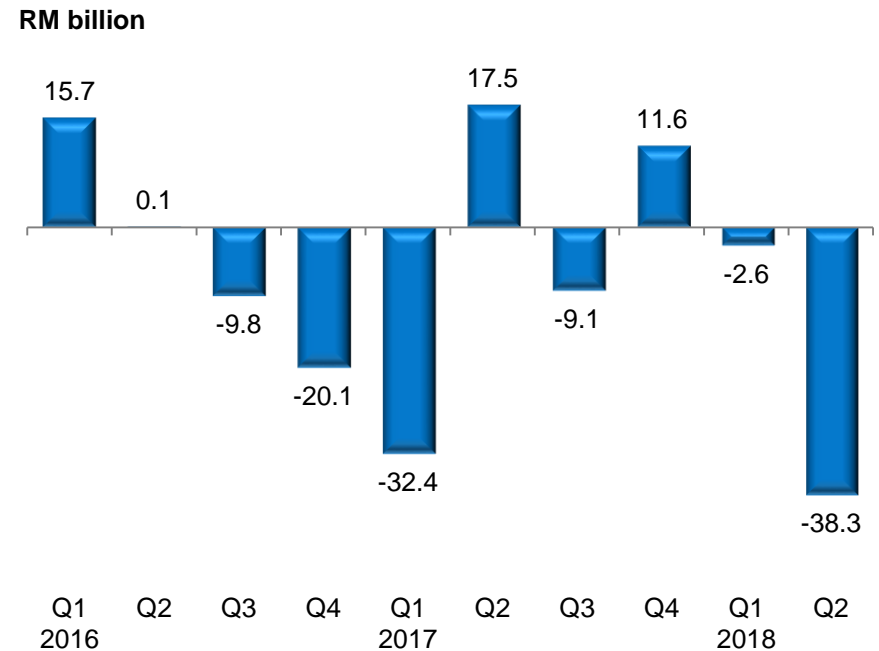


Source: BNM (end-period; rates at 12:00) * Calculation based on cross-rate

OUTFLOWS in both debt and equity markets

- **EXTERNAL FACTORS:** Prospects of higher US interest rate; strong US dollar; uncertainties on global trade tensions; pressure on emerging markets triggered contagion risk
- **DOMESTIC FACTORS:** Post GE14 political and domestic policies transition
- In April-June, foreigners net sold RM24.3 billion of ringgit-denominated debt securities. However, net buying occurred in July (+RM4.0 billion).
- Post GE14's 32 consecutive days of net selling of equities by foreigners have moderated in July and August.

