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Swift reopening, policy consistency key to economic recovery

Malaysia's FDI beats expectation, but more can be done

by NURHANANI AZMAN

BUSINESS firms in Malaysia do not feel that they will be able to see recovery in the remainder of 2021 due to a myriad of issues to be addressed such as the political situation and the longer than anticipated economic reopening.

Malaysian-German Chamber of Commerce and Industry CEO Daniel Bernbeck predicts the third quarter of 2021 (3Q21) and 4Q21 performance will be more or less similar to the 2Q21, with maybe a slight upward turn towards the end of the year, pending the government's decision.

He said the biggest challenge for the country would most probably be a fast reopening of the economy with all necessary standard operating procedures in place to avoid another wave of Covid-19.

"For that, our members need reliable, consistent and favourable rules and regulations for their operations, as well as their workforce. In the coming months, we hope to see more relaxations regarding immigration rules for foreign talents including expats, quarantine rules, cross-border travels and many others," Bernbeck told *The Malaysian Reserve (TMR)*.

"Malaysia needs to prepare for a restart to also make consumers more confident in further economic developments, because we see that consumer spending is far behind the necessary. Retailers, service industry, restaurants and tourism are suffering badly from consumers controlling their expenses," he added.

Citing Germany as an example, Bernbeck said the government has shifted from only looking at the daily infections to also taking the levels of occupancy of intensive care unit (ICU) beds and ventilation aid into account.

"Malaysia has broken records with the boost of vaccinations after May 2021 and the high number of vaccinated adults means that people can now expect a return to normalcy, such as working from the office, more social interaction and other aspects of their lives prior to the pandemic. That would lead to a huge boost in consumer spending, contributing to positive business

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Pic by Muhd Amin Naharul

TOWARDS NEW NORMAL: Friends and families seen spending their time yesterday walking, cycling and picnicking at the Titiwangsa Lake Gardens in Kuala Lumpur. Malaysia aims to return to normalcy under the new normal by end-October, including interstate travel and tourism activities, provided 90% of the adult population have been vaccinated and the public healthcare system is at a safe level, including adequate bed usage in ICUs.

AUKUS could politically, economically affect Malaysia

by HARIZAH KAMEL

THE trilateral cooperation agreement between Australia, the UK and the US (AUKUS) might cause certain ramifications, both economically and politically, for Malaysia.

Universiti Teknologi Malaysia senior lecturer (political study) Dr Mazlan Ali told *The Malaysian Reserve (TMR)* that recent developments in the Indo-Pacific has the potential to trigger an arms race between countries in the region.

"AUKUS is seen as a Western or US move to control China. The agreement with Australia means the US will share all the technologies of nuclear submarines to Australia. Previously, only the UK had such privilege. In doing so, the US will cover so much of the vast Indo-Pacific and there will be a nuclear submarine base.

"The quest for the US to restrain China can cause instability and affect Malaysia's relationship with China. Malaysia has a huge economic importance to China; we have a lot of interest with China, especially in terms of trade, and there are a lot of Chinese investments in Malaysia," he said.

If there are military actions to come, Mazlan opined on what kind of stand Malaysia will make as it will be forced to support one side, either the US or China.

On top of that, China's claims in the South China Sea will also come into play as the academician views

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Almost half of EPF contributors have less than RM10,000

Members' basic savings threshold recorded a drop from 36% to 27% as a result of the Covid-19- related withdrawals

by NURHANANI AZMAN

UP TO 46% members of the Employees Provident Fund (EPF) below the age of 55 are having less than RM10,000 in their account, raising concerns on the sufficiency of their funds upon retirement.

The EPF also stated that the members' basic savings threshold (RM240,000 at age 55) recorded a drop from 36% to 27% as a result of the Covid-19- related withdrawals to supplement their income during the crisis.

