

MALAYSIA

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MAINTAINING MOMENTUM

The Malaysian economy has weathered several economic shocks in the past, thanks to its solid fundamentals, and is demonstrating the same resilience in the face of today's global economic uncertainties.

With global growth in 2016 forecast to be modest, compounded by declining oil prices and China's economic slowdown, it is inevitable that Malaysia, as a net LNG exporter and China's largest trading partner in South-East Asia, will continue to be negatively impacted. However, despite having to contend with multiple shocks since late 2014, including a sharp fall in commodity prices, weak external demand and challenging political developments, resulting in capital outflow and a significant depreciation of the ringgit, Malaysia posted a GDP growth of 5% in 2015, placing the country among the best in the ASEAN region.

"Despite the challenges, Malaysia has been able to maintain macroeconomic and financial stability, while making significant progress in improving the foundations for sustained economic growth over the medium term," said the IMF in January.

Indeed, the timely implementation of a goods and sales tax last April, along with much needed subsidy reforms, limited the impact on government finances of the oil price decline. The fiscal deficit target of 3.2% of GDP was achieved and the government says it remains committed to fiscal consolidation, with the aim of realising a balanced budget by 2020.

Regional Development

Growth is expected to remain solid at above 4% for 2016, based on sustained domestic demand. Developments in roads, rail, logistics, ports, airports, and digital infrastructure such as high-speed broadband, have helped establish connectivity within the country, allowing development to flow to all regions, and improving standards of living and productivity nationwide. New substantial investments such as the Mass Rapid Transit System and the Pan Borneo Highway will be rolled out in the next five years further boosting economic activity.

Innovation & Investment

As part of its strategy to achieve developed nation status by 2020, Malaysia is focusing on transforming its economy into one based on innovation, creative technologies and high value-added manufacturing. Foreign investment, enticed by a business-friendly environment and competitive tax incentives, is being channelled into twelve strategic sectors, including energy, science, education, ICT, electronics and palm oil. Emerging growth areas such as biotechnology, aviation and advanced electronics are developing rapidly, while traditional industries have shifted to more knowledge-intensive activities. Talent and skill development is therefore a high priority in order to produce human capital that is equipped with the right knowledge, skills and vision to thrive in such a globalised economy, and to nurture the world-class talent base that Malaysia needs in the final leg of its journey towards becoming an advanced nation.

New markets

Commitments to freer trade policies through the ASEAN Economic Community (AEC) and Trans-Pacific Partnership Agreement (TPP) are expected to create a new basis for growth and fresh investment opportunities whilst enhancing Malaysia's role as an investment gateway to the ASEAN region of 600 million people. The single market and production base, created by AEC will allow all ten members to benefit from seamless intra-regional flow of goods, services, and capital. TPP membership will further transform Malaysia's export market. With the combined total of the twelve TPP nations representing 40% of global GDP and a population of over 750 million, it affords huge potential in trade, investment, technological collaboration and capacity building, enabling Malaysia to participate fully in the global marketplace. ■

ECONOMY

A new consumption tax and subsidy reforms have gone some way to counter the decline in government revenue caused by last year's sharp fall in crude oil prices and economic slowdown among Malaysia's major trading partners. A recalibrated budget was announced in January to optimise the country's development and operational expenditure amid a further decline in oil prices. Treasury Secretary General, Tan Sri Dr. Mohd Irwan Serigar bin Abdullah discusses maintaining macroeconomic and financial stability, and the importance of entrepreneurship and technological innovation in creating sustainable economic growth.

TAN.SRI DR. MOHD IRWAN SERIGAR BIN ABDULLAH SECRETARY GENERAL OF THE TREASURY

Q&A

What steps has the government taken to ensure the economy remains on course?

We took two major steps last year. Firstly, the introduction of a 6% goods and services tax (GST) in April. The timing was opportune as it helped the government diversify its revenue during the decline in oil prices. Collections thus far have exceeded our estimates. Secondly, we implemented subsidy rationalisation. Up until December 2014, maintaining low fuel prices was costing the government some RM20 billion (US\$5.97 billion) annually. The budgetary system simply could not continue carrying such a burden. So when falling energy prices provided a window of opportunity, we brought fuel costs in line with market prices. These two steps helped us achieve our fiscal deficit target of 3.2% of GDP in 2015. We remain on the consolidation path and this year we are targeting 3.1% of GDP.