Net portfolio investment: Largest outflow since 3Q 2008

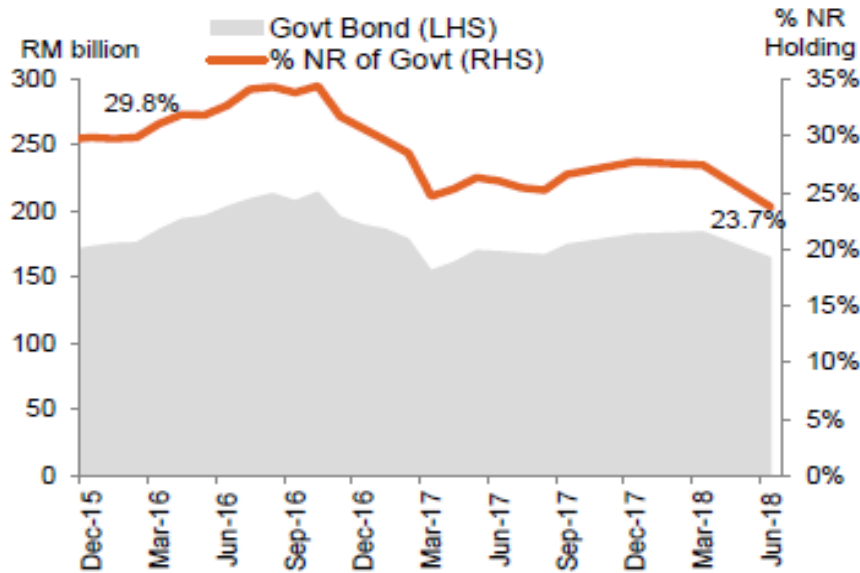


Source: BNM

FOREIGN HOLDINGS of Malaysia bonds declined on risk aversion

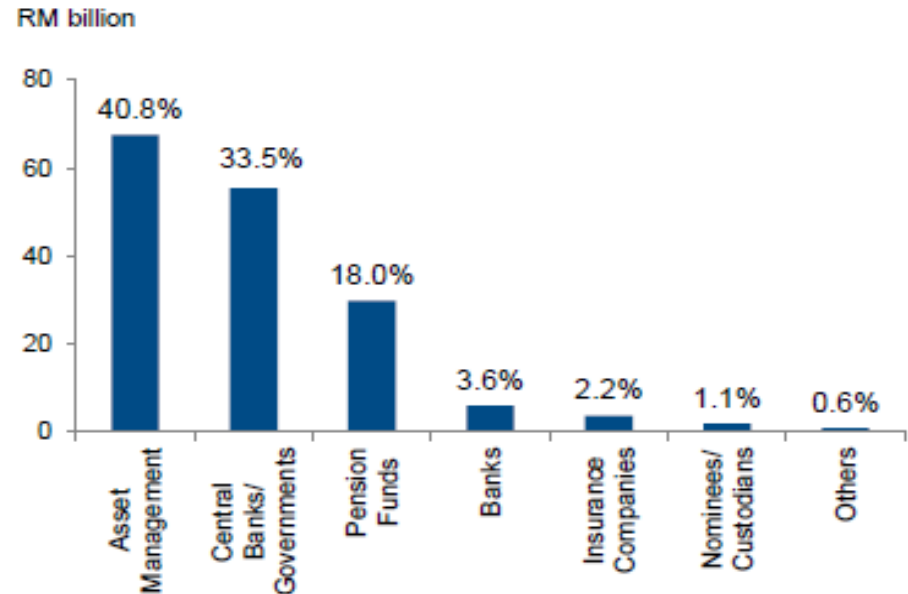
Non-resident holdings of Malaysian Government bonds stood at 23.7% as at end-Jun 2018

Non-resident Holdings of Malaysian Government Bonds



Long-term investors (asset managers, central banks and pension funds) remain key holders of the Malaysian Government bonds

