



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

SME THOUGHT LEADERSHIP

2020 – Year of Inflection

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Executive Director
21 November 2019

What awaits in 2020 and Beyond?



CONTINUED TURBULENT GLOBAL ECONOMY ?



MALAYSIA SURVIVING ECONOMIC HEADWINDS



SMART STRATEGIES FOR SMEs– OPPORTUNITIES AND RISKS

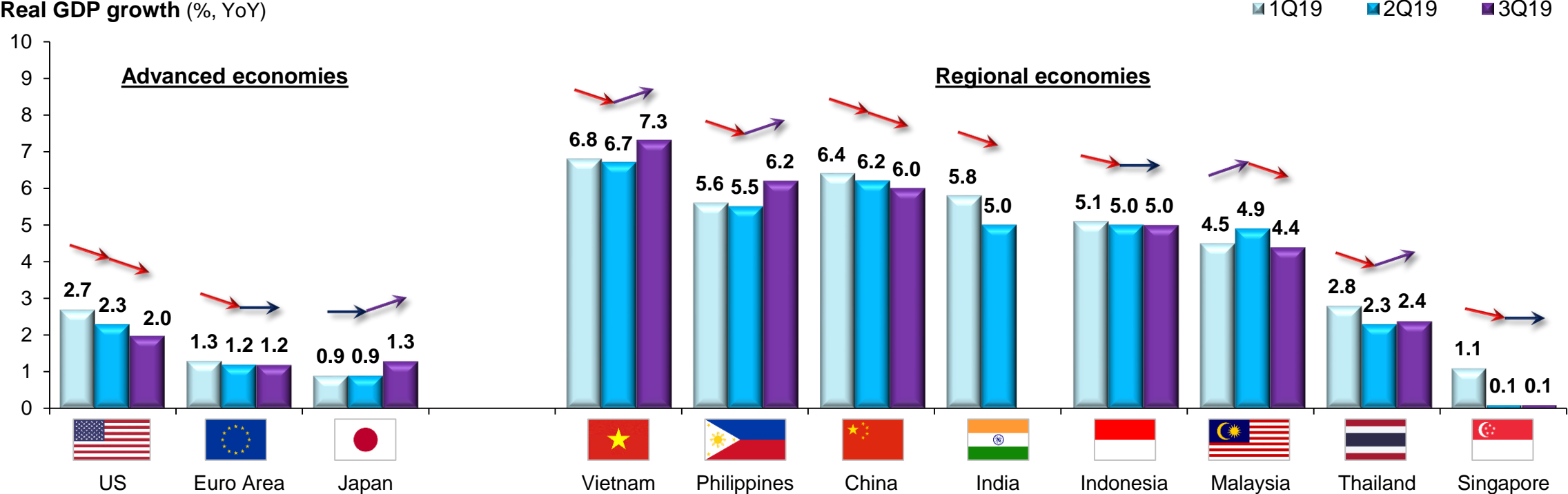
Section 1

The World Economy

*A synchronized slowdown amid
global recession fears*



Slower growth across most major and regional economies in 3Q19



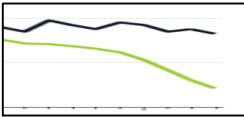
Softening domestic demand

Weak external demand amid headwinds from trade tensions

Source: Officials (unadjusted data, except Euro Area)

“Weak” – These economic indicators are flashing RED

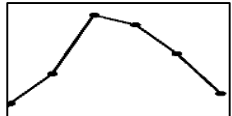
➤ THE US AND CHINA ECONOMY are slowing



➤ EASING global growth momentum. OECD Leading index on a downward trend since Feb 2018



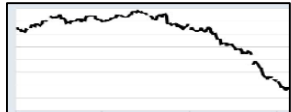
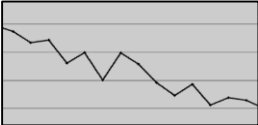
➤ WORLD TRADE CONTRACTION for 3 consecutive months since June 2019



➤ MANUFACTURING CONTRACTION for 6 months in a row since May 2019

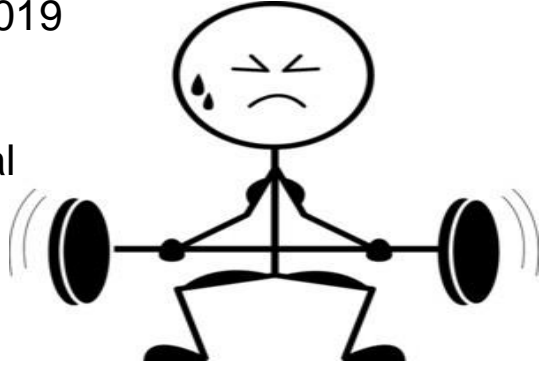
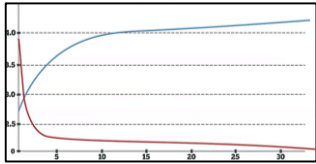


➤ SERVICES GROWTH on a weakening mode



➤ GLOBAL SEMICONDUCTOR SALES DOUBLE-DIGIT DECLINE for eight months since Feb 2019

➤ THE INVERTED YIELD CURVE (short-term bonds deliver a higher yield) may be back to normal but the US economy is still not in the clear



Waiting for the INFLECTION points



The upcoming **2020 U.S. Presidential election**.



The **heightened risks surrounding the trade war**. A return to Trump's favorite maximum pressure tactics, or a refusal by Xi to make meaningful concessions, would reignite global recession fears.



The **damage to business confidence, global supply chains and global trade** already have been done, and could worsen if there's no trade deal is reached and deepens.



The **alternative scenario: A trade-war retreat, coordinated global central banks' monetary easing and QE and China's massive policy stimulus** set the scene for stronger global growth in early 2020.



The **downside risks: Low or negative interest rates failed to work; limited fiscal space; geopolitical tensions; and volatility in commodity prices**.



CAUTION IS STILL WARRANTED AS WE MOVE INTO 2020

Global growth scenarios for 2020



Scenario

Event



Probability



Projected Global GDP growth

Upside



Global stabilisation or acceleration
Policy stimulus is working

15%

3.5%

Base Case



Continued global slowdown
Continued trade tensions; financial turbulence; geopolitical risks

55%

3.2%

Downside



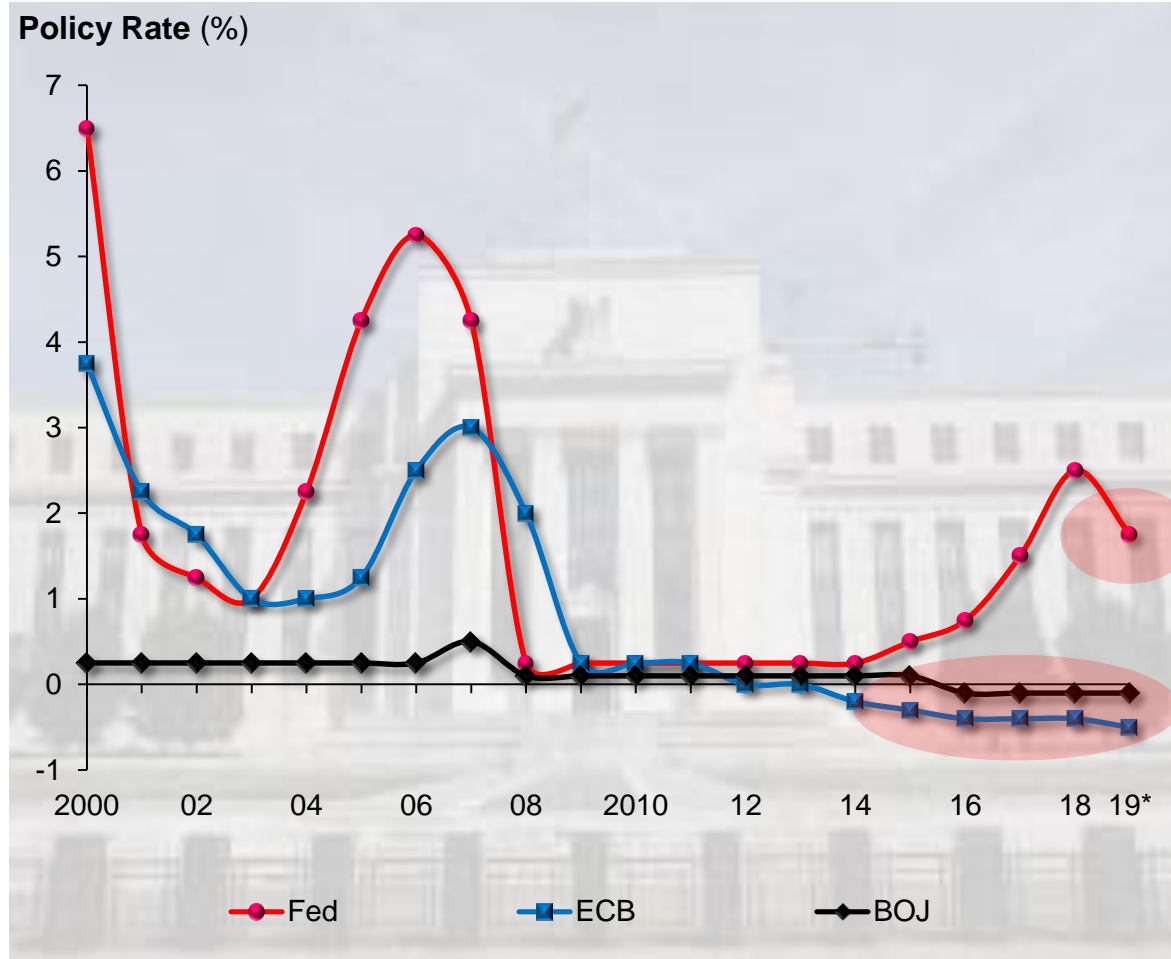
Sharp global slowdown
Policy stimulus fails to stem economic slowdown

35%

2.8%

Global central banks race interest rate to bottom

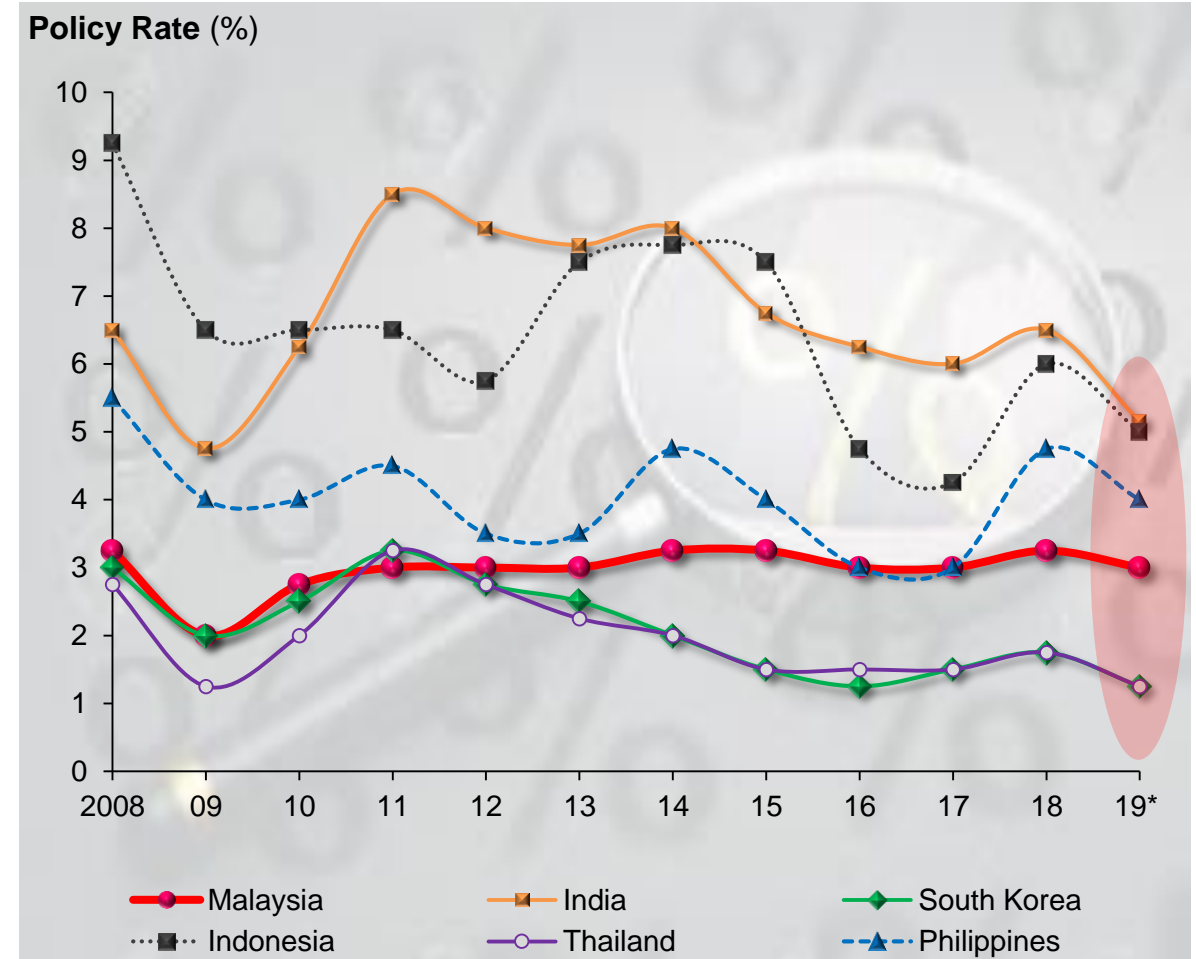
- Low or negative interest rate is a new normal again?