CEO Datuk Seri Amir Hamzah Azizan said the pandemic has also triggered a dramatic rise in the number of gig workers in the country, and while that has helped workers survive, many of these workers are falling back on their retirement security due to the irregular and unstable income.

"Additionally, they are facing vulnerabilities in terms of employees' benefits and coverage on social protection. There will be far-reaching repercussions not only on their future wellbeing, but also on the government, who will have to carry that financial burden.

"The key element of the EPF's strategy going forward is to get the gig workers, as well as those in the informal sectors, into the EPF scheme so they can start to save as early as possible and plan for their retirement," he said, adding that a coordinated solution for the longer term is needed to ensure better social protection for all Malaysians.

He said EPF's focus is to help members restore and rebuild their retirement savings to ensure that they are able to secure a dignified retirement.

"We will remain focused on our Strategic Asset Allocation and continue to be cognisant of the risk profiles of the markets as they develop so we are able to shift along the way.

"While we are doing that, our fundamental purpose of providing returns and protection for our members' future wellbeing will continue to be preserved," he added.

The EPF recorded RM34.05 billion of total investment income for the first half of the year ended June 30, 2021 (1H21), an increase of RM6.79 billion, or 25%, compared to RM27.26 billion in the corresponding period in 2020.

Total gross investment income (GII) for the second quarter 2021 (2Q21) was RM14.77 billion, RM350 million lower than RM15.12 billion recorded in the same quarter last year.

Equities continued to be the main contributor of income for 2Q21 at RM7.89 billion, accounting for 53% of total GII.

As part of its internal policy to ensure a healthy portfolio, the EPF has adopted cost write-downs on listed equities.

In 2Q21, RM210 million was written down for listed equities, compared to RM1.66 billion in the same quarter in 2020 following the continued recovery across global markets.

After netting off these write-downs, a total of RM14.56 billion of investment income was recorded in 2Q21, 8% higher than the RM13.46 billion recorded in 2Q20.

Fixed Income instruments continued to contribute a stable income of RM5.28 billion, or 36%, to the GII in 2Q21. This was lower compared to the RM6.17 billion recorded in 2Q20 due to lower trading gains. This is in line with higher interest rates in 2Q21, compared to the corresponding period last year.

As at end June 2021, the EPF's investment assets stood at RM989.14 billion, of which 37% was invested overseas. In 2Q21, overseas investments generated an income of RM8.71 billion, 59% of the total GII recorded.

Meanwhile, he said the EPF launched the i-Sinar and i-Citra facilities which were intended to provide some financial relief to assist members affected by the pandemic.

"To date, this has involved the disbursement of a total of RM67.6 billion.

"About 89% of applicants under i-Sinar and 86% under i-Citra stated that the withdrawals were used for daily expenses or urgent financial needs," he said.

Swift reopening, policy consistency key to economic recovery

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sentiments, and will certainly help Malaysia recover quickly.

"The fundamental factors which have made Malaysia an attractive destination for foreign direct investment (FDI) remain intact. Our hope for 2022 is for strong support from the new government to make Malaysia more welcoming to foreigners and their investments.

"We hope to see improvements in the Malaysia My Second Home scheme, the reopening of expat schools for children of the expatriates living in Malaysia and many other aspects," Bernbeck said.

Malaysia has made impressive achievements amid these challenging times, as evident with over 200% increase in FDI inflows in the first half of 2021 (1H21).

Bernbeck said this obviously referred to comparison to the 1H20 as the pandemic hit Malaysia hardest during 2Q20.

"During the 1H21 and before the implementation of MCO (Movement Control Order) 2.0, we had a period of economic recovery. While we fully trust the statistical analysis of Mida (Malaysian Investment Development Authority), it could be a comparison of two very particular periods during an unprecedented crisis and that may not really give a full picture of the situation," he added.

Last Friday, Senior Minister Datuk Seri Mohamed Azmin Ali said the recent RM680 million investment by Taiyo Yuden Co Ltd to produce multilayer ceramic capacitors in Malaysia is a testament to the country being a preferred hub for global manufacturers and an Asean gateway.