Distribution of Non-resident Holdings of Government Bonds as at end-Jun 2018



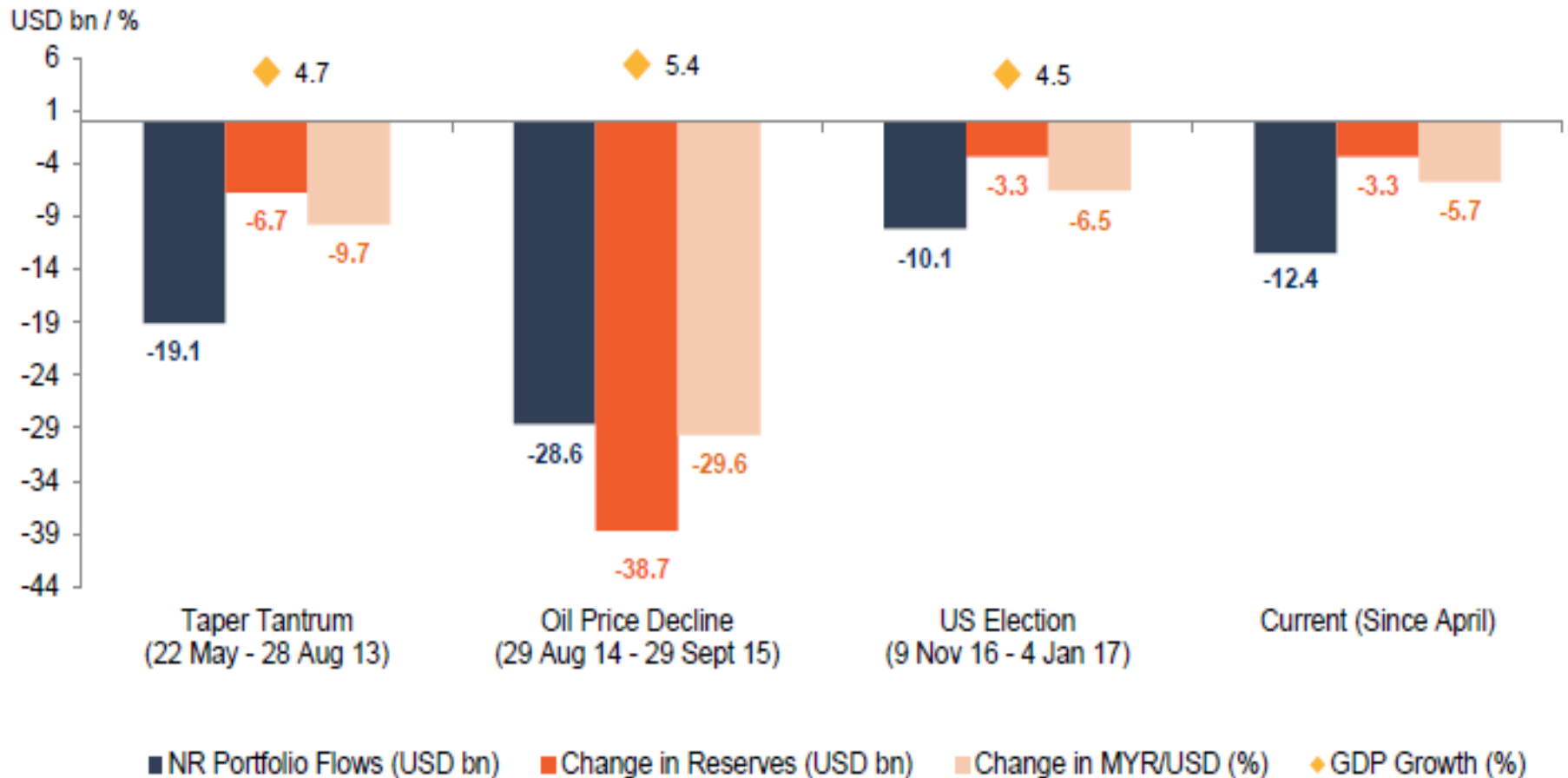
Note:

- Malaysian Government Bonds includes Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII) and Sukuk Perumahan Kerajaan (SPK).
- "Others: include individuals, non-financial corporations and unidentified sectors.

Source: BNM

Malaysia has experienced **SIZEABLE** capital reversals

NR Portfolio Flows, Reserves, Ringgit Performance and GDP Growth during Outflow Periods



Note: Current data for reserves is at end-July 2018; MYR/USD as at 14 August 2018; NR portfolio flows as at 13 August 2018

Source: BNM

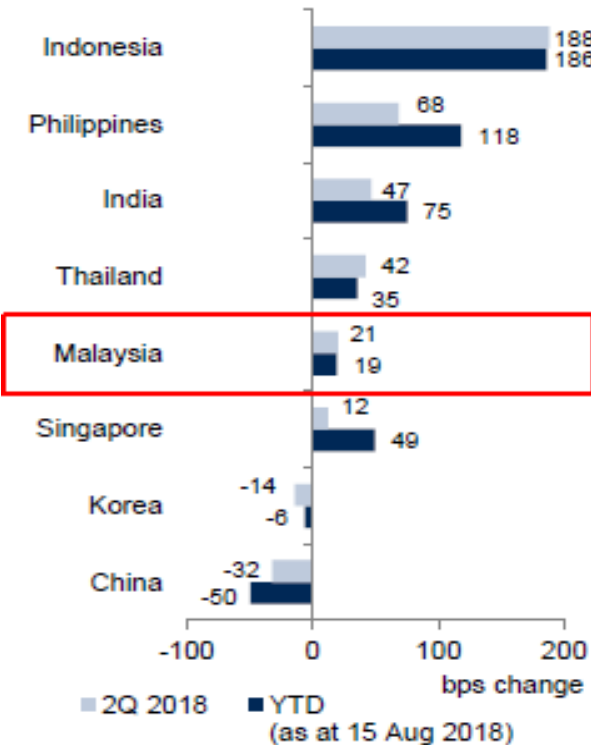
FINANCIAL CONDITIONS coping well with sizeable outflows