What modifications were made to the budget in January?

We announced a recalibrated budget on 28 January, as the 2016 Budget, when initially presented in October 2015, was based on the assumption of crude oil price at \$48 per barrel. In January it dropped below \$30. We did not make major cuts, but instead optimised operating expenditure and prioritised some development projects. We did not cut people-centric projects such as building schools, hospitals, roads etc. We postponed certain projects which do not have a direct multiplier effect or high impact on the people and the country. Pro-growth measures will go ahead as planned such as the Mass Rapid Transport (MRT) Lines 1 and 2 and the Pan Borneo highway. If there is a protracted decline in oil prices, then further recalibration may be necessary.

Is the fiscal deficit target of 3.1% still achievable?

Last year, with 5% growth, we achieved our fiscal deficit target of 3.2%. We are trying to maintain this year's 3.1% target as we are not in a recession. The economy is growing so we do not need extra money to push the economy. This year we have lowered our growth target slightly to 4 - 4.5% which is still a credible figure. We believe a fiscal deficit of 3.1% of GDP is achievable, depending of course on oil prices.



Does the current value of the ringgit reflect the country's economic fundamentals?

No, around RM3.80 is probably our fair value. But due to certain sentiments, which I consider temporary, coupled with oil price volatility, the ringgit has been negatively affected. Those sentiments are now improving, our fundamentals are strong, and we have maintained our investment grade rating, so I hope we will see a stronger ringgit in Q2.

The recalibrated budget focuses on pushing exports. We have signed the Trans-Pacific Partnership Agreement which will diversify the export market. China's growth might be slowing but India is growing faster and there are opportunities in the ASEAN region itself. With countries like Myanmar opening up, these are the markets we need to look at in the next couple of years. Historically, we are an open economy. We depend on trade and going forward, we will open up further. Competition is one of the factors we believe will make the nation resilient to survive in the future.

How important are entrepreneurship and innovation in developing an advanced economy?

In order to foster sustainable economic growth, entrepreneurship plays an important role. We need job creators and innovators who impact their communities and inspire people. I chair an institution called the Malaysian Global Innovation and Creativity Centre (MaGIC) which was launched by the Prime Minister and US President Obama in 2014. Its purpose is to nurture entrepreneurship and help develop enduring, high-growth startups that will have a positive impact on a regional or global scale. It attracts youth, many under 30 to develop mobile apps and web-based ventures related to other sectors such as services, manufacturing and finance which all require tech-orientated development to enable business to further flourish.

Over the next couple of years, this region is going to be the one to push the new economy. Internet based-trading and business activities will really flourish. We have a number of programmes. One which I initiated is the 1Malaysia Entrepreneur (1MET). Under this programme, we go to smaller towns and gather college students, university students, even youths without jobs. We give a three-day training to give them an idea about entrepreneurship. From there we register and guide them. We then select those who are really interested in becoming entrepreneurs and bring them to the next level of incubation through acceleration programmes.

What effect will the AEC have on entrepreneurship and innovation in the region?

Last year, when Malaysia chaired the ASEAN meetings, we hosted a programme called the ASEAN Entrepreneurship Summit which brought together ASEAN entrepreneurs, institutions, NGOs and the private sector. It was very successful. ASEAN has a population of over 600 million. It is a captive market which means we do not need to depend heavily on China, India or elsewhere.

One very important component for this region is Social Entrepreneurship, where entrepreneurs focus on developing technologies to improve basic social needs such as clean water supplies and rural health. They are not out to make large profits, other than to cover their overheads and fund further development.

You need to constantly evolve and incorporate new ideas to remain competitive

They can design and build social projects substantially cheaper than governments can. This sort of social entrepreneurship can change the life prospects of people. For example, in parts of Cambodia and Laos, people do not have access to education or clean water. They will move from low income to middle income, and will demand more goods and services which will push the economy forward. This is an important movement going on in this part of the world. We are linking up with other global networks in entrepreneurship. Venture capitalists are moving now from the US and UK, and are finding potential startup companies in this region to invest in, because they see the potential.

Which other areas are earmarked for future development?

Going forward, we plan to create a hub for Islamic finance. We are moving ahead with new products, new instruments, financing infrastructure and training. We are also looking at the potential for halal products not just foodstuff, but other products such as healthcare and cosmetics. There is an increasing interest from non-Muslims to get involved in halal products and halal financing. For example, the Japanese government is interested in issuing sukuk (Islamic bonds). We will continue to promote Islamic products as this is where we have a definite edge.