Note: Interest rate on deposit facility applied as ECB's policy rate

* As at 14 Nov 2019

Source: Fed; ECB; BOJ, Official central banks

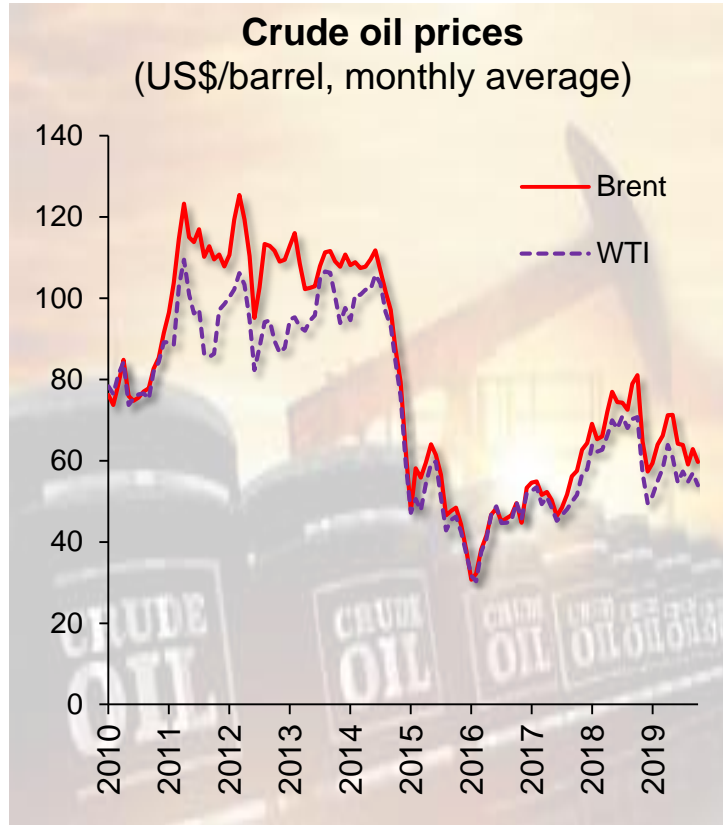


Gold a safe haven (a six-year high); Volatile commodity prices

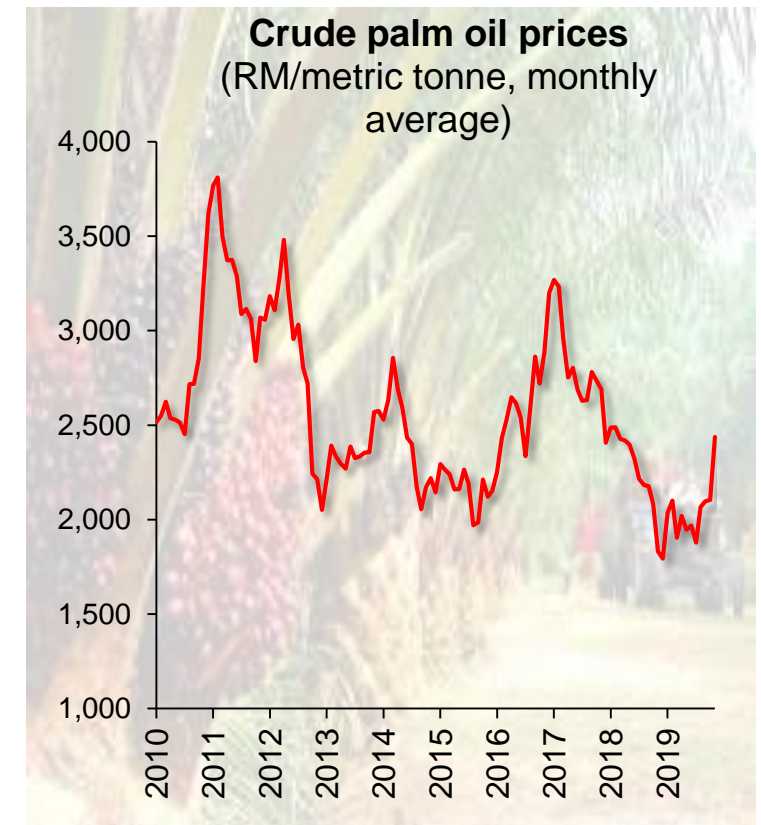
Gold prices rise on strong demand and falling long-term real interest rate



Volatile crude oil prices: Global growth concerns; Supply cut continues; the US-Iran tensions



CPO prices are recovering in late October (average price in 1-15 Nov: RM2,437/metric tonne)



Source: World Bank; EIA; MPOB

Section 2

The Malaysian Economy

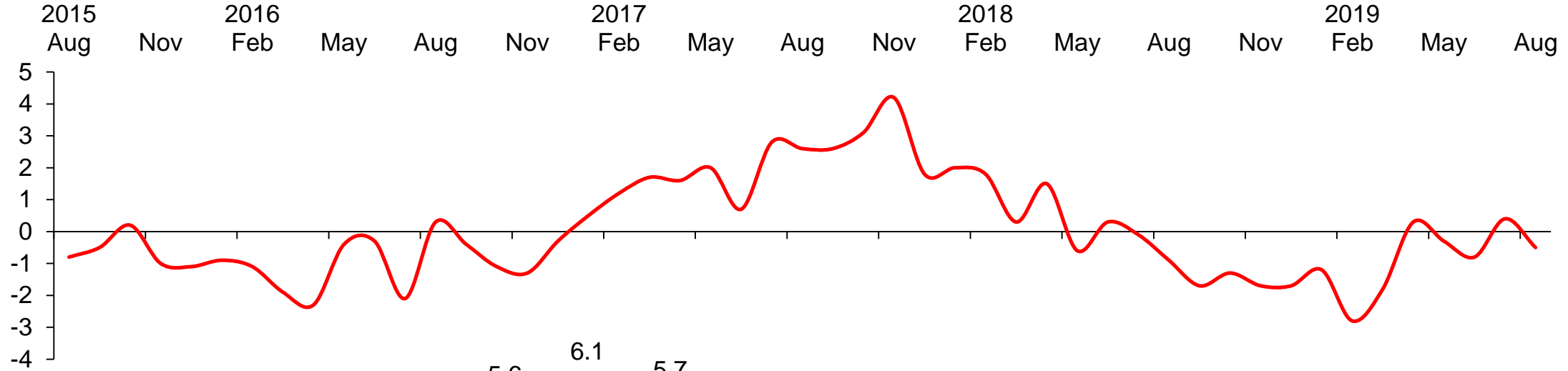
*A priority for action,
now more than ever*



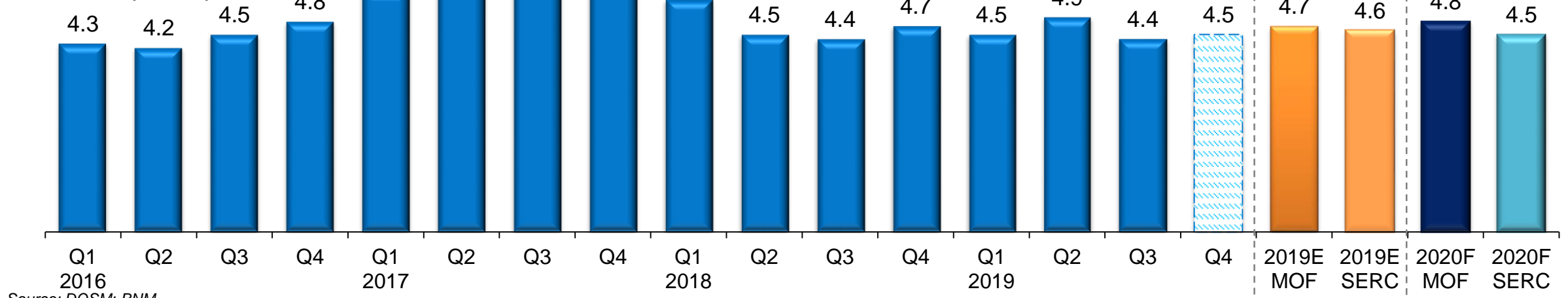
Malaysia's leading index indicates softening economic growth ahead

The Leading Index (LI) indicators anticipate overall economic activity in four to six months ahead, e.g. LI indicators in Feb indicate performance in Jun-Aug.

Leading Index Growth (% YoY)



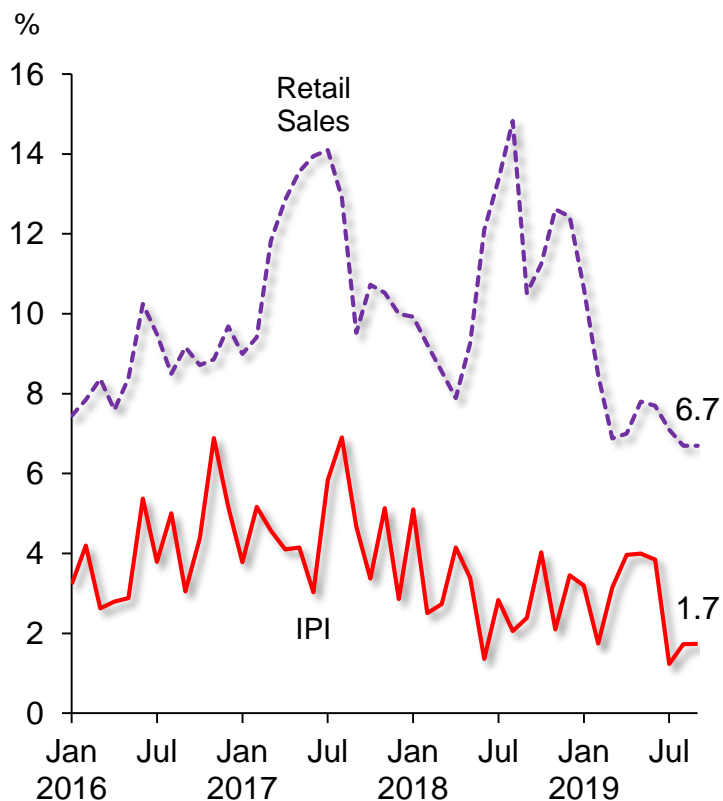
GDP Growth (% YoY)



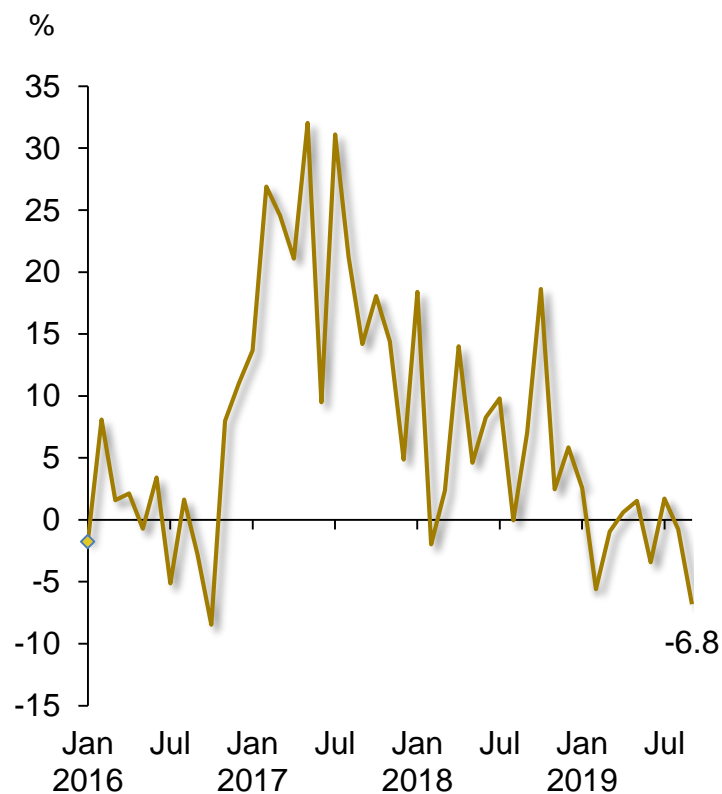
Source: DOSM; BNM

High frequency indicators suggest continued expansion; albeit slower

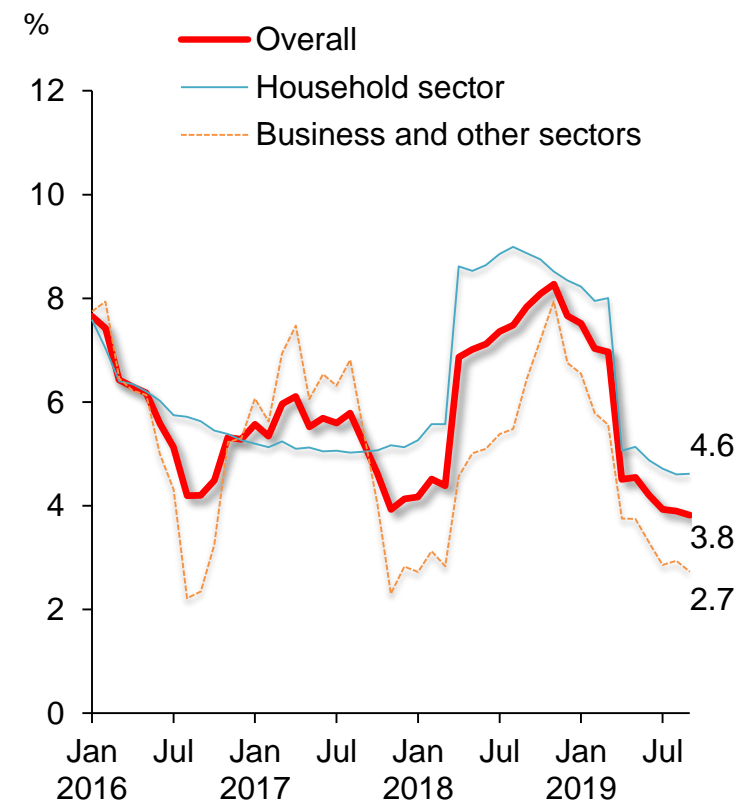
IPI moderate growth; retail sales growth slowed significantly



Exports declined by 1.1% yoy in first nine months of 2019



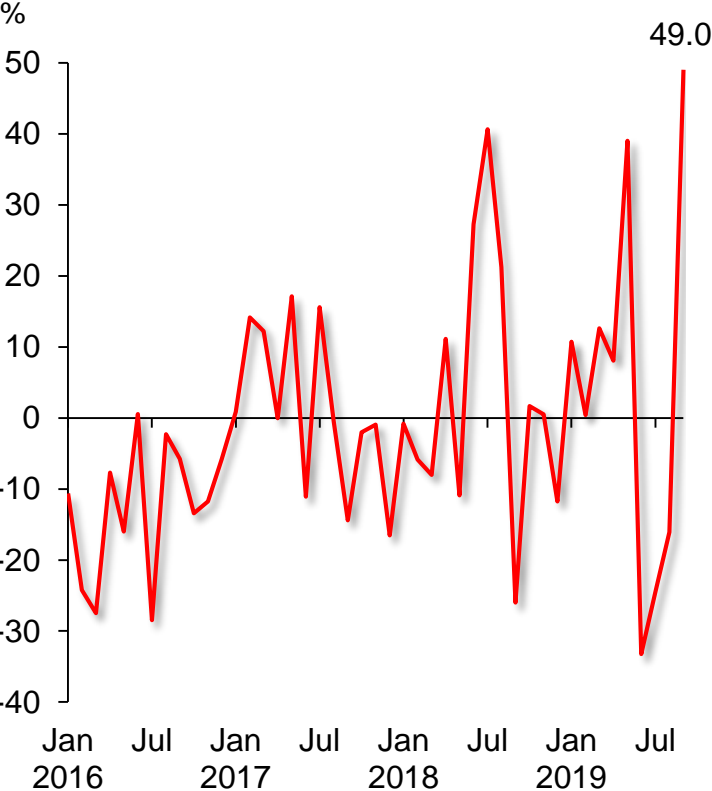
Overall loan growth continued to moderate