Bond market was resilient amid support from domestic institutional investors

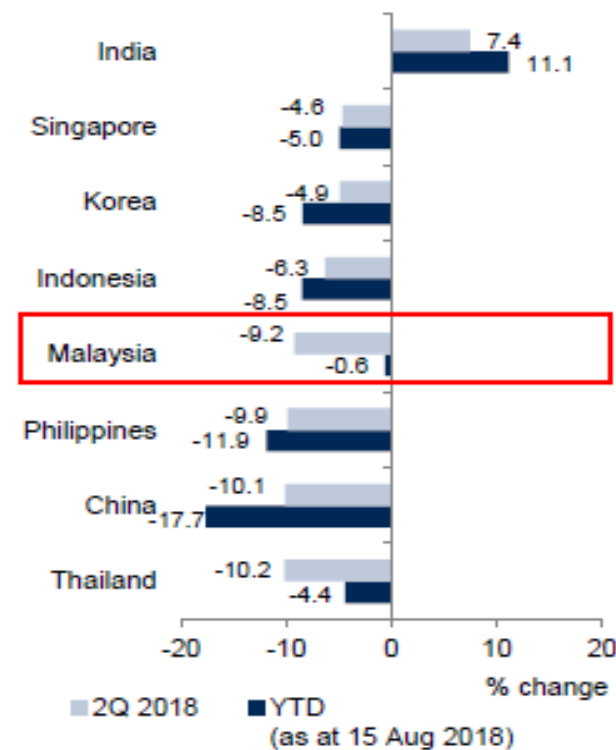
KLCI performance in line with regional indices; decline was sector-specific

