

1. INTRODUCTION

1.1 THE PURPOSE OF THIS SURVEY

In Malaysia, due to the wide participation of the Chinese businessmen in the economic activities throughout the country, Chinese's businessmen play an important role within the economy. A survey (part of an exercise carried out twice a year) has recently been carried out to gather feedback and opinions from Chinese businessmen. This survey can be viewed as a means to gauge the economic situation facing the Chinese business community in the 1st half of 2014. This survey covers four major areas in relation with the Chinese business community, namely:

- i. **The Malaysian economic situation in the 1st half of 2014;**
- ii. **Major factors affecting business performance;**
- iii. **Malaysian economic outlook; and**
- iv. **Current issues facing the Chinese businessmen in relation to trade, investment and industrial development in Malaysia.**

1.2 SIGNIFICANCE OF THE SURVEY

Most of the data and statistics in relation to the economic situation available today are collected by the Government through Statistical Department of Bank Negara Malaysia and its agencies. The Malaysian Institute of Economic Research (MIER) has conducted surveys on the economic recovery in the past but has thus far, focused on the consumers and the manufacturing sector.

Given that the Chinese business community plays an important role in the Malaysian economy, ACCIM, as a national organisation representing the Chinese business community, take the task to **assist the Government in gauging the economic situation facing the Chinese business community. It also attempts to collect feedback and opinion on various measures undertaken by the Government to enable them to evaluate the effectiveness of those measures. This would be helpful to the Government either in making adjustments to the existing policies or in the formulation of new policies.**

The results from the survey also provide a basis for ACCIM to submit relevant memoranda to the Government and serve as a reference for the business community and foreign investors in formulating investment plan and strategy.

2. SURVEY METHODOLOGY

The purpose of this survey was to collate information in relation to the economic situation facing the Chinese business community in the 1st half of 2014. The questionnaire was constructed based on the current economic issues faced by the country and the business community, and the various measures undertaken by the Government to address the issues concerned.

ACCCIM has over 100,000 Malaysian Chinese companies, individuals and trade associations. As most of the prominent Chinese businessmen are the committee members of ACCCIM either at the national or state levels, these committee members could be taken to represent the Chinese business community. The total questionnaires sent out were 718.

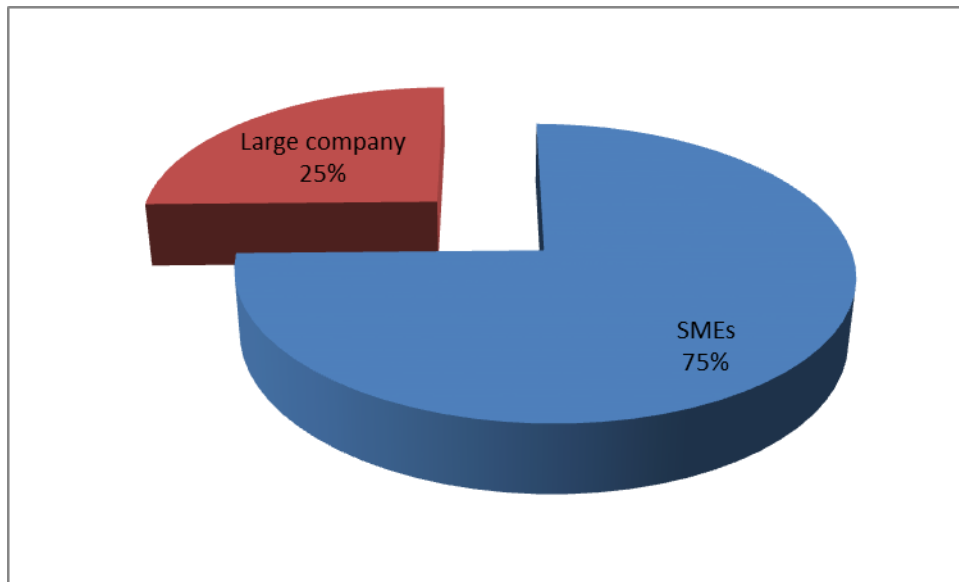
Nearly 400 questionnaires were returned, making it a response rate of 53.3% of the total questionnaires sent. These 383 respondents made up the sample of this survey.