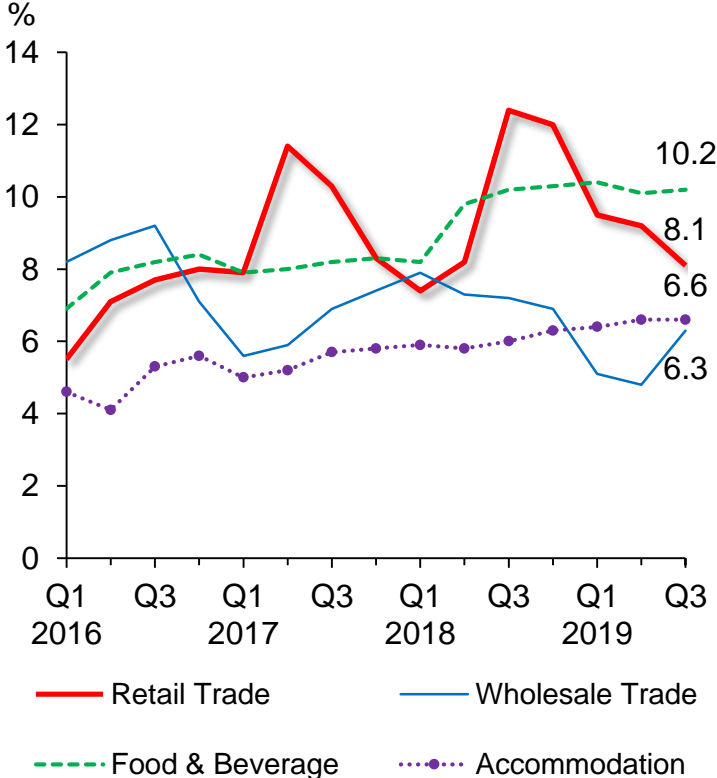
Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: DOSM; BNM

Private consumption indicators

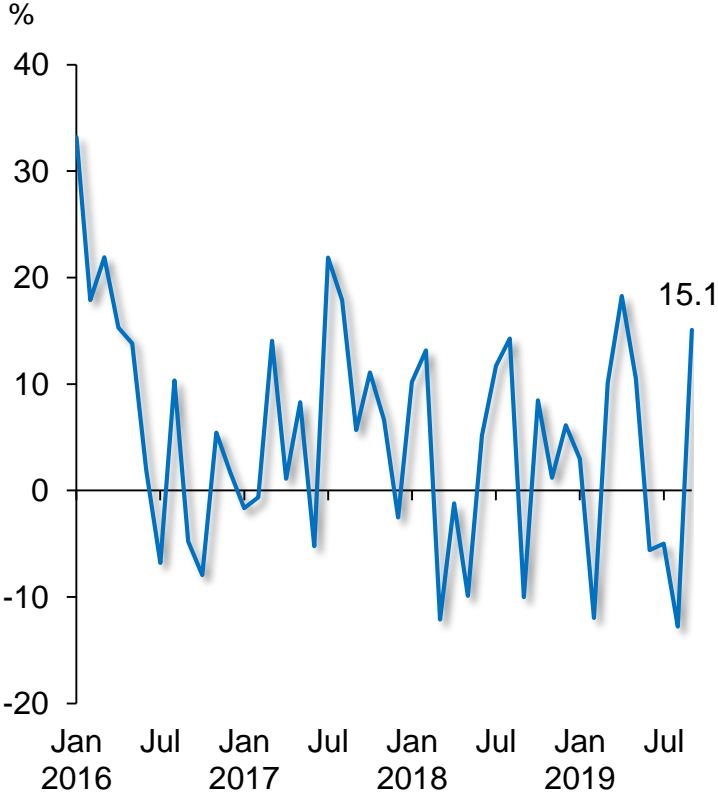
Passenger car sales have declined in Jun-Aug due to high base (zero-rated GST) last year. It surged in Sep on low base



Growth of wholesale, retail, restaurant and hotels



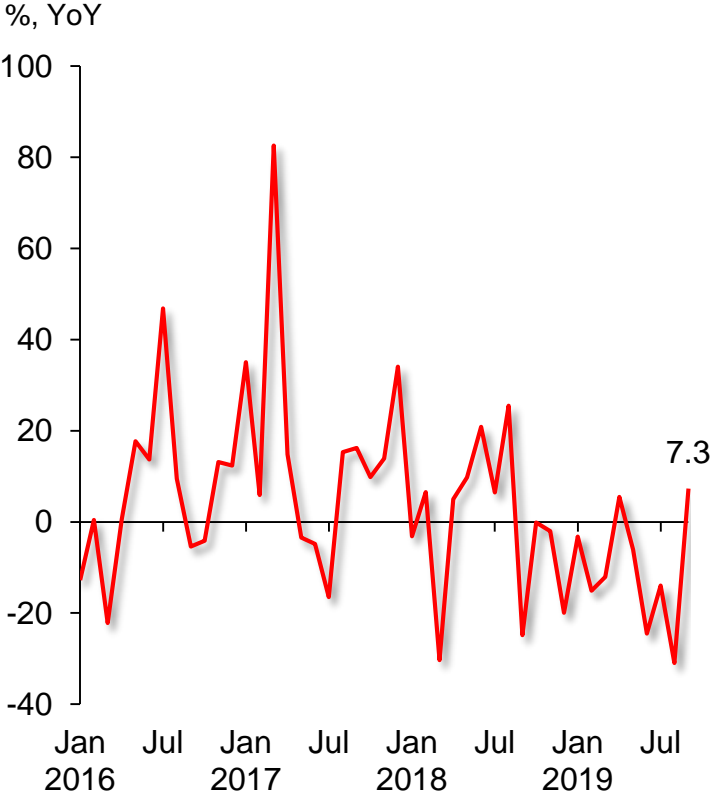
Imports of consumption goods



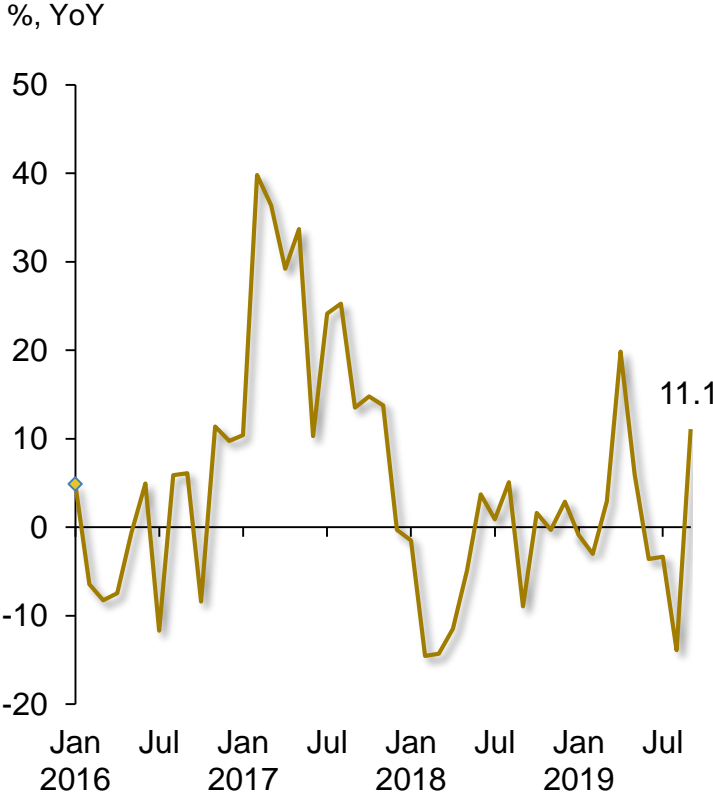
Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: DOSM; BNM

Private investment indicators

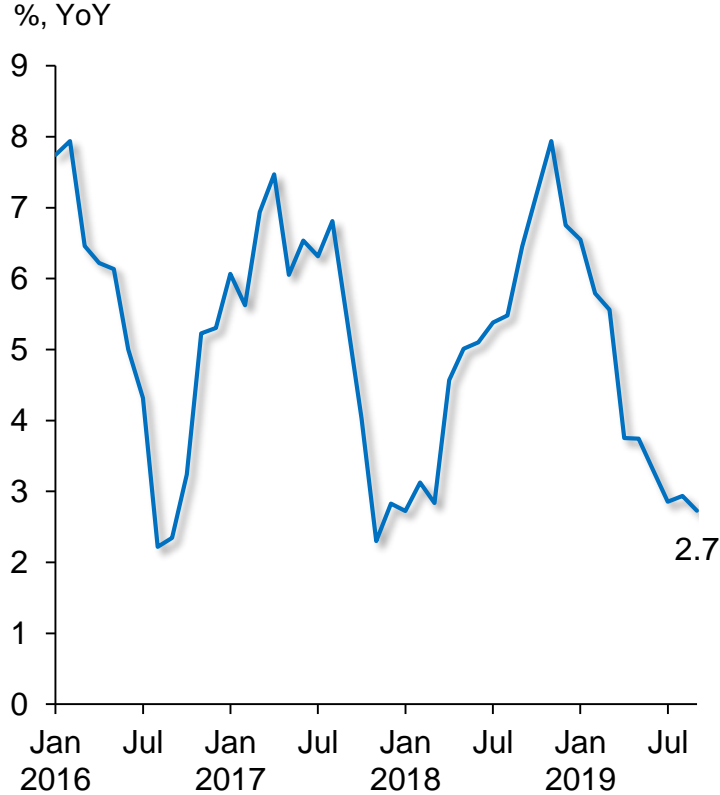
Imports of capital goods



Imports of intermediate goods



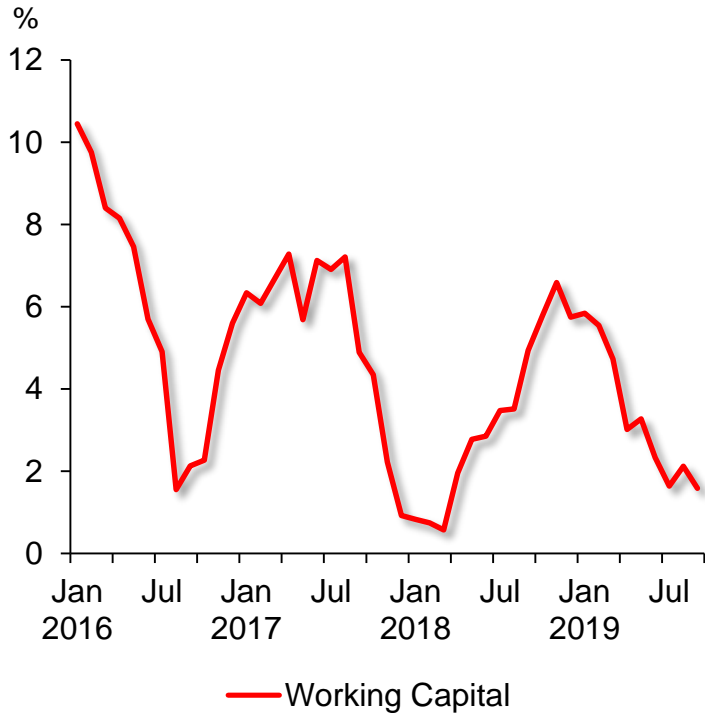
Loans extended for businesses and other sectors



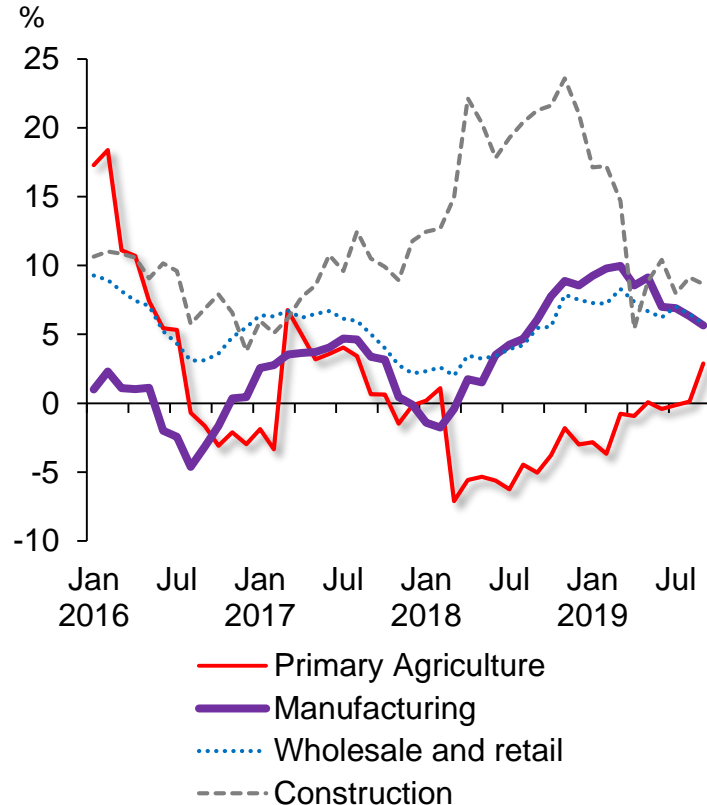
Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: DOSM; BNM