Wholesale and retail rates remain stable

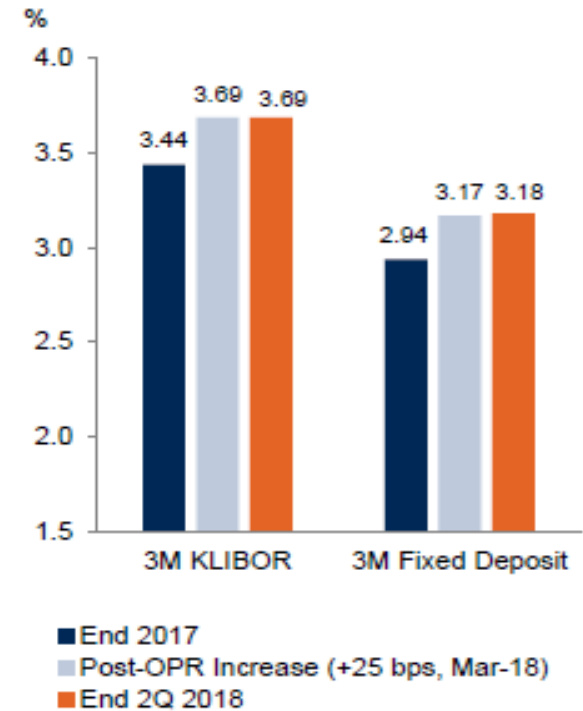
Regional 5-year Sovereign Bond Yield



Regional Equity



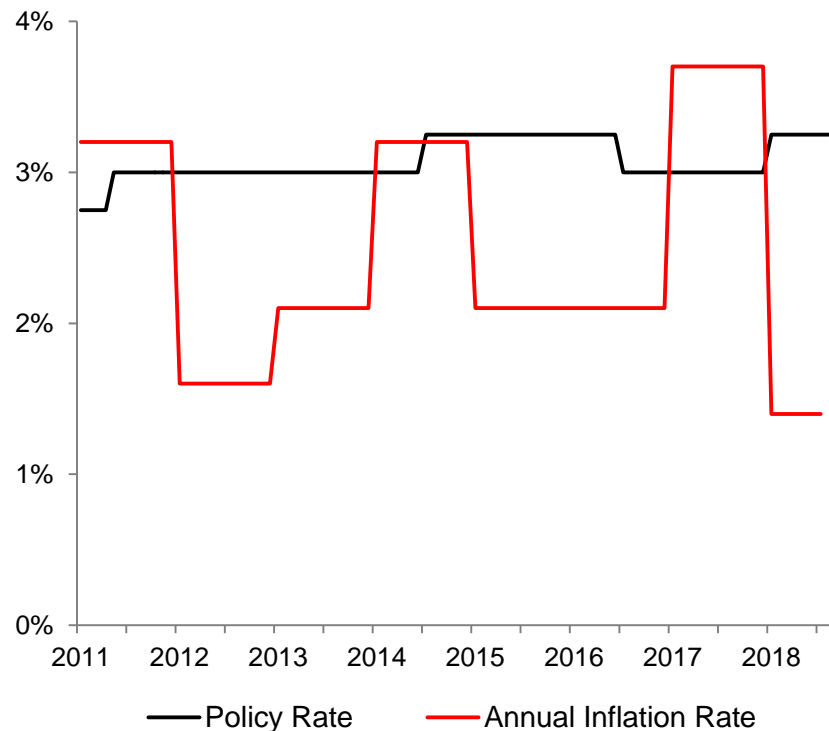
KLIBOR and Fixed Deposit Rates



Source: Bloomberg; BNM

Monetary policy remains accommodative

Overnight policy rate (OPR) vs. Annual inflation rate



- **Headline inflation:** Underlying inflation remains low in 2018 due to transitory effect from 3-mth tax holiday and fuel subsidy. This transitory effect is expected to lapse in 2H19. Inflation outlook hinges on SST and the continued fuel subsidy. (2018E: 1.0-1.5%; 2019F:2.0-2.5%).
- **Growth outlook:** The hurdle rate for BNM to consider cutting interest rate is when GDP growth slows to below 4.50% (GDP estimate 2018E: 4.8%; 2019F:4.7%).
- **Will the weak ringgit outlook and higher US interest rate** constrain Bank Negara Malaysia's monetary policy?

Note: Average inflation rate for 2018 accounts from January to July.

Source: BNM; DOSM

AUSTERITY can unleash CONFIDENCE

- ❑ If plans for fiscal and debt consolidation are **CREDIBLE AND INVOLVE STRUCTURAL REFORMS**, there is every chance growth can resume even as cuts or rationalization of public spending take hold.
- ❑ The fiscal condition that we are in now is **NOT ABOUT ACUTE AUSTERITY** in spending but **MORE OF RATIONALIZING OR REPRIORITIZING** the capital expenditure and operating spending.
- ❑ **COST SAVINGS AND EXPENDITURE EFFICIENCY** derived from the value for money projects mean wider economic and multiplier impact on the economy, rakyat and businesses.
- ❑ **SPENDING SPLURGES** reduce growth and austerity drives raise growth.
- ❑ A **DISCIPLINED AND FINANCIALLY PRUDENCE** government not only impacts positively on private sector's expectations but also unleashes confidence.
- ❑ A **LEAN AND GOOD GOVERNING** government with **SOUND FISCAL CONDITIONS** strengthen confidence as the private sector expects lower future taxes. This works to raise disposable income and boost asset values, which become the engine for a sustainable economic and investment expansion.