The questionnaires were distributed to Chinese's businessmen across all sectors and industries. In terms of breakdown of distribution, the respondents were mainly from **wholesale and retail (29.5%)**, **manufacturing (20.9%)**, **professional and business services (12.5%)**, **construction (8.4%)**, **real estate (5.5%)**, and **tourism, shopping, hotels, restaurants, recreation and entertainment (4.4%)** as well as **others (18.8%)**. These sectors concerned are said to represent the major sectors of the economy. The breakdown of responses may be depicted as follows:

Sector	Percentage (%)
Wholesale & retail trade	29.5
Manufacturing	20.9
Professional & business services	12.5
Construction	8.4
Real estate	5.5
Tourism, shopping, hotels, restaurants, recreation and entertainment	4.4
Others	18.8
Total	100.0
(Sample Size)	(383)

About 25.3% of the respondents were from “Large Company” (according to annual turnover and full time employees)

Large Company vs SME



The National SME Development Council has provided a definition for small and medium enterprises with regard to manufacturing (including agro-based) & manufacturing related services, primary agriculture and service's sector (including information and communications technology, ICT), as described below.

Primary Agriculture

A small and medium enterprise in primary agriculture is an enterprise with full-time employees not exceeding 50 or annual sales turnover not exceeding Ringgit Malaysia (RM) 5 million.

The agriculture, forestry & fishery sectors have been classified in this category in this report.

Manufacturing (including Agro-Based) and Manufacturing-Related Services (MRS)

A small and medium enterprise in manufacturing (including agro-based) and MRS is an enterprise with full-time employees not exceeding 150 or with the annual sales turnover not exceeding RM 25 million.

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The manufacturing, mining and construction sectors have been classified in this category in this report.

Services Sector (including information and communications technology, ICT)

A small and medium enterprise in services is an enterprise with full-time employees not exceeding 50 or annual sales turnover not exceeding RM 5 million.

The real estate, transportation, forwarding and warehousing, telecommunications, information technology, wholesale and retail trade, international trade, tourism, hotels, restaurants, recreation and entertainment, finance and insurance, professional and business services have been classified under this category in this report.

For the manufacturing based business, 58.3% of the respondents employed 50 employees or less, with another 29.9% employing 51-150 employees, whereas 11.8% of the respondents claimed that they employed more than 150 employees.

For the services based businesses, 64.5% of the respondents employed less than 20 employees and 24.6% employing 25-50 employees. On the other hand, about 10.9% of the respondents claimed that they employed more than 50 employees.

Full-Time Employees

Manufacturing		Services	
Number of employees	Percentage (%)	Number of employees	Percentage (%)
Less than 5	4.7	Less than 5	27.0
5 ~ 50	53.5	5 ~ 19	37.5
51 ~ 100	19.7	20 ~ 35	13.7
101 ~ 150	10.2	36 ~ 50	10.9
More than 150	11.8	More than 50	10.9
Total (Sample Size)	100.0 (127)	Total (Sample Size)	100.0 (256)

In the case of turnover achieved annually, for the manufacturing based businesses, about 33.8% of the respondents reported that their companies' annual turnover exceeded RM10 million. About 16.5% of the companies surveyed reported having an annual turnover that exceeded RM25 million.

For the services based businesses, about 37.9% of the respondents had an annual turnover of between RM1.0 million to RM5.0 million.