Lending barometer by sector shows mixed performance

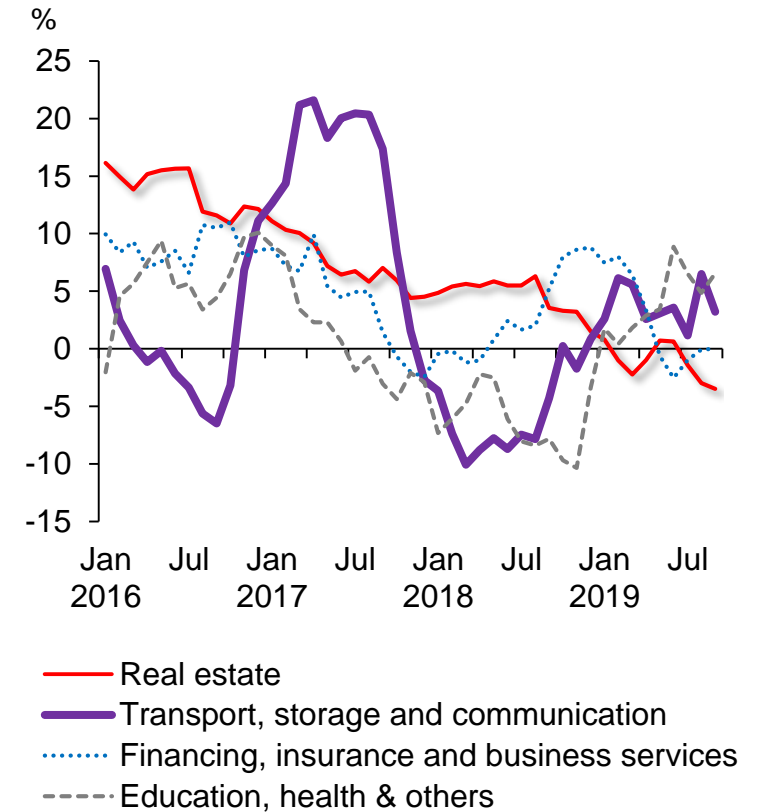
Overall loans growth for working capital softened



Construction, manufacturing as well as wholesale and retail sectors moderated; agricultural sector picking up



Real estate remains subdued; transport, storage and communication still growing

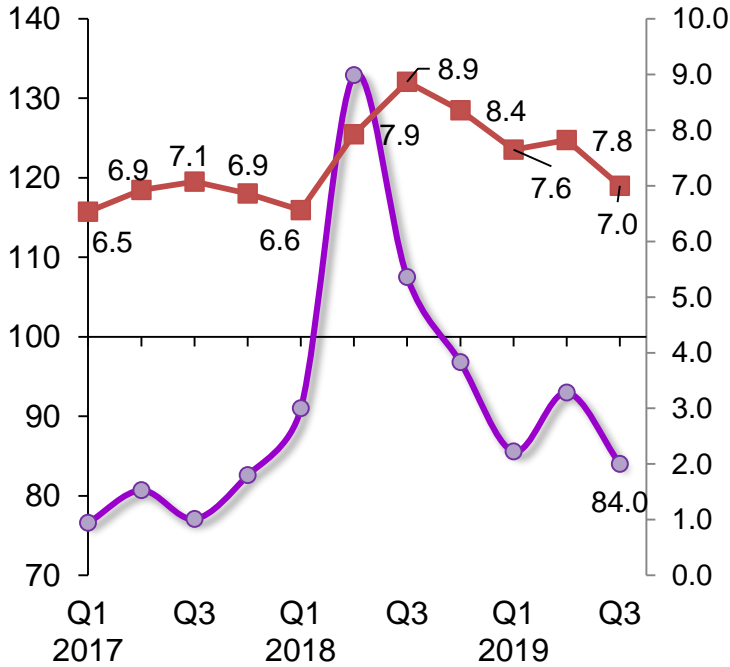


*Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: BNM*

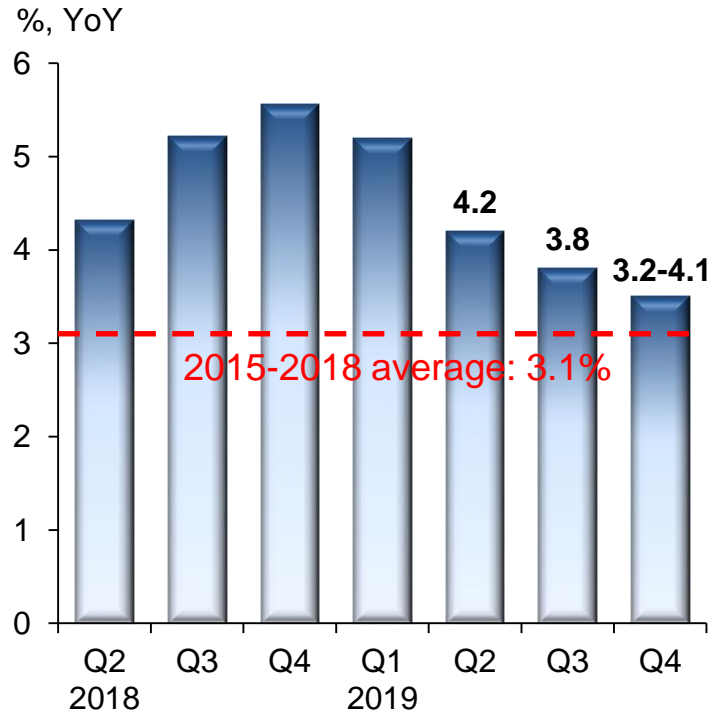
Still-strong consumer spending amid cautious sentiment

- Household spending propping up the economy, underpinned by above-average real wage growth and consumption-enhanced measures.

Consumer sentiments index (CSI) vs. Private consumption



Real private sector wage growth



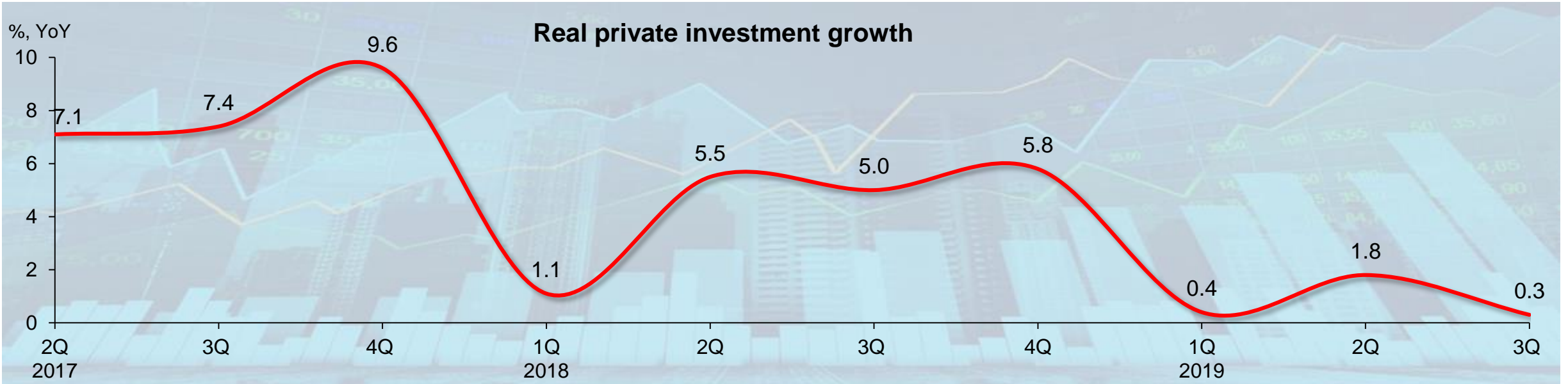
Consumer spending likely to moderate to **6.7% in 2020** (estimated 7.2% in 2019) on cautious discretionary spending amid stable employment and moderate wage growth.

Note: Real private sector wages are derived from the nominal salaries and wages data, published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia (covering 62.9% of total employment). The nominal private sector wages are then deflated by the consumer price index (CPI).

Source: DOSM; BNM

Slackening private investment growth is worrying

- Private investment's momentum had moderated from 12.1% pa in 2011-15 to 5.9% pa in 2016-18. It expanded by 0.9% in Jan-Sep 2019.
- SERC expects **private investment to increase by 2.2% in 2020** (estimated 0.8% in 2019).



➤ Downside risks remain:



Heightened global uncertainty, slower global growth and trade hostilities



Domestic policy uncertainties; persistent weakness in the property segment, especially residential and commercial properties

Source: DOSM

Smaller drag from public investment expected in 2020

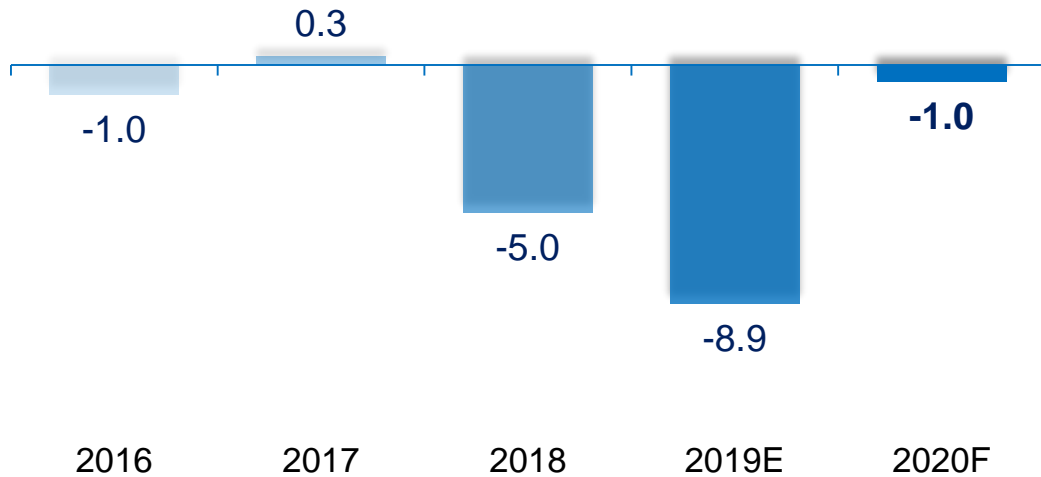
- **Development expenditure (DE)** is budgeted to increase by **4.3% to RM56.0bn or 18.9% of total expenditure** in 2020 (RM53.7bn in 2019).
- Of the 2020 allocation, **RM53.2bn** is allocated for **4,744 ongoing projects** while **RM2.8bn** is for **722 new projects**.

- New projects in O&G industries (Kasawari Gas Development, ongoing projects (Floating LNG 2).
- MRT2, LRT3, LRT line extension and ECRL, Tekai hydroelectric and Pasir Gudang combined-cycle gas turbine; Pan Borneo Highway, airports expansion, Singapore–Johor Bahru Rapid Transit System (RTS Link).

Smaller contraction in public investment

2020F: 6.1% share of GDP

(Annual Growth %)



Higher development expenditure

2020B: 18.9% share of total expenditure

(RM bn)

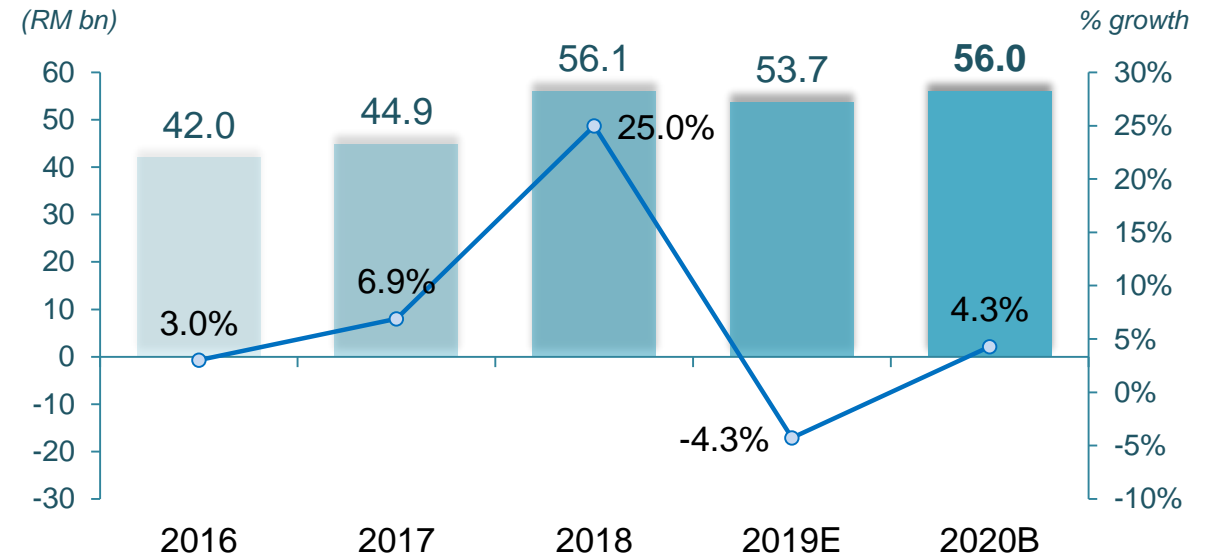


Figure in parenthesis indicates SERC's estimates and forecast
Source: MOF; SERC

Where is the Growth coming from?



Services (2019E: 6.1%, 2020F: 6.0%)

% share of GDP in 2020F: 58.2%

- Supported by tourism related activities and accelerating growth of e-commerce.
- 5G-driven ICT; increase in bank lending and higher fee income; operation of new highways.



Manufacturing (2019E: 4.0%, 2020F: 3.9)

% share of GDP in 2020F: 22.1%

- Benefit from global electronics supply chain following the US-China trade and technology dispute and uptick in electronics cycle.
- Domestic-oriented industries (consumer and construction-related clusters).



Agriculture (2019E: 4.4%, 2020F: 2.5%)

% share of GDP in 2020F: 7.2%

- Higher output of palm oil (2020: 22.2 mil tonnes vs. 21.0 mil tonnes in 2019); CPO average prices at RM2,100 per metric tonne in 2020 vs. RM2,000 in 2019; Higher demand (bilateral trade deal) from China.
- Higher production of rubber and food products (except aquaculture).

Where is the **GROWTH** coming from? (cont.)

Figure in [] indicates SERC's estimates and forecast



Mining (2019E: 0.5%, 2020F: 0.8%) **% share of GDP in 2020F: 7.0%**

- Strong demand from petrochemical industry; rising exports of LNG.
- Commencement of the North Malay Basin Full Field Development (FFD – Phase 2), Gorek, Integrated Bokor (Phase 3), Betty redevelopment projects.
- Crude oil subsector is expected to increase moderately, underpinned by the development of Anggerik FFD, Zetung FFD and Bayan Oilfield (Phase 2B and 2C).

