

SUMMARY REPORT ON ASLI'S BUSINESS OUTLOOK
SURVEY FROM THE
2ND QUARTER 2004 - 2005

Introduction

ASLI is honored to have the privilege of reaching some prominent captains of industry through this business outlook survey. This survey seeks to gather some information as well as views from our respective business councils' and SIF's members on the business (and to certain extent economic) outlook for the next two years to come. The respondents involved in this survey were CEOs of local and foreign companies based in Malaysia. We managed to recollect 37 completed questionnaires, a response rate of about 26%.

The survey forwards the theme of Malaysia entering into a new era of free trade. Hence several relevant issues are emphasized. Among them are 1) the impact of AFTA on Malaysia's economic performance, 2) China's emergence impact on Malaysia, and 3) Malaysia's competitiveness in the next two years to come. Items in the questionnaire were then carefully crafted along these issues.

Almost three-fifth- 60% of the survey respondents represent the services sector. This includes the finance/banking/insurance, tourism, and business services. About 21% of the respondents come from the manufacturing sector while agriculture, construction, and property/real estate were represented by about 2%, 7%, and 9% respectively. This respondent tabulation percentage plays an essential role in reflecting the overall survey findings.

RESPONSIVE TO REGIONAL OUTLOOK

Malaysia's economy will continue moving along to respond to the external factors. Malaysia's responsiveness may have to be even more so as the region is now entering into a new era of freer trade among ASEAN members- AFTA. And the survey shows that most of the respondents, about 84%, positively accept AFTA as a new economic

phenomenon that will relatively enhance productivity. Such positive perception is reflected in the respondents' strong expectation for business growth in the next two years. About 82% foresee an overwhelming growth in the coming two years. While there remains to be skepticism on the possibility of AFTA negatively impacting on the economy, such is too small to create an 'anti-AFTA' community. In fact the survey indicates a comfortable percentage of those who positively see AFTA as a platform for business to flourish and expand. 60 % of the respondents believe that AFTA will provide more opportunities for their businesses to undergo expansion.

It is also gratifying to note that the overall sentiment about AFTA weakening home-grown industries is not very strong. As indicated by the results of the survey, several home-grown industries are being forecasted to perform well this year.

Wholesale/retail, tourism, food, and electrical and electronics are among the industries forecasted to be doing well this year. While such forecast may have resulted from perception rather than empirical study, it however indicates the general respondents' (which happen to be consumers!) confidence and positive sentiment. And it is this sentiment that helps the overall economy to sustain.

The survey also forwards the controversial China factor. The establishment of AFTA is simply seen by many as an attempt to cushion the impact of China's emergence. True enough more than 50% agree that AFTA does pose an alert to China. However, quite a significant percentage see AFTA as not so reliable in cushioning the impact of China. From the survey, it is implicitly observed that most respondents believe that it takes an individual country's strong and competitive economy to face China. Almost 60% of the respondents see their company's competitiveness as equal to that of their counterparts in China. In fact a good percentage of about 14% see themselves as doing better than their counterparts in China. Perhaps such findings could be attributed to the fact that China is not everything to be worried about. As China might outperform the rest of the world in terms of labor-intensive industries, still there are areas in which China is lagging behind. With China's authorities still grappling with issues on business regulatory frameworks, cost of doing business in China remains uncompetitive. In addition, the robust economic growth China has been experiencing over the past few years simply reinforces the fear that the dragon-economy is

overheating. The consequential economic bubbles will definitely caution investors to further pump their money into China!

BRIGHTER FINANCIAL OUTLOOK

Financial outlook for the next two years to come might even be brighter. Businesses seem to have more confidence with the credit policies put in place. There is little doubt that banking and financial practices might have been more improved than before- local banks seem to be more concerned with their capability to compete especially with AFTA-style begins to take its position across sectors of the economy. Indicators like the interest rate seem to be appealing to the business community. The current BLR rate is perceived as reasonable enough for businesses to grow. However, respondents foresee that for the exchange rate to remain competitive, the pegging may need to be readjusted in two years to come. Such adjustment is essential to reflect the economic realities as with the forecasted dollar recovery, Malaysia's ringgit may undergo some pressures especially in its export market. But generally respondents appear to be confident that the Central Bank, given the promising financial outlook in the next two years, might put in place a more competitive rate that will definitely positively affect investment and savings.