What motivates you most in your work today?

The future. Life is short. We should not dwell on the past, the future is what matters. The future I wish for the country is for us to be financially sound and economically sustainable. To be resilient and cope with challenges, we need to develop the whole ecosystem. When I took over the Treasury in 2012, I transformed it under the tagline: Tomorrow's Treasury Today. It is always about tomorrow. Whenever I am invited to speak at entrepreneurship conferences, although not an entrepreneur myself, I always say that if you continue producing the same thing you will not survive. You need to constantly evolve and incorporate new ideas to remain competitive. Consumer preferences are always changing; you must be innovative and creative in life to respond to the changes.

What message would you like to send to the London investment community?

If they are looking at Asia and ASEAN, and in particular Malaysia, then this is the region to invest in. The economy is still growing and there is a huge investment potential. There are new companies coming up and, in the next few years, this will be the region the world will be focusing on. The next generation of invention will come from this region. ■

INNOVATION

FARIS YAHAYA CYBERVIEW

Q&A

Cyberjaya, Malaysia's emerging global technology hub, is located 20 miles south of Kuala Lumpur. Built less than 20 years ago to house tech companies, local SMEs and entrepreneurs, it has matured as a global melting pot of creative minds, youth and vibrancy. Faris Yahaya, Managing Director of Cyberview, the government-owned company spearheading the city's development, explains:

Why was Cyberjaya founded?

In the 1990s, Malaysia was a highly industrialised nation. For Malaysia to remain competitive in the global economy, the nation needed to move up the value chain and not be dependent on commodities or labour-intensive industries. The government launched MSC Malaysia in 1996, to transform Malaysia to a knowledge-based economy and become a developed nation by 2020. Cyberjaya was launched the following year to realise this aspiration, with the aim of making it a global testbed for innovations.

How successful has Cyberjaya been as an aspiring global technology hub (GTH)?

Almost two decades on, Cyberjaya has succeeded in contributing to the nation's innovation growth. It is now home to 40,000 knowledge workers and 800 technology companies with revenue contribution of RM8.66B in 2014. It has now set a new target of transforming itself into a GTH, while continuing its original goal to advance its position as an ICT hub. 38 foreign MNCs have made Cyberjaya their regional and global operating centre.

Two key pillars in realising the GTH aspiration are: the Living Lab proposition, where Cyberjaya is used as an innovation platform in areas such as talent, start-ups, pilots and enterprises allowing new technologies to be validated in Cyberjaya before widespread adoption in the city and outside; and the Smart City initiative, which focuses on the mass adoption of intelligent technologies to improve urban living and lifestyle, promote greater sustainability for the city and encourage overall growth of economic activities.

Cyberjaya arguably has the region's highest clustered technology community, making it a dynamic environment for creating innovations and advancing growth. As Cyberjaya has multiple players from both the public and private sector working together to realise the same goal, the spirit of collaboration among this community is very strong. Collaboration and creation are central and key to Cyberjaya's success.



Faris Yahaya

Cyberjaya can be your base to grow your regional presence, or a living lab to pilot and roll-out your solutions.

Is the entrepreneurial spirit alive in Malaysia today? What support does Cyberview offer?

Yes, it is very much alive in Malaysia and has recently reached new heights. Here at Cyberview, we recognise good ideas, and we completely support young, high potential, and credible entrepreneurs. We work on collaborative ways to develop ideas and bring them to execution with Cyberview's very own Living Lab (CLL) initiative.

Firstly, the Cyberview Living Lab-Accelerator helps start-ups accelerate the progress of their product or services with innovative solutions through intensive coaching in areas such as networking and marketing. Then, there's Cyberview Living Lab-Enterprise which helps connect businesses with profitable partnerships. Next, we have the Cyberview Living Lab-Pilot which facilitates relationships with various partners in order to test out prototypes and concepts that could be of value to the community. Nine focus areas are highlighted here: information security, creative content, mobile internet, cloud computing, green technology, biotechnology, big data analytics, wearable technologies and smart grid technology. Lastly, we have the Cyberview Living Lab-Talent programme which seeks out the best talent and grooms it to become our very own digital explorers and innovators for tomorrow.

There are also many more initiatives led by other agencies, including MAGIC, MDeC, SME Corp, Cradle, MDV etc. From the initiatives that Cyberview has to offer, I am positive that it will encourage entrepreneurship from many corners of society.