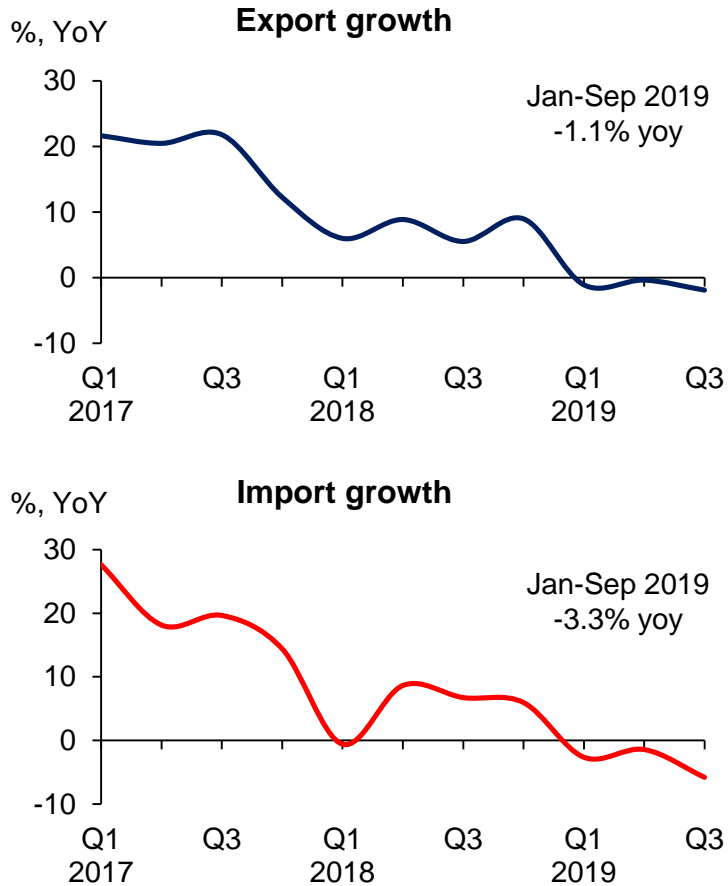


Construction (2019E: 0.8%, 2020F: 1.5%) **% share of GDP in 2020F: 4.7%**

- Acceleration and revival of mega projects and building of affordable housing.
- Civil engineering segment: ECRL; MRT2; LRT3; Electrified Double Track Gemas-Johor Bahru; KVDT2; Central Spine Road; Pan Borneo Highway; and Coastal Highway in Sarawak.
- Non-residential subsector remains subdued, dragged by persistent overhang.

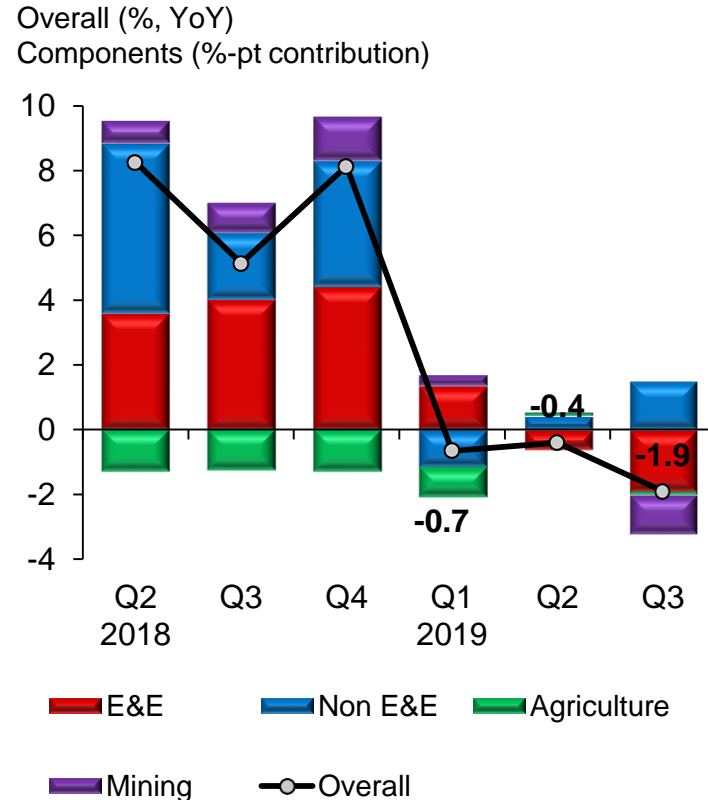
Exports hostage to slowing global growth & trade tensions

Lethargic exports growth



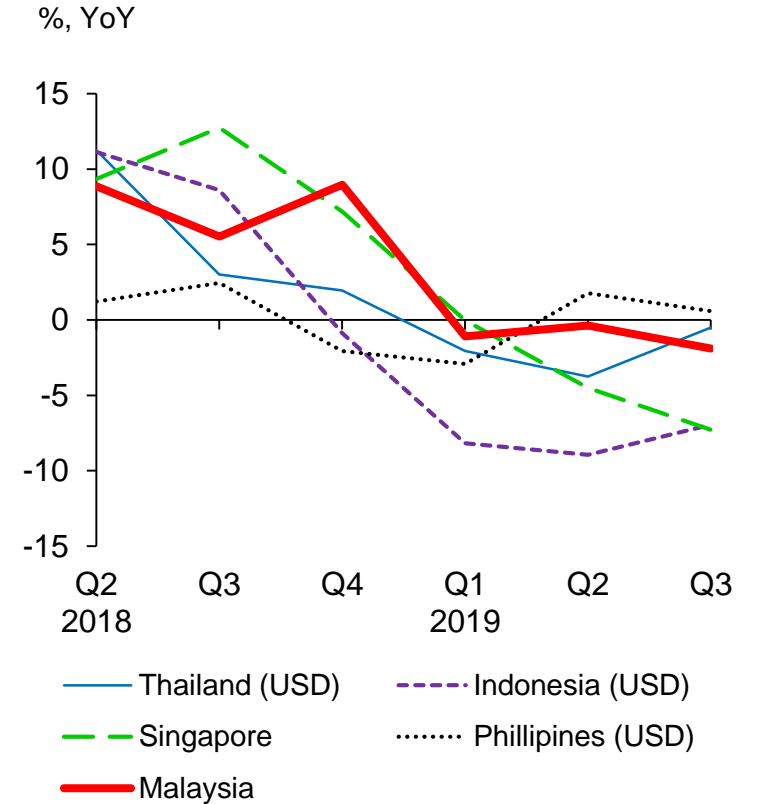
Diversified exports helped mitigate impact of weaker E&E export growth

Malaysia's export by product



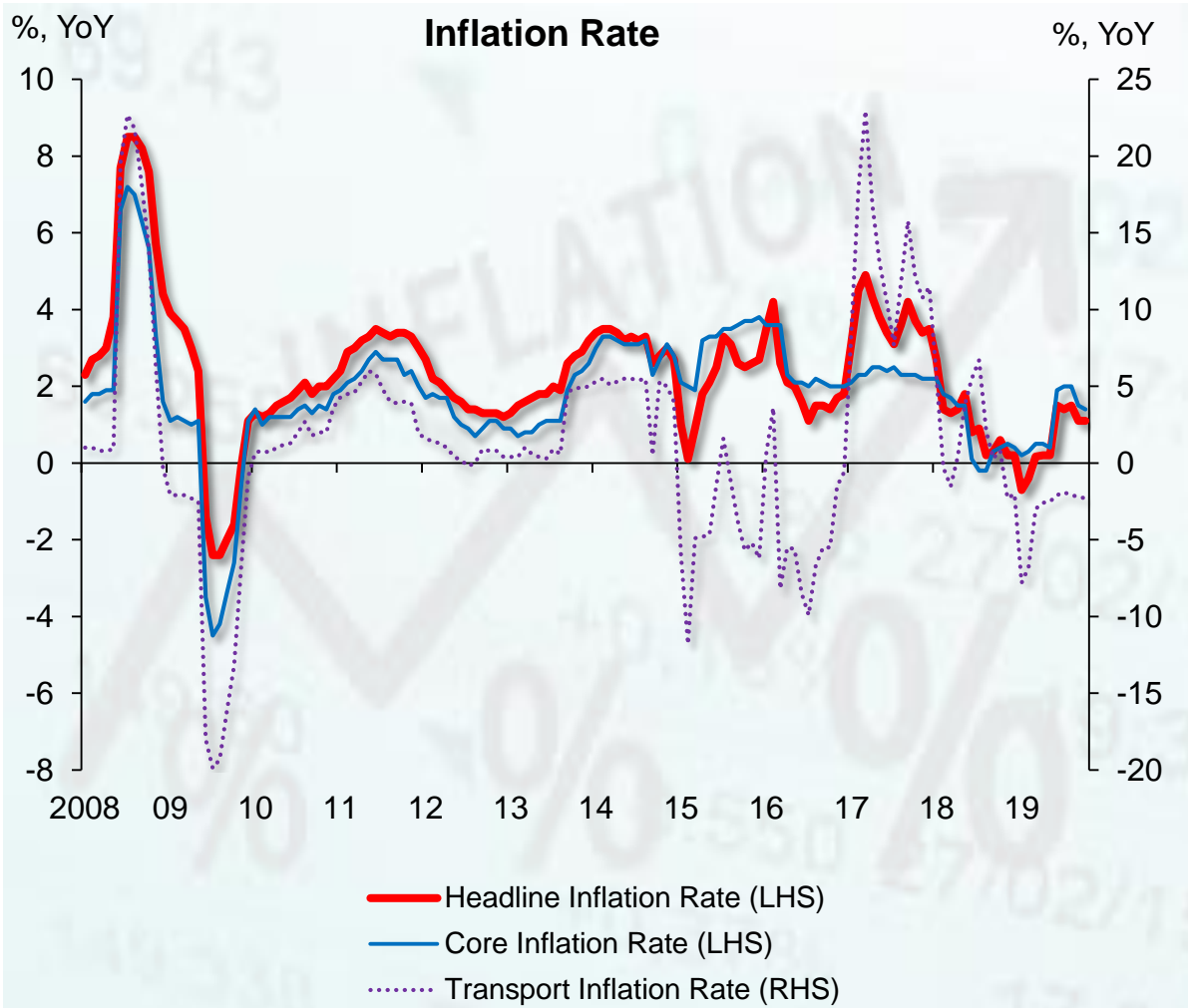
Malaysia's exports compared to regional economies

Regional economies export performance



Note: Mineral products data taken is the data of mining products
Source: DOSM; Officials

Headline inflation will average higher in 2020



Note: Core inflation in 2008-2014 excludes food and non-alcoholic beverages only.
Source: BNM; DOSM

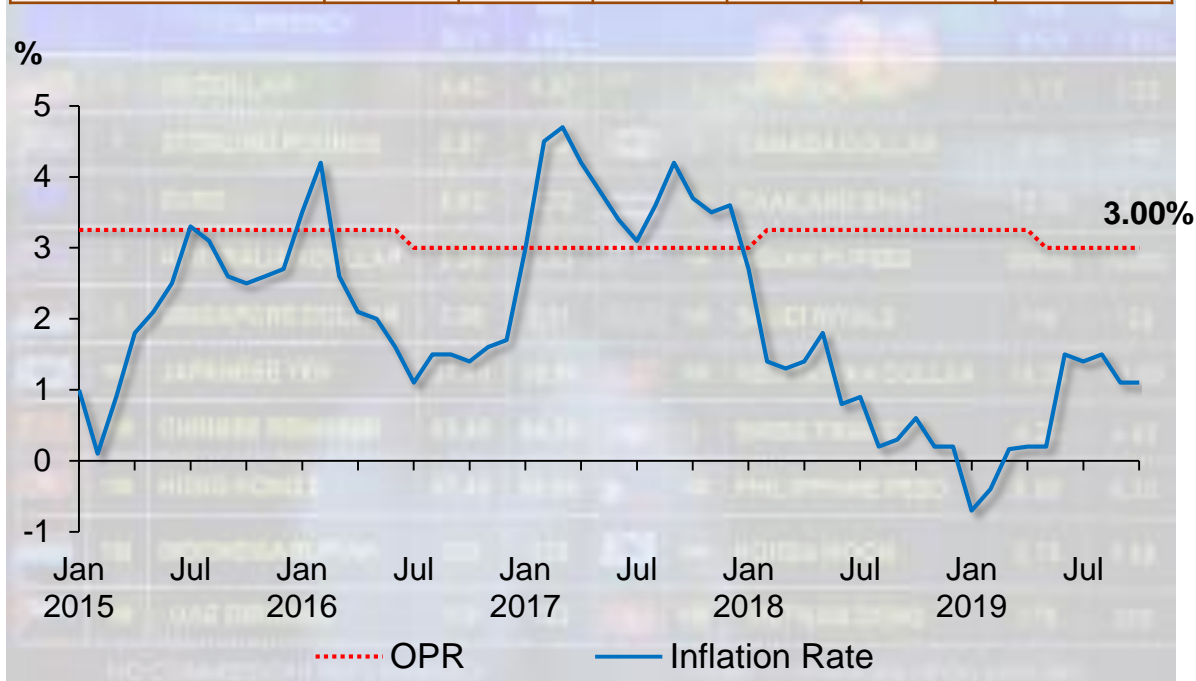
- **Headline inflation** normalises to 1.4%-1.5% in Jun-Aug and 1.1% in Sep-Oct after a year of either low or negative rate due to the change of consumption tax policy. In Jan-Oct, the consumer price index (CPI) increased by 0.6% yoy.
- **Core inflation** remained healthy at 1.4%-1.5% in Sep-Oct (1.9%-2.0% in Jun-Aug), indicating continued domestic demand.
- SERC expects **headline inflation to average 0.8% in 2019 and will pick up to 2.0% in 2020** due to some cost pass-through from domestic cost factors. These include:
 - Lifting of fuel price ceiling
 - Departure levy
 - Digital tax
 - Potential increase in water tariffs
 - Crude oil and commodity prices development

BNM keeps rate cut door open

- BNM cut the overnight policy rate by 25 bps to 3.00% in May. SSR was reduced by 50bps to 3.00% effective 16 November.
- Reserve monetary arsenal while continue to assess the impact of rate cut on domestic demand.