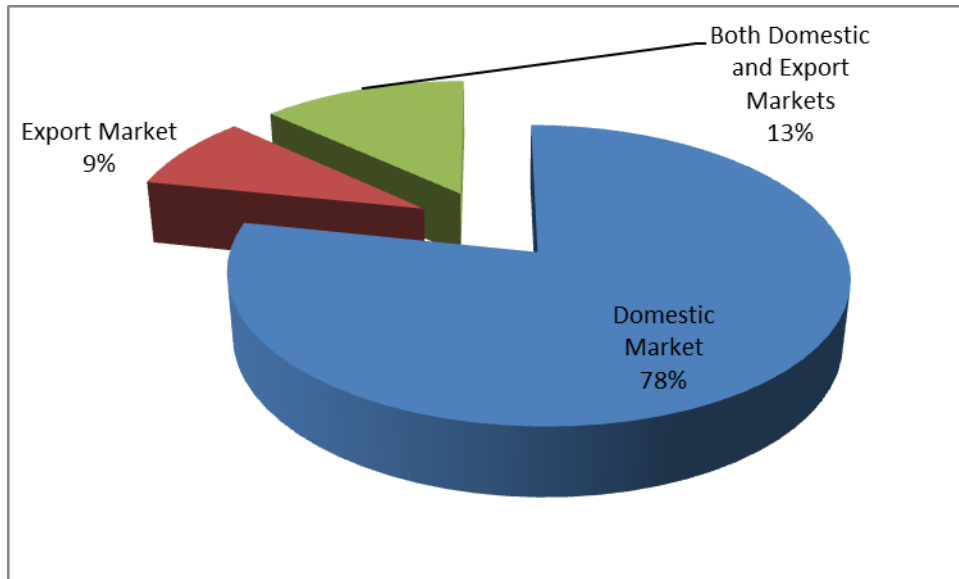
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Additionally, about 25.0% of the companies had an annual turnover of more than RM5 million.

Annual Turnover

Manufacturing		Services	
in Ringgit Malaysia	Percentage (%)	in Ringgit Malaysia	Percentage (%)
Less than 250,000	3.1	Less than 200,000	13.7
250,000 ~ 999,999	22.8	200,000 ~ 999,999	23.4
1,000,000 ~ 4,999,999	29.1	1,000,000 ~ 2,499,999	18.4
5,000,000 ~ 9,999,999	11.0	2,500,000 ~ 5,000,000	19.5
10,000,000 - 25,000,000	17.3	More than 5 million	25.0
More than 25 million	16.5		
Total (Sample Size)	100.0 (127)	Total (Sample Size)	100.0 (256)

Nearly 80.0% (78.3%) of the respondents were “Domestic” market oriented whereas the remaining 21.7% focused on “Both Domestic and Export” markets (13.1%) or ‘Export’ market (8.6%).



3. SURVEY FINDINGS

3.1 THE MALAYSIAN ECONOMIC SITUATION IN THE 1ST HALF OF 2014

3.1.1 Sales performance

Slight Improvement in Sales Performance

Based on the survey results, the majority of the respondents (80%) replied that their firms' sales performances for the 1st half of 2014 were either good or satisfactory. This represents a slight improvement of 2% points of respondents in the combined 'good' or 'satisfactory' categories when compared with the period in 2nd half of 2013 where 78% of respondents reported similar outcomes. This demonstrates a slight reversal of trend, being a break away from a period of deterioration in sales performance that were reported in the last two half-year survey periods ended December 2013.

In the case of the manufacturing sector, there was a 5% points drop of respondents in the 'poor' sales category, while there was a corresponding increase of 6% points in the 'good' sales category. Whereas, for the wholesale and retail sector, the sales performance of the majority of the survey respondents was scaled towards satisfactory, though those reported 'poor' sales inched up by 2% points.

On the whole, the sales performance of the majority of the survey respondents remained satisfactory with some slight improvement in the manufacturing sector. This survey finding is in line with the improved performance of the Malaysian economy in the first half of 2014. The Malaysian economy had grown by 6.2% in 1Q 2014 and 6.4% in 2Q 2014. The improvement was mainly supported by the continued strength in domestic demand (in particular the private sector) and improved export performance.