What partnerships does Cyberview have with international institutions?

To ensure continuous supply of talent, we work very closely with educational institutions in Cyberjaya, collaborating on programmes that can enrich both the students and the academia. This is part of the Living Lab Talent programme. We have also reached out to universities located near Cyberjaya to keep them informed of industry demand and requirements for new graduates, and to share the vast opportunities created through entrepreneurship.

Through Living Lab programmes, Cyberview works closely with venture capitalists and global start-up investors, extending access and increasing likelihood to enter commercialisation or undertake product innovation for the start-ups in our programmes.

We also partner most of the foreign MNCs in Cyberjaya, e.g. IBM, DHL, HSBC to act as spokespersons through our Ambassador programme and to develop new supply of talent at various age groups and skill levels. We also partner with Malaysian major educational institutions e.g. LUCT, MMU, UKM, UPM and

Taylor's to nurture the right talents required by the industry to meet future needs.

What will Cyberjaya gain from the implementation of the AEC?

Cyberjaya, when compared to a human lifecycle, is in its prime teenage years. It is very dynamic, robust and yearns to grow further. To transform Cyberjaya into a GTH is a natural progression. Through AEC, we will have access to larger markets, collaborate better and create more partnerships. In addition, we will attract foreign investors and build relationships with other countries in the AEC. Cyberview, as a Tech Hub Enabler, hopes to reach out to other aspiring tech hub developers to share our experiences and journey and benefit each other through mutual enrichment.

Cyberjaya has already embraced the implementation of AEC, through Cyberview's sister organisation, MaGIC which has begun the regional-based MaGIC Accelerator Programme (MAP) and its ASEAN Centre for Entrepreneurship (ACE) is due to be launched soon. Cyberview's own Living Lab Enterprise programme will expand the horizon of support for start-ups that are developing Smart City solutions, where the aim is to introduce more private funding into the ecosystem and implement smart city projects in Cyberjaya based on strong collaboration with regional industry players.

How important is entrepreneurship in achieving developed nation status?

Entrepreneurship will boost local innovations, transforming us from a consumer nation, to producer and innovator. More than 99% of Malaysia's businesses are made up of small-medium enterprises which form the backbone of Malaysia's economy and job creation. With more Malaysians starting their own businesses, Malaysia not only benefits from the economic perspective, but also gains from having a resilient and innovative nation. In this highly-connected and urbanised world, tech-based entrepreneurs will gain from constant demand for new content, applications and services from global consumers.

What are Cyberview's priorities going forward?

There's so much room for Cyberjaya to grow. To make this a global tech hub, we must continuously create and innovate. And this requires expertise and innovations. We invite the London investment community to talk to us, and find out how they can be part of this journey. Cyberjaya can be your base to grow your regional presence, or a living lab to pilot and roll-out your solutions. Whatever your investment need, we at Cyberview are open to collaboration. ■



Empowering tech community through smarter collaboration

Let's collaborate!
cyberview.com.my/partnership

REGIONAL DEVELOPMENT

Home to Southeast Asia's highest mountain, rare wildlife such as orangutans, Sumatran rhinoceroses and pygmy elephants, dense tropical rainforests and some of the world's most diverse marine life, the state of Sabah, located in northern Borneo, is also endowed with rich natural resources such as oil and gas, fisheries, agriculture and forestry. The Sabah Development Corridor (SDC), one of Malaysia's five economic corridors, was launched in 2008 to accelerate the growth of Sabah's economy, promote regional balance and bridge the rural-urban divide while ensuring sustainable management of the state's resources. The economy is driven primarily by tourism, agriculture and manufacturing, with palm oil and petroleum as top commodities for export. Datuk Dr Mohd Yaakub Bin Johari, Chief Executive of SEDIA, the authority responsible for the implementation of SDC, explains how it is strengthening these areas while creating new and exciting industries to accelerate the state's development.

DATUK DR. MOHD YAAKUB HAJI JOHARI SEDIA

Q&A

What role does SEDIA play in encouraging investment in Sabah?

One of our key mandates is to attract investment towards SDC. We facilitate the creation of competitive economic clusters, based on the economic endowment, which we refer to as Sabah's Strategic Development Areas (SDAs). Each economic cluster serves as a growth centre for the respective SDAs.