Policy advocacy: **FIVE-PRONGED** policy agenda

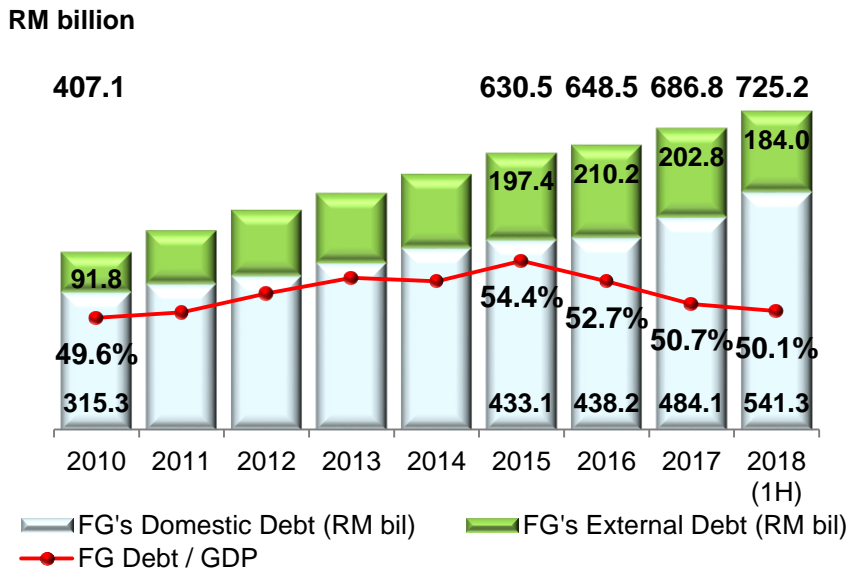
- ❑ Malaysians' desire of having a national development agenda which promises **CLEAN, FAIR, TOLERANCE AND MUTUAL RESPECT SOCIETY, VISIONARY AND DECISIVE LEADERSHIP, GOOD GOVERNANCE AND WELL-CRAFTED CREDIBLE ECONOMIC POLICIES AND INCLUSIVE SOCIOECONOMIC DEVELOPMENT PROGRAMS.**
- ❑ Malaysia must reset and build on the people trust with **ACCOUNTABILITY, TRANSPARENCY AND GOOD GOVERNANCE.**
- ❑ **SUCCESSFUL ECONOMIC REFORMS** must result in strengthening and securing higher quality economic growth, driving higher investment, and boosting productivity. There must be a balancing act between unpopular, radical yet sustainable public policies and populist approaches, weighing on the Government's budget capacity and fiscal conditions.
- ❑ What is crucial is that **MEANINGFUL ENGAGING THE PUBLIC AND STAKEHOLDERS** is an important part of an effective, open, and transparent government in the formulation of policy priorities, programs and services for Malaysians.
- ❑ A five-pronged agenda outlined below suggests an immediate actionable agenda for the Government to help **ACHIEVE GROWTH AND EFFICIENCY** as well as **INCREASE NATIONAL INCOME** by leveraging the capabilities, innovation, and productivity.

1

FISCAL STABILITY

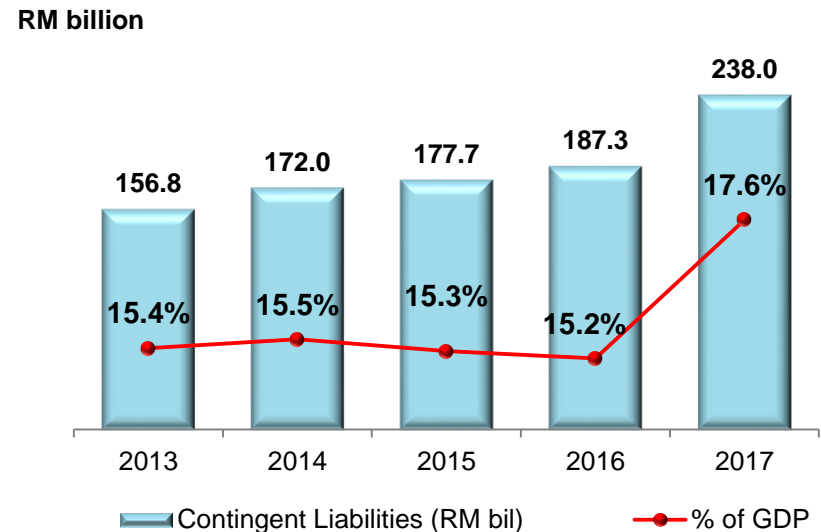
- **FISCAL DISCIPLINE** must be upheld and the government debt, including contingent liabilities must be **CONTROLLED AND REDUCED** over-time to achieve fiscal and debt stability.
- **EFFICIENCY** in the use of public resources must be improved; **WASTAGE AND LEAKAGE** must be plugged; **CORRUPT PRACTICES** must be weeded out; **CHRONIC RENT SEEKING AND PATRONAGE** must be curbed.