In the case of future sales outlook, the majority of the respondents (76%) believe that their businesses will experience 'good' and 'satisfactory' sales performances in the next six-months period of 2nd half 2014. It is noted that this represents an improvement of 12% points in respect of percentage of respondents in the optimistic category (good and satisfactory) with regards to future sales.

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Sales Performance

Sales Performance	2nd Half 2013 (%)		1st Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	2nd '13	1st '14	2nd '14 (Forecast)
Good	10	9	16	7	10	12	11
Satisfactory	66	68	65	68	68	68	65
Poor	24	23	19	25	22	20	24
Total (Sample Size)	100 (58)	100 (86)	100 (79)	100 (110)	100 (302)	100 (371)	100 (363)

3.1.2 Production volumes

Unchanged Production Volumes

Production volumes were noted to be largely remained unchanged over the period of survey.

During the 1st half of 2014, it was noted that 10% (2nd half 2013: 14%) of respondents reported 'increased' productions volumes while another 68% (2nd half 2013: 63%) saw no change in the production volumes of their businesses.

In line with the earlier finding that there were more businesses expressing sustained / improved forecast sales performance in the next six months period (reflecting a sentiment that the majority of businesses still appear upbeat), some 76% of respondents believe that the production volumes of their businesses will be in the 'increased' / 'unchanged' volumes category. On the other hand, 24% of respondents believe that their production volume would experience a reduction in the future period.

Production volume

Production volume	2 nd Half 2013	1 st Half 2014	Total		
	(%)	(%)	(%)		
	Mfg	Mfg	2 nd '13	1 st '14	2 nd '14 (Forecast)
Increased	19	10	14	10	12
Remain unchanged	57	63	63	68	64
Decreased	24	27	23	22	24
Total	100	100	100	100	100
(Sample Size)	(54)	(69)	(95)	(112)	(108)

3.1.3 **Stocks**

Slight increase in Inventory levels

Overall, the survey results do not show major change in the inventory levels for the period of 1st half 2014 as opposed to the position for the survey period of 2nd half 2013. There was a minor rise in the ‘increased’ category with a corresponding drop in the ‘unchanged’ category.

Changes were however noted in the categories of stock changes when response patterns were analysed in the ‘manufacturing’ and ‘wholesale and retailers’ sectors. As noted in previous surveys, the majority of the respondents in these two sectors reported ‘unchanged’ inventory levels.

For the manufacturing sector, there was an increase of 10% of respondents who reported ‘unchanged’ level of inventory, with the effect coming mainly from decreases in % of respondents in the ‘increased’ and ‘decreased’ inventory categories.

On the other hand, the wholesale and retailers had a reverse pattern, where there was a rise of 11% points of respondents reporting ‘increased’ inventory levels over the last survey period. This seems to indicate that there may be a slight buildup of inventory among the businesses in the wholesale and retailers, as sales performance turned weaker in 1H 2014.

Going forward for the next six months in 2nd half of 2014, 23% of respondents expect to experience increase the level of inventories while another 55% of respondents anticipate to hold unchanged level of inventories. On the other hand, 22% expect to cut their levels of inventory.

Stocks

Stocks	2 nd Half 2013 (%)		1 st Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	2 nd '13	1 st '14	2 nd '14 (Forecast)
Increased	24	3	18	14	12	15	23
Remain unchanged	59	77	69	68	72	68	55
Decreased	17	20	13	19	17	16	22
Total (Sample Size)	100 (54)	100 (56)	100 (74)	100 (102)	100 (158)	100 (219)	100 (214)

3.1.4 Collections

No major change in Pattern of Collections from Customers

The pattern of responses in respect of collections from customers for the period of 1st half of 2014 was almost identical to that for the 2nd half of 2013. Once again, the majority (62%) of the respondents reported satisfactory collections from customers and 23% of respondents reported having experienced poor collections.