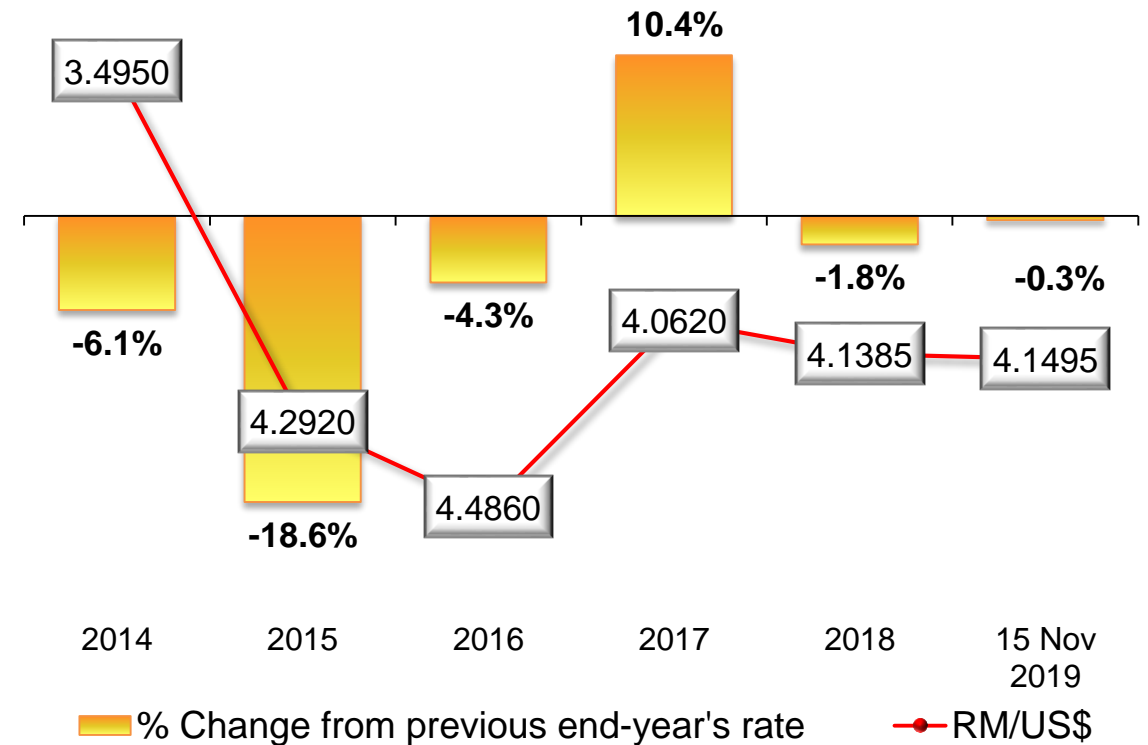
Inflation will average higher in 2020

Year	2015	2016	2017	2018	2019E	2020E
OPR (%)*	3.25	3.00	3.00	3.25	3.00	2.75-3.00
Inflation Rate (%)	2.1	2.1	3.7	1.0	0.8	2.0



* OPR as at end-year
Source: DOSM; BNM; SERC

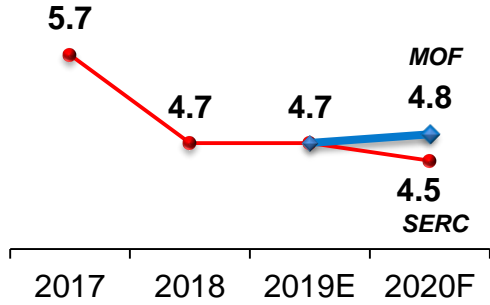
Ringgit outlook at RM4.05 per US dollar at end-2020



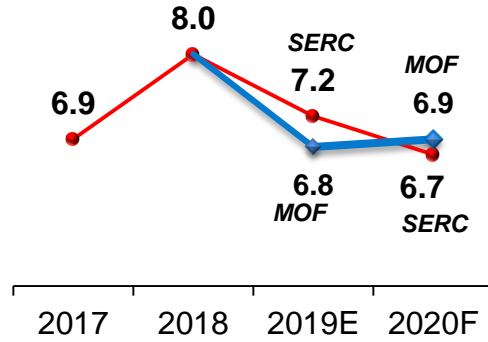
Note: Exchange rate (12:00 rate) as at end-period

Malaysia's key ECONOMIC INDICATORS

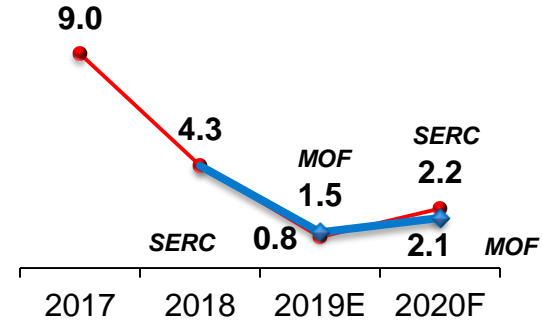
Real GDP Growth (%)



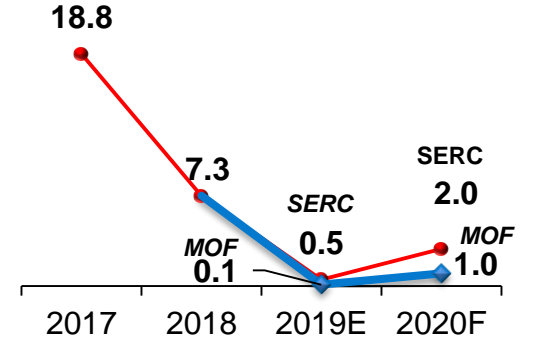
Private Consumption Growth (%)



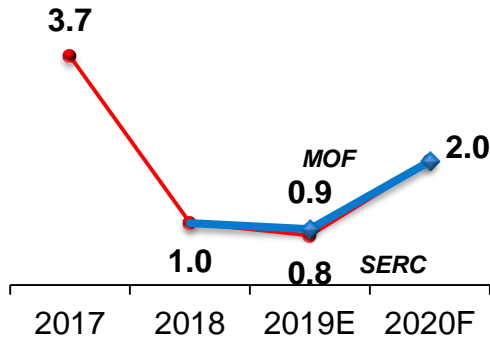
Private Investment Growth (%)



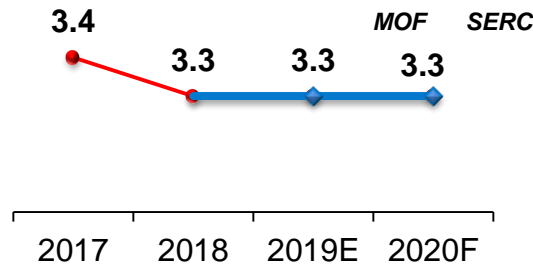
Gross Exports Growth (%)



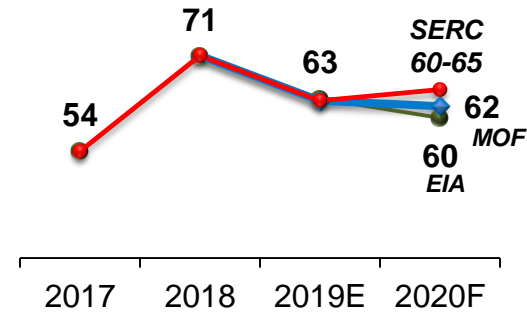
Inflation Rate (%)



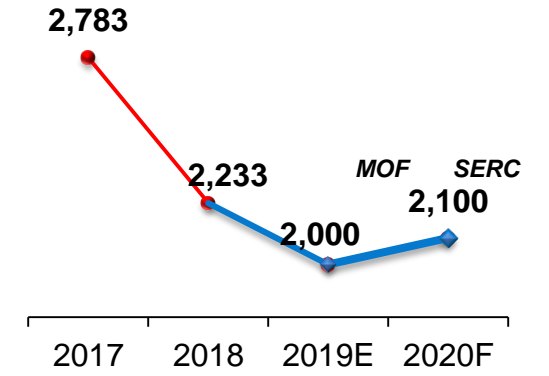
Unemployment Rate (%)



Brent Crude Oil Prices (US\$/barrel)



Crude Palm Oil Prices (RM/tonne)



Source: DOSM; MOF; EIA; MPOB; SERC



Section 3

SMEs

*Capturing Opportunities,
Challenges Aplenty*



2020 Budget – Budget for the Future



Spurring Private Investment through Enhancing Competitiveness



Gearing up for Digitalisation & Industry4WRD



SME Financing & Entrepreneurial Development



Supporting Agriculture Sector



Jobs Creation and Upskilling of Workforce



Driving Tourism - Visit Malaysia Year 2020



Promoting Access to Housing & Ease Property Overhang



Affordable Healthcare in An Inclusive & Caring Society



Enhancing the Transportation Ecosystem



Enhancing Research & Development (R&D) Framework



Easing Cost of Living



Empowerment of Bumiputera Agenda



Narrow Rural-Urban Divide and Regional Development



SME Financing & Entrepreneurial Development

Grant



Digitalisation measures

Up to RM5,000 per company

50% matching grant

Export Market Development Grant

RM300k

RM200k

MaGIC

RM50m to MaGIC;

Social Enterprises

RM10m to MyCIF

Cradle

RM20m for training & seeding fund

Tax Incentive

Chargeable income at 17% rate ↑ to RM600K

Increased from RM500K



Venture capital and angel investors

Tax incentive to be extend until YA2023



ACE market or LEAP market

Tax deduction up to RM1.5m

Loan



SJPP for automation & digitalisation

80%

70%



RM300m to Bumiputera SMEs (2% annual interest subsidy)



RM100m Small Business Loan (4% interest rate)

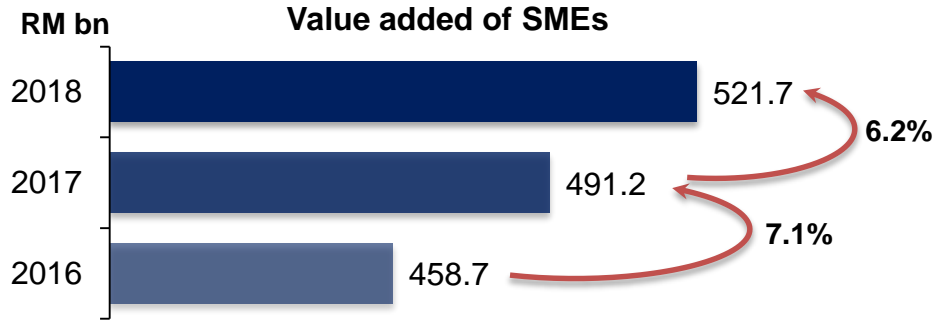


RM20m under TEKUN's SPUMI (4% interest rate)

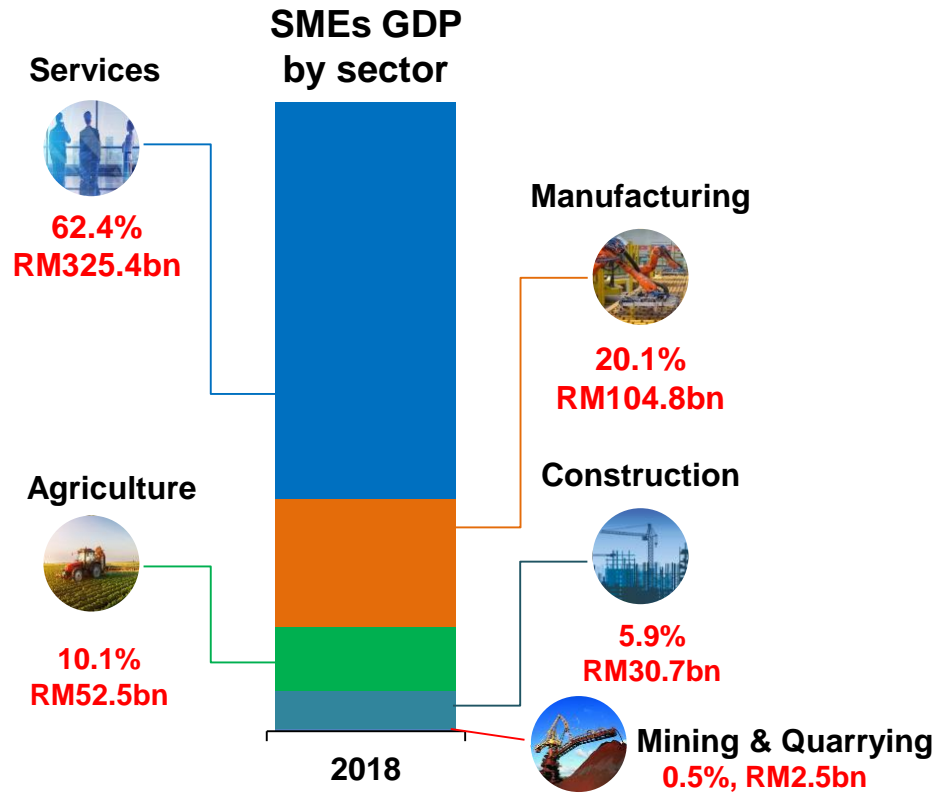
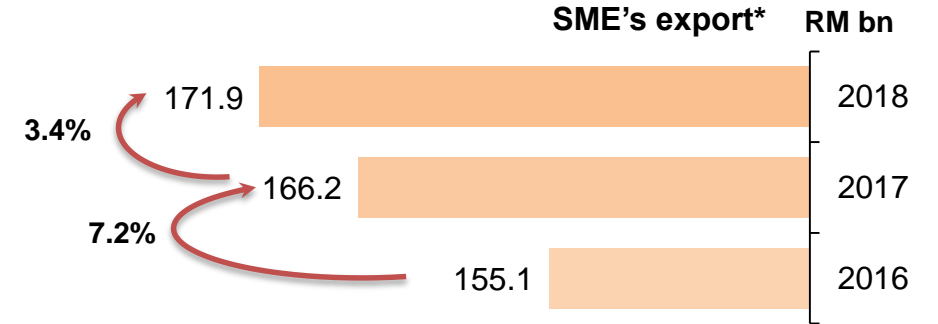


RM1m/SME for women entrepreneur (2% annual interest subsidy)