Such confidence is consolidated by the significant percentage of respondents considering for local funding. Almost 65 % of the respondents chose to fund their businesses locally in the next two years. This is indeed a good sign for local banking industries to offer more competitive and attractive financial facilities to businesses across industries. What is more, with more than two-third (62%) of the respondents working on an expansionary business budget, banks should vigorously take this opportunity to actively play their role in strengthening the entire financial sector. This is also a big chance for local banks to experiment their prudence and transparency-elements that are still yet to be fully developed among the local banks.

MARKET CONFIDENCE REMAINS HIGH- PRICING AFFECTED

Almost 84% firmly believe that budget's emphasis for 2005 will remain to be on boosting domestic consumption. Therefore respondents are quite positive on prices to increase both in 2004 and 2005. Perhaps such increase has got to do both with the strong consumption market and the relative increase in cost of production. As the survey clearly indicates the 2Q2004 and the entire 2005 will witness an overwhelming domestic consumption. About 85 % of the respondents foresee consumption to rise due to a boost in consumers' confidence in the market. This strong consumers' spending might affect the pricing strategy which will eventually lead to a marginal increase in the inflation. Besides, strong expectation for employment market to fare well in the coming two years will mean more purchasing power on the side of the consumers. Consequently, prices will experience an upward adjustment.

On the other hand, with AFTA coming along the way, businesses are left with few choices of whether to sell their products at lower price in large volume or higher price in small volume. While the former options sounds preferable, the latter however seems to be feasible reality given the nature of production factors. As the overall raw material prices are expected to increase marginally and the USD to grow stronger (as the US economy begins to recover), producers may have no choice but to see their production cost moving in an upward trend. Thus for a country like Malaysia, AFTA might require us to work on new competitive edge- added-value production (like technological intensive businesses). High-tech and knowledge-based service industries may prove to be of more relevance for Malaysia's future growth. But such progress may come along with higher pricing that could relatively explains a slight upward inflationary effect in the economy. However such effect is believed to be within controllable range as such effect might be upset by steady growth in other sectors of the economy especially the fairly strong export and SMEs development.

Conclusion

Based on the survey conducted, we come to the following conclusive points

summary:

- There are several industries that are expected to perform in the next two years namely tourism, food, banking/insurance/finance, electrical & electronics, and wholesale/retail.
- AFTA is perceived positively in relation to business opportunities but quite uncertainly in relation to business competitiveness. Still many are not confident of their capability and capacity to move independently without substantial support from the government. In short, many believe in the idea of free trade but remain reserved in its applicability.
- BLR rate is forecasted to move slightly lower than the current 6% to between the range of 4.5 – 5%. On the other hand, inflation rate is expected to be more than 1% reflecting the significant change in more domestic consumption.
- Confidence in the economy to grow stronger than last year is obvious. Such confidence is reflected in business financing decision, business expansion, and human capital investment. Employment opportunities for tertiary-educated are vast as many respondents foresee an employment expansion at the managerial level.
- Positive expectation on consumers' behavior suggests business community's strong confidence in the overall business growth. This also suggests that the market will be performing independently at determining and correcting prices. Such healthy market outlook will eventually lead to the positive real economic growth apart from allocating some flexibilities in the economy.

- Most of the respondents foresee that the current peg of ringgit is not viable over a long period of time. It needs necessary adjustment in one to two years time.
- Many respondents foresee 2005 budget to put more emphasis on boosting the corporate sector. In fact some strongly view that next year's budget should be more investor- and business-friendly.
- On the whole, Malaysia should be expecting a positive business outlook from the 2Q2004 till 2005 (entire fiscal year). While there may remain to be some risks along the way, it is believed that with considerable flexibility in the economy and positive attitudes on the part of both the consumers and the business community such risks will be manageable enough.