However, when analysed between the different sectors, it was noted that businesses in the manufacturing sector experienced a reversal of collections pattern in this period relative to the previous period of survey. There was an increase of 12% points in respect of respondents reporting 'good' collections from debtors. This change reflected a situation of improved collection experience by businesses in the manufacturing sector where there were decreases of 10% and 2% points in the categories of 'good' and 'poor' collections respectively, in line with a better sales performance during the period.

Unfortunately, the same trend was not seen in the wholesale and retail sector, where there was a drop of 9% points in respect of respondents experiencing good collections from customers. There was also an increase of 5% points in respect of businesses reporting poor collections, as sales weakened and inventory built up. Perhaps, more alarmingly, this change represents a second consecutive period of decrease in respect of % of respondents in the 'good' collections period (in the previous survey period, there was a reported drop of 8% in this category of respondents).

Forecasting into the future, some 13% of respondents believed that their collections would be 'good', while 25% of respondents were concerned that their collections would be 'poor' in view of rising costs of doing business. Overall, businesses predict an unchanged level of collections in the future. Nonetheless, businesses are advised to be cautious and to step up efforts to better control their collections so as not to run into cash flow problems in the future.

Collection for Payment of Debt

Collection for Payment of Debts	2 nd Half 2013 (%)		1 st Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	2 nd '13	1 st '14	2 nd '14 (Forecast)
Good	15	15	27	6	11	15	13
Satisfactory	63	63	53	65	66	62	61
Poor	22	22	20	28	23	23	25
Total (Sample Size)	100 (54)	100 (54)	100 (76)	100 (107)	100 (283)	100 (354)	100 (339)

3.1.5 New orders from overseas market

Slight Drop in New Orders from Overseas Markets

Overall, there was no major change in the level of new orders from overseas markets. There was however a minor change in the breakdown, with the survey findings showing that there was a decrease of 5% points in respect of responses for the ‘increased’ new orders from overseas markets, matched by a corresponding opposite change in the ‘remain unchanged’ category. It may be surmised that new orders from foreign markets continue to remain strong.

In the manufacturing sector, there were fewer respondents who reported ‘increased’ new orders from foreign markets (drop of 16% points from previous survey period). There were more businesses that experienced ‘unchanged’ level of new orders from foreign markets.

In the case of wholesale and retail sector, the change came mainly in the ‘decreased’ level of new order category where some 44% of respondents reported a ‘decrease’ in level of new orders (rise of 6% points). Perhaps, alarmingly, the percentage of respondents in this category appears to be inching towards the 50% mark.

Overall, majority of the respondents (70% of respondents) were still hopeful that for the next six-months ending December 2014, their businesses would experience ‘increased’ and ‘unchanged’ levels of orders from foreign markets. Sentiment wise, this was an increase of 7% points overall relative to what was reported in the last survey period and may reflect slight improvement in confidence of businesses in respect of orders from foreign markets. Nonetheless, businesses should continue to endeavor to secure greater orders from foreign markets.

New Orders of Goods and Services from Foreign Markets

New Orders	2 nd Half 2013 (%)		1 st Half 2014		Total (%)		
	Mfg	WRT	Mfg	WRT	2 nd '13	1 st '14	2 nd '14 (Forecast)
Increased	30	5	14	5	15	10	9
Remain unchanged	43	57	59	51	55	60	61
Decreased	27	38	27	44	30	30	30
Total (Sample Size)	100 (44)	100 (21)	100 (59)	100 (39)	100 (123)	100 (176)	100 (172)

3.1.6 New orders from local market

New Local Orders Largely Unchanged

This period of survey showed that that more businesses (67%) experienced unchanged level of new orders from the local markets. This represents an increase of 6% points over the last survey period with the effect matched by corresponding decreases in the other two categories of 'increased' and 'decreased' new local orders categories. This may be taken as a case of internal demand for the products / services of the businesses concerned as one of continuing to remain strong, in line with a strong growth in domestic demand in Malaysia.