Federal government (FG) debt to GDP ratio



Source: BNM

Government guaranteed debt



2

IMPROVE BUSINESS ENVIRONMENT FOR INVESTMENT

- Create the necessary conditions for sustainable investment growth to restore **INVESTOR CONFIDENCE AND ADDRESS COMPETITIVENESS**.
- **EVALUATE AND STREAMLINE EXISTING PROCESSES AND PROCEDURES** in taxation and business regulatory compliance, remove duplication, complex documentation and ensure alignment with international best practices.
- **EVALUATE READINESS FOR IMPLEMENTATION** before introduction of new compliance requirements; time-based approvals; coordination between ministries and agencies to ensure a consistent and reliable decision-making process.

Ease of Doing Business (EODB) Overall Ranking		Starting a business	Getting credit	Protecting minority investors	Trading across borders
2013	12 ↑	54 ↓	1 =	4 =	11 ↑
2014	6 ↑	16 ↑	1 =	4 =	5 ↑
2015	18 ↓	13 ↑	23 ↓	5 ↓	11 ↓
2016	18 =	14 ↓	28 ↓	4 ↑	49 ↓
2017	23 ↓	112 ↓	20 ↑	3 ↑	60 ↓
2018	24 ↓	111 ↑	20 =	4 ↓	61 ↓

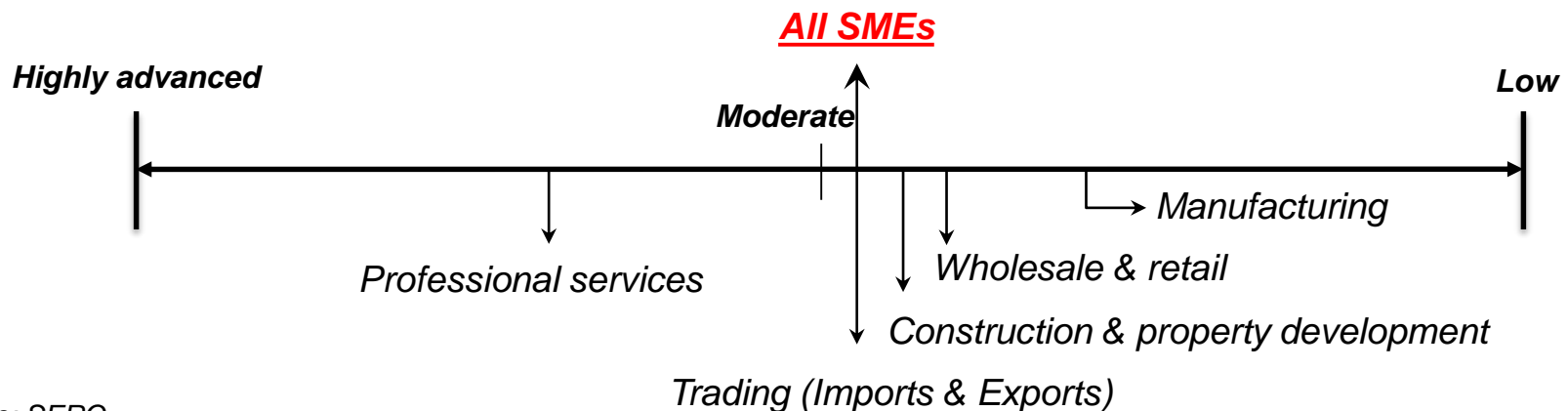
Compared EODB 2016 and 2018:

- **Number of procedures and days to start a business** increased from 3 procedures and 4 days in 2016 to 8.5 procedures and 18.5 days in 2018.
- **Border compliance:** 2016: 20 hrs for exports and 24 hrs for imports. 2018: 45 hrs for exports and 69 hrs for imports.