The infrastructure provided within the economic clusters is supported by funds allocated by the Federal government and channelled through SEDIA. It is a powerful tool in attracting investor interest. We also offer fiscal incentives in each designated cluster, such as full tax exemption on statutory income for up to ten years, investment tax allowance of 100% on qualifying capital expenditure for five years, and exemption on import duty and sales tax exemption, subject to current policy.

By 2025, the SDC initiative aims to triple Sabah's GDP per capita and increase its economy by four times through focused growth oriented programmes that aim to create more than 900,000 new jobs.

Which sectors are prioritised under the SDC?

Our strategic focus areas include agriculture, tourism, logistics and manufacturing; oil, gas and energy; higher education, and palm oil.

Sabah is blessed with over 2,000 flora species, the UNESCO heritage site Mount Kinabalu, pristine national parks, beautiful beaches and access to the world renowned Coral Triangle near Sipadan Island so we are attracting both investors and tourists in the areas of eco-tourism and cultural tourism.

Our considerable marine resources and forests offer great potential in resource-based manufacturing activities, as well as biotechnology industries. Given our genetic diversity, the potential for natural products is substantial. According to experts, Borneo was unaffected by the Ice Age, and in just ten hectares, the plant



Datuk Dr. Mohd Yaakub Haji Johari

In just ten hectares, the plant diversity in Sabah is equivalent to the whole continent of North America.



diversity in Sabah is equivalent to the whole continent of North America. This gives you an idea of the genetic resources which are the building blocks for many products.

Additionally, almost 30% of Malaysia's oil palm production comes from Sabah, which is why the SDC has established two palm oil industrial clusters. Capturing the high value from oil palm is something we are promoting such as new techniques for extracting high concentrate, palm-based vitamin E which is a powerful anti-oxidant. We are also talking to industries about the use of biomass, not just for power, but also for producing products such as plastics. We need to leverage all our assets.

How effective have the economic clusters been in attracting investment?

Traditionally, we have always been a producer and exporter of primary commodities so building supportive economic clusters has been crucial. For example, with 25% of Malaysia's reserves, Sabah is the logical choice for an oil and gas cluster, but previously there was no downstream processing here. Thanks to the initiatives under the SDC, and facilities such as the Sipitang Oil and Gas Industrial Park, these clusters are now developing and attracting investors, enabling us to capture that higher value.

Similarly, although we are the biggest producer of palm oil, traditionally we were unable to attract even Malaysian companies to process oil palm in Sabah. With the implementation of the SDC, and the creation of two palm oil industrial clusters in Lahad Datu and Sandakan, that has changed. We currently have a joint venture involving a local and an American company investing in biomass, building the first bio-refinery facility in Sabah and one home-grown public listed company which has chosen Sandakan palm oil industrial cluster as its base for its palm oil integrated industry. They have upstream involvement and would like to go downstream. In the past they would not have done it in Sabah, but now they are prepared to come because we are equipped with the necessary supporting infrastructure and the incentives.

Investors can also identify their own particular infrastructure requirements and put forward a proposal to build them with the support of the government in a public-private partnership arrangement. We would like investors to see this area as an additional opportunity.

What importance does SEDIA place on sustainable development?

It's something that we can't afford to compromise. Sabah was one of the earliest states in Malaysia to restore our natural forests. The state government has increased the reserve and currently over half of Sabah's land is under classification of forest reserve so it is well protected and we recognise its value. That's why tourism is a key driver for Sabah, attracting eco-tourism and nature enthusiasts, including high-profile visitors such as the Duke and Duchess of Cambridge.

Which sectors would you highlight to UK investors?

We've been looking at UK investment in the education sector and in the new economy/ICT. We would also like to entice those involved in the aviation sector as we are currently preparing an aviation masterplan for Sabah. We recently had a British group interested in waterfront and resort development involving golf course development so there are opportunities in a wide variety of sectors.

This is the best time to come to Sabah. For the tourist it certainly stretches your pound, and for the investor the current exchange means you benefit from an immediate discount. We are resource rich and we speak English as many of us are British educated. British Malaysian relations have been a long standing association and we hope to see more British investment returning.

Y.Bhg. Datuk Dr. Mohd Yaakub Hj. Johari, J.P. holds a Bachelor of Science (Hons) from the University of Sussex and a Master of Science (Liberal Studies) from the University of Manchester, England. In 1982, he was awarded Ph.D in Sociology from the University of Salford, England.



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