The overall pattern for 'new local orders' was also mirrored somewhat in the manufacturing sector. Here, there was an increase of 15% points of respondents that reported 'unchanged' level of new local orders, while there was a decrease of 9% of respondents that reported 'decreased' level of local orders.

No significant change in breakdown of levels of new local orders was noted for businesses in the wholesale and retail sectors between this survey and the previous survey period.

In the case of future performance in the next six months ending December 2014, some 26% of the respondents forecast that their businesses are expected to experience 'decreased' new local orders. This is an improvement of 12% points since fewer % of respondents expect to record lower level of orders.

New Local Orders of Goods and Services from Local Market

New Local Orders	2 nd Half 2013 (%)		1 st Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	2 nd '13	1 st '14	2 nd '14 (Forecast)
Increased	16	8	10	8	11	8	10
Remain unchanged	50	60	65	62	61	67	64
Decreased	34	32	25	30	29	25	26
Total (Sample Size)	100 (50)	100 (75)	100 (69)	100 (107)	100 (281)	100 (346)	100 (319)

3.1.7 Sales prices

More businesses were able to increase or maintain their Local Sales Prices

Overall, businesses were able to sustain their local sales prices for the 1st half 2014 period. It is noted that the pattern of results for the period under review represents a slight improvement relative to that reported for 2nd half of 2013.

Breaking the trend from the previous two survey periods, for the 6 months ended June 2014, there were fewer businesses that reported the need to reduce sales prices (a decrease of 9% points over the previous survey period). Mainly, 69% of respondents reported that they were able to keep their selling prices unchanged.

Perhaps basing on the latest experience, looking into the future, some 21% of the respondents forecast the need to reduce their selling prices of the goods and services to stay in business for the forecast 6 months forward for the 2nd half of 2014. This represents a significant decrease of 14% points of the percentage of respondents that had similarly forecast such need for the corresponding 6 months future period in the last survey period. Additionally, some 13% of businesses were confident that they could increase their selling prices for the same forecast period.

Based on the comments made in the earlier paragraphs, it was noted that businesses in the manufacturing sector saw a decrease of 16% points in respect of respondents advising of their need to lower their selling prices. In the case of businesses in the 'wholesale and retail' sector, the improved position of businesses appeared to be somewhat mirrored as there was a decrease of 13% points in respect of respondents claiming that they have had to reduce their selling prices. More retailers and wholesalers were also able to increase their selling prices.

Local Sales Prices of Goods and Services

Local Sales Prices	2 nd Half 2013 (%)		1 st Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	2 nd '13	1 st '14	2 nd '14 (Forecast)
Increased	8	7	10	15	10	11	13
Remain unchanged	46	61	59	65	61	69	65
Decreased	46	32	30	19	29	20	21
Total (Sample Size)	100 (52)	100 (69)	100 (69)	100 (103)	100 (263)	100 (339)	100 (330)

3.1.8 Number of employees

Employment Market Relatively Unchanged

The employment market showed a relatively unchanged position with no major swings in the percentage of respondents for all categories of responses. In the main, there appears to be a greater majority of respondents who claimed that their number of employees in the firms remained unchanged over the six months survey period (up 4% points).

In the case of the ‘manufacturing’ sector, there were more businesses keeping their firms’ staff strength unchanged in the 1st half of 2014 relative to the previous half year. This would imply that firms sought to manage their staff costs through the management of staff strengths. For the ‘wholesale and retail trade’ sector, firms mainly kept their number of employees unchanged.

Overall, the majority of businesses are expected to maintain their capacity level in terms of human resource requirements for the next 6 months ending December 2014.