Azmin expressed confidence that FDI would continue to flow into Malaysia in spite of the challenging global economic landscape.

"With our strategic value proposition via our National Investment Aspirations, companies, foreign and local alike, will be able to grow their businesses to another level and transform as competitive world players," he said in a statement.

Apex Investment Services Bhd CEO Clement Chew said Malaysia is a beneficiary of multinational companies (MNCs) setting up manufacturing operations outside of China as tensions between the US and China continue, albeit at a less confrontational manner.

"The pandemic has brought home the importance of diversifying a company's production base and supply chains. Separately, the year-on-year comparison in 2021 may be flattered by the low base in 2020.

"Last year, FDIs in Malaysia more than halved due to the Covid-19 pandemic. Therefore, the percentage increase in FDIs may appear impressive. One also has to analyse the share of FDIs that Malaysia received for this region," he told *TMR*.

On outlook for the rest of 2021, he said the current rivalry between the US and China will continue to divert FDIs flows to this region.

"Malaysia will be a beneficiary of these flows. MNCs will want to reduce their reliance on one particular country to insure against geopolitical risks and health crises. Malaysia has an established manufacturing base, especially in the electronic and electrical industries.

"For electronics, a good supply chain exists for areas such as semiconductor manufacturing," he added.

However, Chew said labour-intensive industries are struggling to hire workers, including foreign labour.

"Also, companies in the region are competing for talent such as engineers. If skilled and trained individuals leave the country, it hampers our ability to go up the value chain.

"Apart from the availability of skilled labour, attracting FDIs is not merely about cheap land, low rentals or competitive wages. It is about the ease of doing business, consistency in government policy and the rule of law," he explained.

AUKUS could politically, economically affect Malaysia

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neighbouring countries such as Singapore and the Philippines as likely to vouch for the US, with the latter housing several US military bases following its dispute with China over territories.

The Malaysian government's move to get in touch with China on the formation of AUKUS, Senior Defence Minister Datuk Seri Hishammuddin Hussein had said, was simply to get the republic's viewpoint.

"I see that the statement (Opposition's claim) is baseless because what I have informed the Dewan Rakyat is far from getting any instructions from China," he said in a *Bernama* report.

In the Dewan Rakyat last week, the minister said that a brief visit to China will be on the cards amid debates on AUKUS recently.

He said the visit aims to seek the views of the Chinese government on the issue, as well as on defence and other related matters.

Pakatan Harapan's Security Committee has called on Hishammuddin and Foreign Affairs Minister Datuk Saifuddin Abdullah to state Malaysia's position in the Parliament on AUKUS.

"Malaysia being at the geographical centre of these increasing geopolitical competitions must deliberate and state clearly a position," the committee said.

Universiti Kebangsaan Malaysia's Institute of Ethnic Studies deputy director Dr Kartini Aboo Talib@Khalid said one impact of AUKUS could be the start of a new Cold War era between the Quadrilateral members against China.

"The US and Australia are maintaining a good alliance, though Australia is a bit reserved to call China a threat when clearly the Australia-China relationship brings mutual benefit to both, especially in trade and investment.

"The US and Australia have to be willing to change the narrative of seeing China as a threat, but as a mutual partner. The prejudices over socialism towards modern China are not making this world any better," she told *TMR*.

Kartini also said another implication is that it creates a confrontational motive, which in the past has caused many wars and those profiting from it are the capitalists, particularly weapons and artillery manufacturers, at the expense of people/civilians and the environment.

Saifuddin had said that Malaysia is steadfast in its position on maintaining international peace and security in the Indo-Pacific region, including issues related to nuclear disarmament, nuclear non-proliferation and the peaceful uses of nuclear technology.

According to him, Australian officials will provide further clarification to the Malaysian government on the issue of the controversial tripartite cooperation.