Source: World Bank

3 POLICIES TO CATALYSE INDUSTRIAL REVOLUTION 4.0 (IR 4.0) & DIGITAL ECONOMY

- **OUTREACH AND ACCESS TO NEW TECHNOLOGY** can be multiplied manifold by extensive use of ICT, including improving quality of curriculum and schooling experience.
- Bring in transparency, standardisation across all Government agencies and encourage participation of IT SMEs in government contracts with special emphasis on **INNOVATIVE AND MOBILE-BASED SOLUTIONS**.
- Establish a Joint Government-Industry body to develop **DESIGN-LED MANUFACTURING PROGRAM** with ICT-enabled design skills in focus; leveraging on technology creation/absorption and acquiring critical technologies.
- Encourage **DOMESTIC ICT ADOPTION** in the private sector by revisiting provisions of investment allowance.



Source: SERC

4

PROMOTE GROWTH AND GLOBAL COMPETITIVENESS

- Business transaction costs and cost of doing business (direct and indirect) must be kept **REASONABLE AND COMPETITIVE** as well as at ease through removing the constraints in hard and soft infrastructure, including the binding regulatory and layering as well as unnecessary compliance costs.
- A critical anchor of successful industrial development policy is to focus on growing the industries and sectors that conform to our **LATENT COMPARATIVE ADVANTAGES** to counteract dynamic competitive and comparative advantages of our competitors.
- The **IDENTIFIED SECTORS** include the downstream resource-based **MANUFACTURING ACTIVITIES, SERVICE SECTOR, E-COMMERCE, DIGITALIZED BUSINESS AND THE ENVIRONMENTAL SECTOR**. New service industries that have emerged and are growing rapidly are in the areas of Fintech-finance, ICT, logistics, e-commerce, sharing economy, healthcare, higher education, tourism, hospitality and the Halal market not just in food, but in pharmaceuticals, cosmetics, and many more.
- **EXPORTS CAPACITY** in terms of products' differentiation and markets diversification should be further enhanced.

5

SKILLS DEVELOPMENT AND EMPLOYMENT CREATION

- Move away from a centrally-driven system to one of **EMPLOYER OWNERSHIP OF SKILLS**, with greater employer and employee input into the design and delivery of the manpower system. Skills development is the **SHARED RESPONSIBILITY** of government, employers and workers.
- Creating a local market for skills where providers are **INCENTIVISED** to meet employer and learner demand.
- **LINKING SKILLS** with employment opportunities and **DECENT COMPENSATION** is critical, and skills need to be an integral part of economic growth and employment strategies as well as productivity enhancement.
- **EQUAL OPPORTUNITIES** for education and training.
- **REVAMPING** of Technical and Vocational Education and Training (TVET) to improve the calibre of workforce; develop skill standards and curriculum. Three skills that are relevant in IR 4.0: learning skills (self directed learning, cross discipline, digital skills); thinking skills (creative, resilience, inquisitive, problem solving); and soft skills (ethics, communication).

PRIVATE SECTOR drives economic growth

- Services and manufacturing sectors remained the key drivers of growth

<i>% change, 2010=100</i>	2016	2017	2018 (Jan-Jun)	2018f (BNM)	2018f (SERC)
GDP by demand component					
Private consumption (53.7%)	6.0	7.0	7.4	7.2	7.2
Private investment (17.4%)	4.3	9.3	3.4	9.1	3.9
Public consumption (13.0%)	0.9	5.4	1.8	0.6	1.8
Public investment (8.0%)	-0.5	0.1	-5.2	-3.2	-4.4
Exports of goods and services (72.8%)	1.3	9.4	2.9	8.8	2.7
Imports of goods and services (65.1%)	1.3	10.9	0.0	9.1	2.0
GDP by economic sector					
Agriculture (8.2%)	-5.2	7.2	0.1	3.6	-0.4
Mining & quarrying (8.4%)	2.2	1.0	-1.0	1.8	-1.0
Manufacturing (23.0%)	4.4	6.0	5.1	5.9	4.8
Construction (4.6%)	7.4	6.7	4.8	7.3	4.5
Services (54.5%)	5.7	6.2	6.5	6.1	6.4
Overall GDP	4.2	5.9	4.9	5.5-6.0	4.8

Figure in parenthesis indicates % share to GDP in 2017

Source: DOS, Malaysia; BNM; SERC



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谢谢
THANK YOU

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