

SARAWAK BUSINESS SUMMIT

SARAWAK & THE 9th MALAYSIA PLAN-
ECONOMIC CHALLENGES & OPPORTUNITIES

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WORLD ECONOMIC TRENDS

- Global economic slowdown
- Most developed economies in recession
- Decline in external demand
- Declining inflationary pressures
- Steep falling commodity prices
- Risk of deflation

GLOBAL POLICY RESPONSES

- Fiscal stimulus in most developed economies
- Infrastructure stimulus in China of \$586 billion
- Developing countries also initiate measures
- Coordinated policy responses by developed economies
- Bailouts of financial institutions & industries stabilize financial markets
- Asian emerging economies in better shape: more foreign reserves, robust banking sector, increased intra-Asian trade, limited exposure to toxic assets and less integrated to developed financial markets
- Declining inflation enables focus on growth

WORLD ECONOMIC OUTLOOK 2009

- Story of halves: first half of poor growth & second half recovery of positive growth
- Impact of fiscal stimulus will take effect in latter half
- Downside risks minimized with coordinated global actions
- Declining inflation will allow focus on growth measures
- 2009 growth forecasts as follows:

GROWTH FORECASTS 2009

<u>Country</u>	<u>Growth (%)</u>
USA	0.5
Japan	1.5
Eurozone	0.2
UK	0.5
China	7.0
India	7.0
Singapore	1.5
South Korea	3.5
Thailand	4.0
Indonesia	6.3
Philippines	5.8
Malaysia	4.0

EVALUATION OF RESILIENCE OF MALAYSIAN ECONOMY

- Financial sector is sound
- Past growth momentum driven by domestic demand
- Exports diversified in terms of products and direction of trade
- Strong natural resource-based economy is an economic stabilizer
- Macroeconomic fundamentals remain strong
- High national savings (37% of GNP) can be mobilized for domestic Investment
- Current monetary & fiscal flexibility allows for further measures, if necessary

MALAYSIAN ECONOMIC OUTLOOK 2009

- Estimated 2008 growth of 5.4%
- Forecast 2009 growth of 4.0%
- Domestic demand growth 4.6% ('08 5.4%)
- C = 3.7%, I = -0.4%, E = -0.5%, IM = -0.6% and
- Net Trade = -0.1%
- Sector growth:

Services	(4.7%)
Agriculture	(3.3%)
Mining	(2.7%)
Manufacturing	(3.0%)

MACROECONOMIC FUNDAMENTALS

- Macro indicators still sound
 - declining inflationary pressures (4.0%)
 - unemployment still low (3.7%)
 - high liquidity in banking system (RM180 billion)
 - still scope for monetary policy (OPR 3.25%)
 - fiscal deficit not too high (4.8%) and
 - 9MP last two years development expenditure still available at about RM150 billion that allows for govt. Spending of approximately 10% of GDP per annum

SARAWAK & 9th MALAYSIA PLAN (9MP)

The 5 THRUSTS of 9MP & economic challenges for Sarawak

1. Moving economy up value chain
2. Raising capacity for knowledge & innovation
3. Address socio-economic inequalities
4. Improve standard & quality of life
5. Strengthen institutional & implementation capacity

ECONOMIC CHALLENGES OF THRUST 1

- New sources of industrial growth
- Higher value-added services
- Tourism
- Innovation driven SMEs
- New agriculture sources of growth e.g. agro-based processing, aquaculture, furniture etc.
- ICT
- Energy industries: hydro, gas, clean coal, renewables
- Infrastructure

CHALLENGES OF THRUST 2

- Human capital development e.g. IP
- Skills
- R & D and Innovation
- Bio-technology

CHALLENGES FOR THRUST 3

- Income distribution amongst all ethnic groups
- Poverty alleviation & nurture a large middle class
- Provide more higher-wage employment
- Wealth creation & ownership
- Regional balance through corridor development: the Sarawak Corridor of Renewable Energy (SCORE)

CHALLENGES FOR THRUST 4

- Basic needs: healthcare, housing, water, sewerage, electricity, environmental quality: air, water, floods, hazardous waste roads & communications
- Economic security through a social safety net

CHALLENGES FOR THRUST 5

- Building institutional capacity & capability
- Greater productivity & efficiency
- First class delivery of public services

OPPORTUNITIES FOR SARAWAK UNDER 9MP

- Maximize strengths of the State
- Rich abundance of natural resources e.g. large land area, forest resources, oil & gas, coal, hydro-power potentials, agriculture production & agro-based industries
- Identified as a halal hub producer
- Special corridor development potentials
- SCORE as the growth nucleus
- Advantage in implementing the 3D approach i.e. Density, Distance & Division ala World Bank 2009 World Development Report

IMPORTANCE OF POLICYMAKING

- Policy on economic security in the provision of a social safety net for the bottom 60% of the population of the State
- Policies to manage the rich natural resource endowment to avoid the natural resource curse & the Dutch disease & poor resulting economic structure
- The possible creation of a State Wealth Fund from revenues earned from natural resource exploitation to implement the social safety net for society
- Avoid full privatization but engage the private sector through the private financial initiative with State participation to ensure regulatory surveillance for public interest

CONCLUSION

- With the global economic slowdown Malaysian economic growth will slowdown in 2009 but not into recession in light of the strong economic resilience. The potential for a rebound from the global policy responses is good. The strong potential output of our economy will enable a quicker pace of growth in the latter half of 2009 & 2010.
- But if Asian growth performance is decoupled from the developed economies then there is a good possibility of a fast recovery of the Asian emerging economies.

THANK YOU