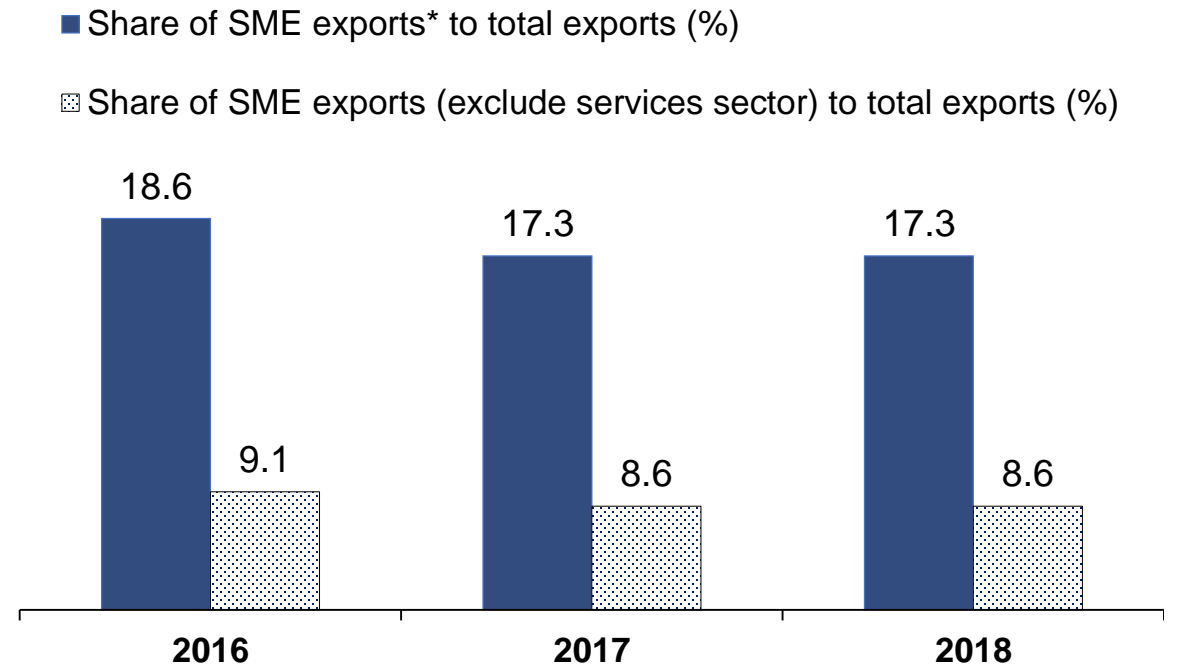
SMEs' contribution to the Malaysian economy (38.3% of GDP)



SMEs GDP contribution
2018: 38.3%
 VS
2017: 37.8%



SMEs' Exports of Goods and Services



Source: DOSM

Note: *indicates agriculture, manufacturing and services and sector

Digital population outlook 2018:

- Ecosystem is ripe ... digital population, connectivity, devices, usage

Digital Population

87.4% of
internet users

28.1m
internet users



Connectivity

Mobile-cellular penetration
rate per 100 inhabitants

133.2%

Mobile-broadband
subscriptions:
36,794,500

Broadband penetration
rate per 100 inhabitants

118.4%

Broadband subscriptions:
2,655,800

Devices

93.1%



Smartphones

44.2%



Laptop

28.1%



Desktop

20.4%



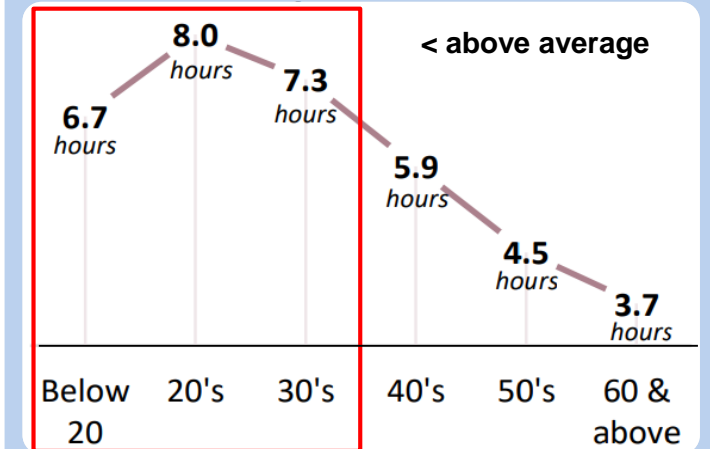
Tablet

Usage

6.6 hours online
in a day



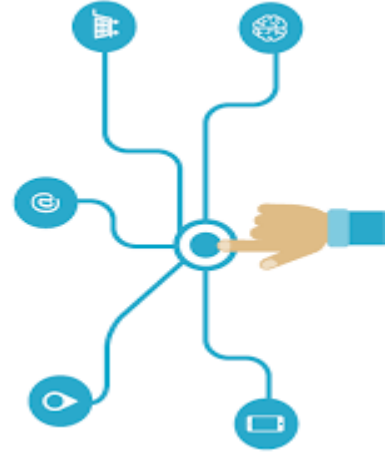
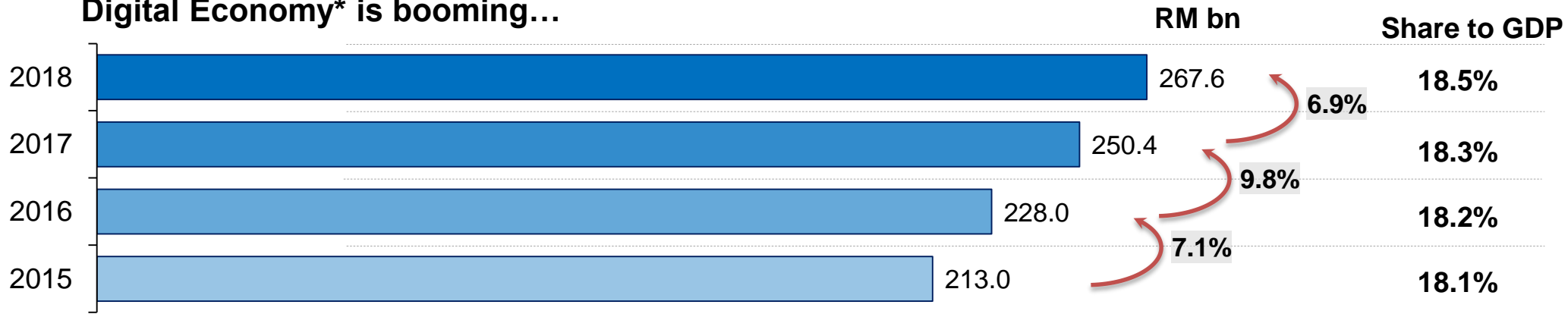
**Average duration of daily use of
Internet by age group**



Source: Internet Users Survey 2018; MCMC

Digital economy is poised to be a new driver of development

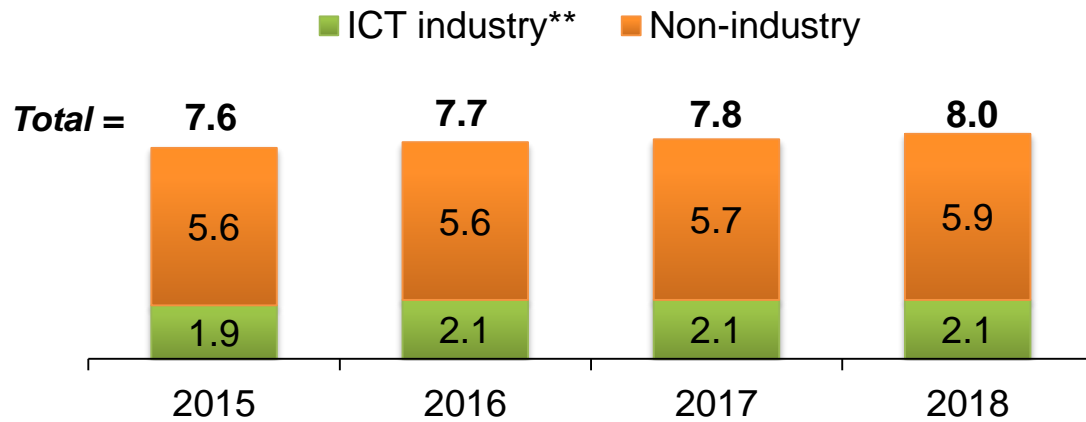
Digital Economy* is booming...



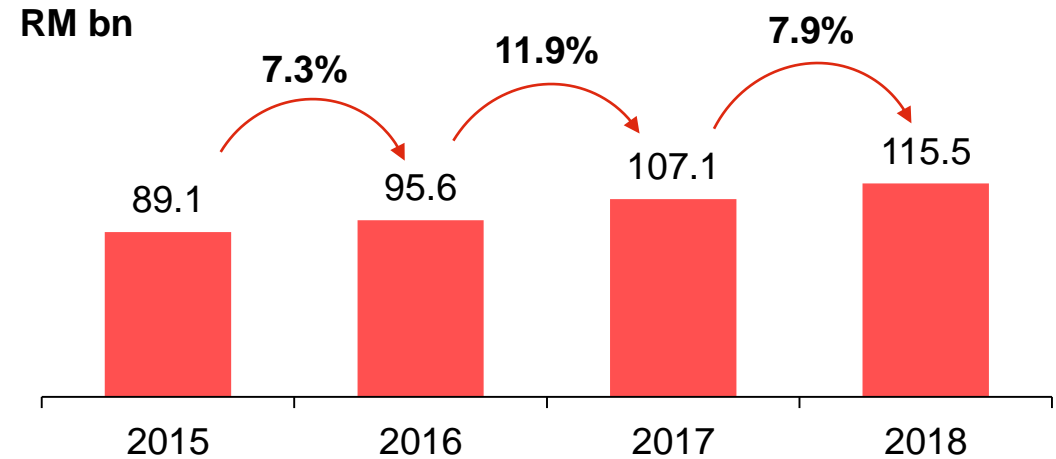
Noted: *Gross Value Added of ICT industry (GVAICT) + E-commerce (non ICT industry)

E-commerce outlook:

% share of E-commerce to GDP



E-commerce Gross Value Added



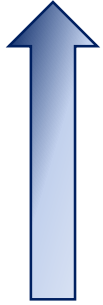
Source: DOSM Noted: **ICT manufacturing + ICT trade + ICT services + Content and media

E-commerce industry in Malaysia is making great strides

2017:
RM447.8 billion

6.0%

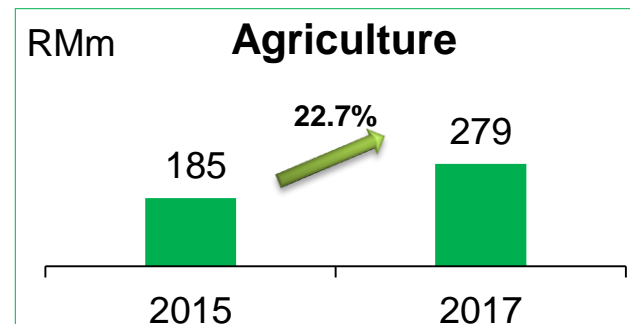
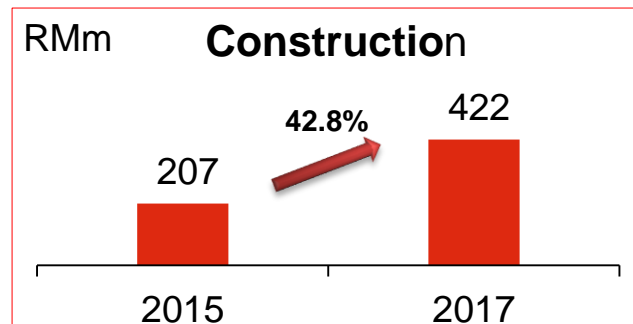
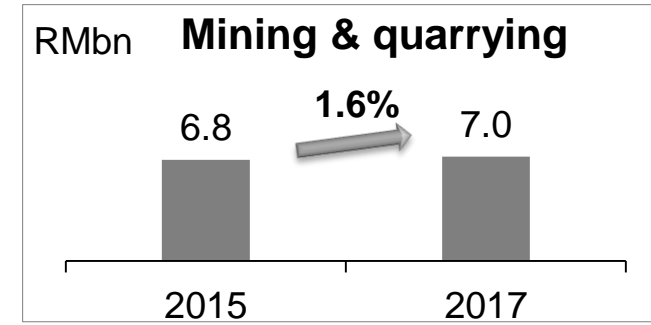
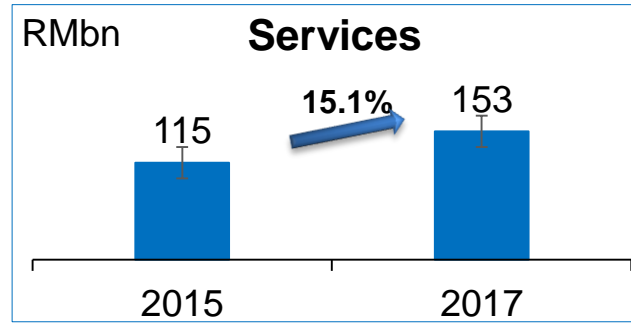
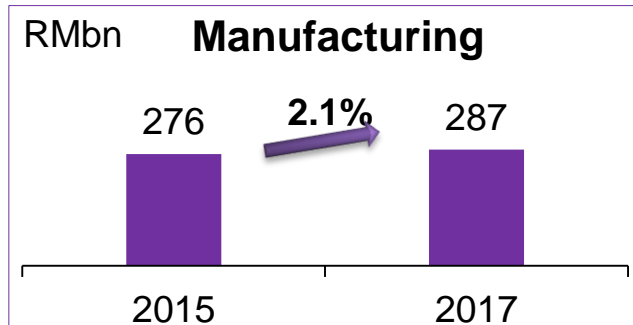
2015:
RM398.2 billion



Type of Market	2015	2017	
	RM billion		
Domestic	356.9	399.8	↑ 5.8%
International	41.3	48.0	↑ 7.8%

Type of Customers	2015	2017	
	RM billion		
B2B	320.1	352.2	↑ 4.9%
B2C	68.8	82.5	↑ 9.5%
B2G	9.2	13.1	↑ 19.1%

By sector:

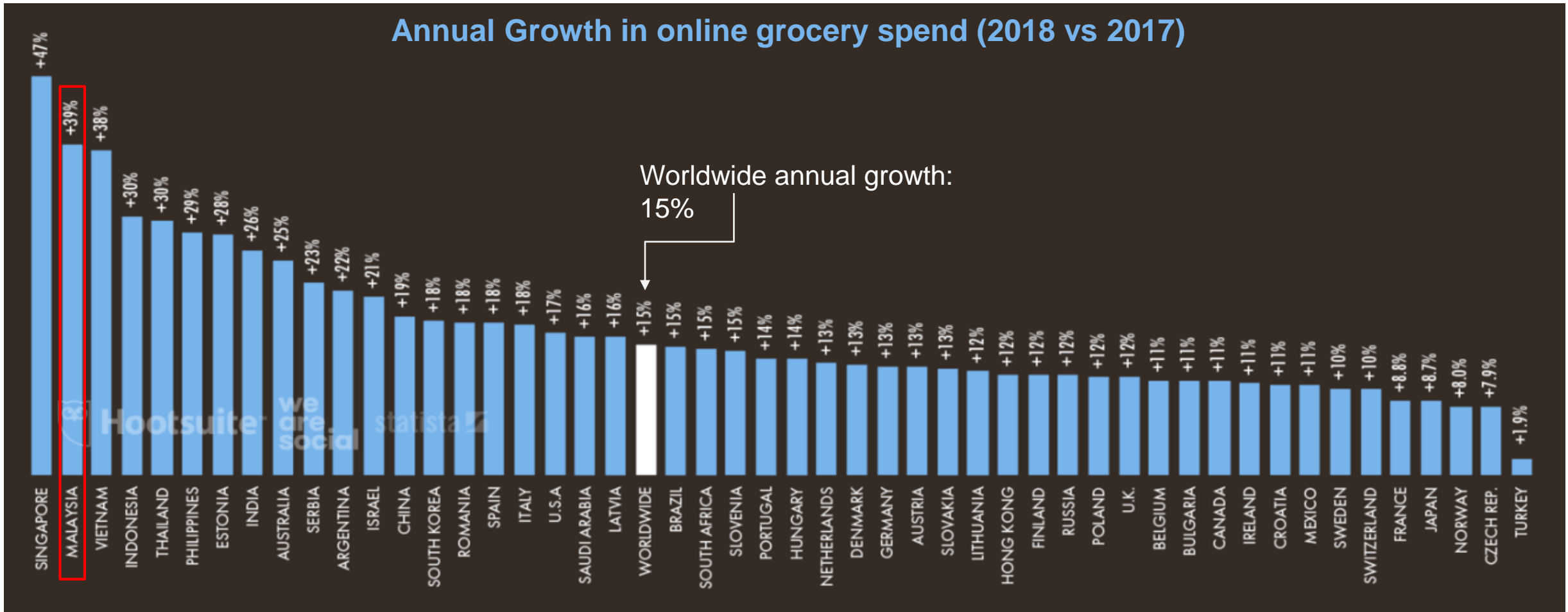


Source: DOSM

Malaysian consumers' behaviour is shifting towards digital spending

- Malaysian consumers' online grocery purchases grew by 39% or US\$135 million to US\$483 million in 2018 from US\$348 million in 2017.

Annual Growth in online grocery spend (2018 vs 2017)



Source: Statista Digital Market Outlook for E-commerce Industry (assess Jan 2019), dataportal.com; Hootsuite; We Are Social

How SMEs capture business opportunities?



Relevance is the key driver for business to avoid stagnation and push limits to expand our capabilities to meet the new needs of the market.



Growth opportunities require a **change in mindset** to truly understand **what is important to the market** and **respond fittingly**.



Capture business opportunities through **new technology, digital transformation, e-commerce tools and logistics**.



Digital connectivity powering trade. Firms are increasingly relying on digital solutions, not just in the production stages and the delivery of goods and services but also as a means of **connecting different, and geographically dispersed, customers or suppliers, including as part of GVCs**.



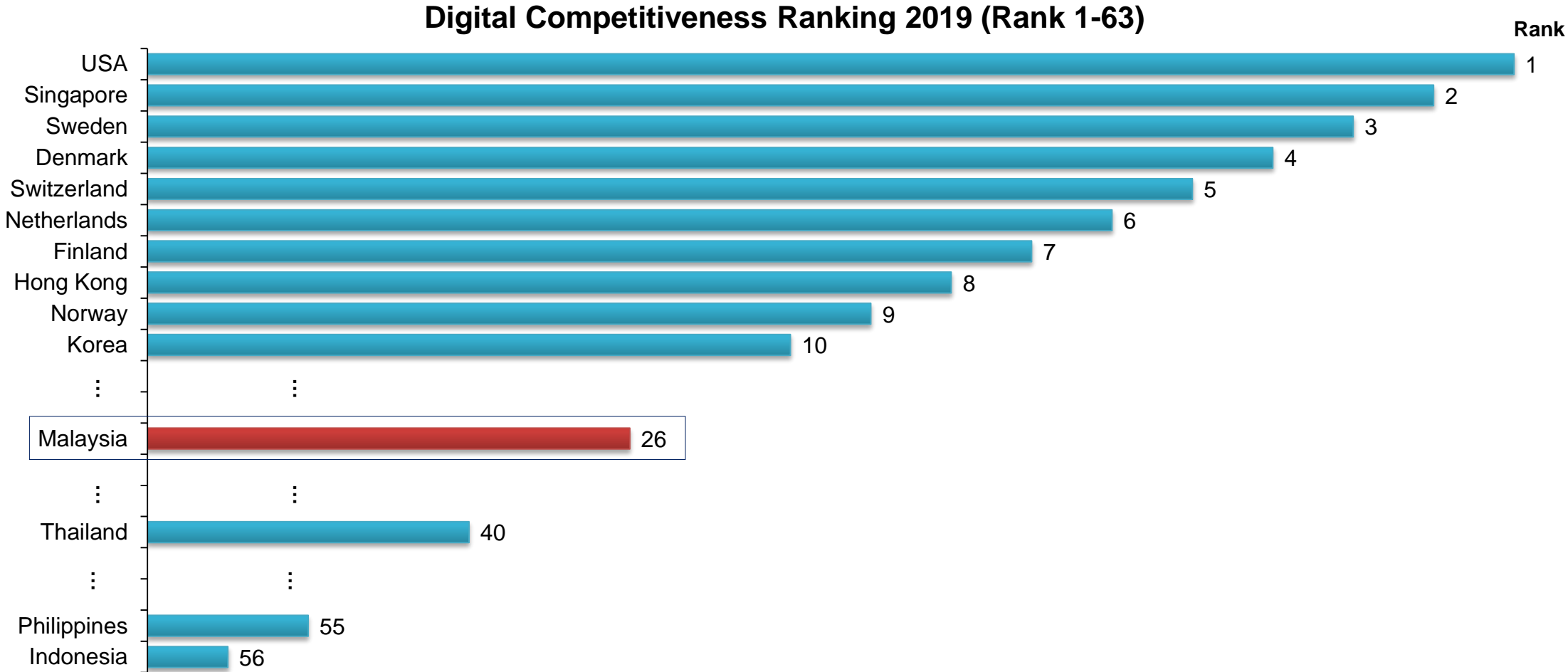
Digitalisation also allows firms to **draw on data from users to better respond to consumer preferences, better target services** as well as to **connect and customise production processes**.



The **digital trade environment** has spawned a **new breed of 'micro-multinationals' that are 'born global'**. Access to online inputs contribute to SME competitiveness and help SMEs operate across distant markets to overcome trading costs.

Malaysia ranked 26th out of 63 countries in the world

- The ranking comprises three factors: **knowledge, technology and future readiness.**

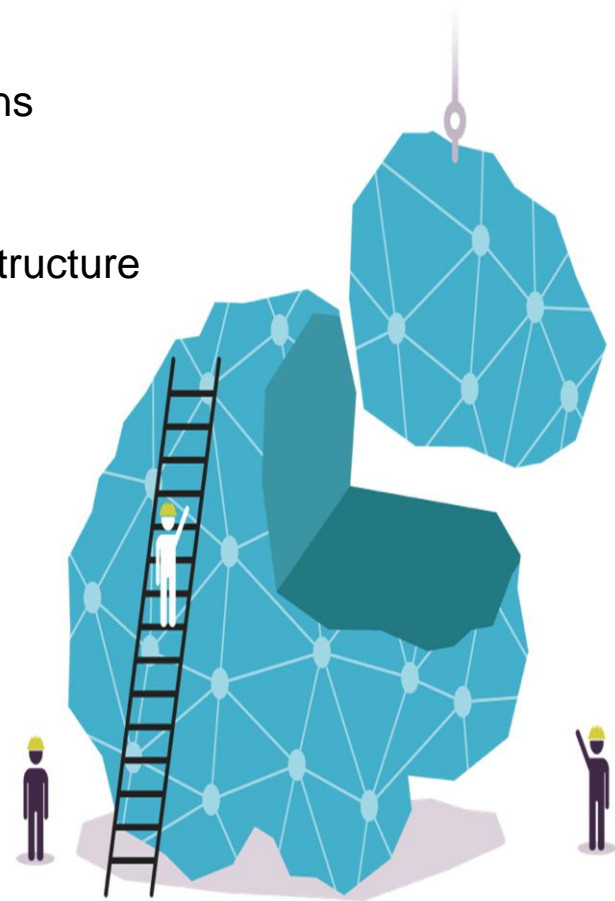


Source: IMD World Digital Competitiveness Ranking (WDCR) 2019

Shortage of skilled manpower constrains SMEs to embrace E-commerce or digital technology

ACCCIM M-BECS (2H2018 and 1H2019F) revealed that:

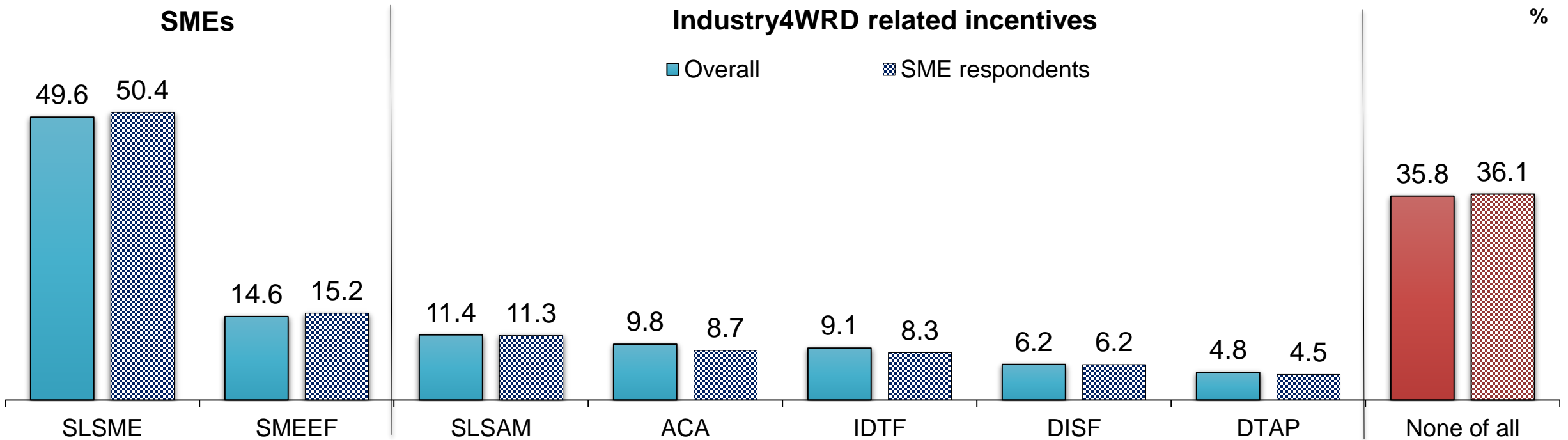
- 28.7%** of respondents →  Lack of knowledge and skills to do so / lack of IT technicians
- 20.8% →  Reliability of internet speed and telecommunications infrastructure
- 17.1% →  New technology investment incurred high fixed cost
- 14.3% →  Business is too small to use E-commerce
- 8.7% →  Reluctant to adopt ICT or change in mindset
- 8.4% →  Insecurity - risk of security of payment and privacy of data



Source: ACCCIM M-BECS 2H2018 and 1H2019F

Low awareness on Industry4WRD related incentives

- **63.9% of SME respondents** were aware at least one of the listed incentives while many businesses (36.1%) were unaware of the incentives.
- **Less than 15% of SME respondents** were aware of the government's loans or grants for Industry4WRD related incentives.



Note: SLSME=Soft Loan Scheme for Small and Medium Enterprises; SMEEF= SME Emergency Fund; SLSAM=Soft Loan Scheme for Automation and Modernization; ACA=Accelerated Capital Allowance; IDTF=Industry Digitalization Transformation Fund; DISF=Domestic Investment Strategic Fund; DTAP=Digital Transformation Acceleration Program.

Source: ACCCIM M-BECS 1H2019 and 2H2019F

Industry4WRD Readiness Assessment (RA) programme

- **500 SMEs** targeted to undergo the Readiness Assessment (RA) in 2019
- **450 SMEs** targeted to sign up the RA in 2020

RA Status Update (As of 30 October 2019):

- 713 applications have been received
- 361 eligible SMEs were approved
- About 82 onsite assessments have been conducted since August



*Register for online application: <http://www.miti.gov.my/index.php/forms/form/90>





How SMEs capture business opportunities?

Creativity and Innovation

- **Innovate in process and organisation** are more likely to engage in global markets than non-innovative firms.
- **Process and organisational innovation** - increase productivity; reduce production costs; achieve process efficiency
- **Product innovation, marketing innovation and innovative branding strategies – products differentiation** to gain market shares

Emerging hardware and software technologies adoption

- **Including digital ones** - enhance firm productivity, making it easier for them to access foreign markets and compete.

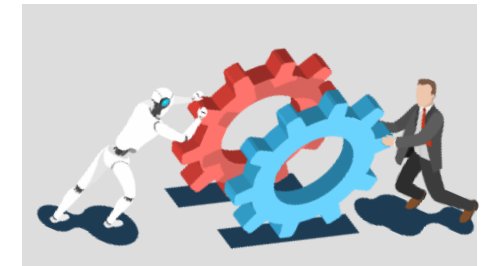
Digital platforms and access to digital technologies

- **Reduce** trade costs
- **Lower** the barriers to entry
- **Increase SMEs' involvement** in trade through participation in international production networks
- **Find customers abroad** and make international payments.



How SMEs capture business opportunities?

 <p>Access to information</p>	<ul style="list-style-type: none">• Limited information and understanding about target foreign markets.• Better and faster access to critical knowledge and information can also help SMEs disadvantages, notably with respect to larger firms, and compete on a more even footing.
 <p>Cheap and reliable access to digital networks</p>	<ul style="list-style-type: none">• Good physical infrastructure and appropriate regulatory frameworks.• Restrictions on trade telecommunications services can inflate costs of access to digital networks.
 <p>The Internet and international data transfers</p>	<ul style="list-style-type: none">• Help SMEs better connect, improve their ability to secure and fulfil global contracts and access global supply chains.







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谢谢
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