Number of Employees

Number of Employees	2 nd Half 2013 (%)		1 st Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	2 nd '13	1 st '14	2 nd '14 (Forecast)
Increased	11	6	5	5	7	6	9
Remain unchanged	60	78	68	78	71	75	72
Decreased	30	17	27	17	22	19	19
Total (Sample Size)	100 (57)	100 (71)	100 (78)	100 (112)	100 (293)	100 (369)	100 (353)

3.1.9 Wage cost per unit of output

Wage Costs Per Unit of Output Relatively Unchanged

Businesses advised that the wage cost per unit of output for the whole of 1st half of 2014 largely remained constant, with fewer businesses reporting to have experienced increase or decrease in wage costs per unit of output (increase of 6% points in the ‘unchanged’ category of wage costs). This may be taken as an indicator that businesses have strived earnestly to keep wage costs per unit of goods and services constant. A total of 73% of respondents indicated that their wage costs remained unchanged in 1st half of 2014 compared 67% recorded in the 2nd half of 2013.

When analysed by sector, it is noted that a similar pattern exists for businesses in both the ‘manufacturing’ sector and the ‘wholesale and retail trade’ sector. Both sectors recorded big jumps in the percentage of respondents in the ‘unchanged’ wage costs per units, with increases of between 12% to 20% points noted. In fact, fewer firms reported experiencing wage costs per unit increase.

Looking into six months ahead, some 70% of the respondents believed that wage costs would remain unchanged for the period of 2nd half 2014. This underscores the fact that businesses would continue to ensure that wages costs remain constant. However, the question remains how such unchanged wage costs per unit shall be achieved, whether via not increasing the wage per staff or through the recruitment of new, inexperienced employees.

Wage Costs per Unit of Goods and Services

Wage Costs per unit	2 nd Half 2013 (%)		1 st Half 2014 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	2 nd '13	1 st '14	2 nd '14 (Forecast)
Increased	33	33	22	14	17	15	15
Remain unchanged	52	52	64	72	67	73	70
Decreased	15	15	14	14	16	12	14
Total (Sample Size)	100 (54)	100 (54)	100 (78)	100 (107)	100 (272)	100 (362)	100 (336)

3.1.10 Capacity utilisation

Rise in Capacity Utilization

This period of survey saw a significant change in the capacity utilisation by firms. Certainly, of significant improvement is the decrease in the % of respondents that reported a capacity utilisation rate of 40% or less. In the last survey period, some 39% of respondents were classified in this category. However, for this survey period, this dropped drastically to 5% of respondents.

Improvements were recorded in all categories of capacity utilisations above 40% as shown in the table below. Of interest to readers would that some 64% of respondents advised that their businesses were operating at above 60% capacity, up 19% points over that reported in the last survey period of 2nd half 2013. This would mean that operations wise, businesses appear to be experiencing some form of recovery.

As noted in previous surveys, the capacity utilisation rate continues to be well below the desired level of more than 80%. However, the reversal of response pattern appears to augur well for the business community, in particular the sharp drop in the % of respondents reporting operating at less than 40% capacity.

The Government should continue to give serious consideration into assisting the SMEs in particular to help such businesses improve on their capacity utilisation in the long run.

At the individual business level, to reduce the excess capacity, greater efforts should be placed by the businesses into areas such as marketing and promotional exercises, introduction of new products and more innovative business measures to increase sales.

Capacity Utilisation Level

Capacity Utilisation Level	2 nd Half 2013 (%)		1 st Half 2014 (%)		Total (%)	
	Mfg	Mfg	Mfg	WRT	2 nd '13	1 st '14
81 ~ 100%	21	21	12	12	7	11
61 ~ 80%	48	48	55	56	34	53
41 ~ 60%	16	16	28	26	20	30
0 ~ 40%	16	16	5	5	39	5
Total (Sample Size)	100 (63)	100 (63)	100 (75)	100 (96)	100 (345)	100 (336)

3.1.11 Investment in new resources or plant

More Respondents Choosing to Maintain Investments in New Resources or Plant

Given that the capacity utilisation by the majority of businesses continues to be less than the desired 80% level as noted earlier, it is therefore understandable to note that 89% of the respondents replied that they were keeping their investments in new resources or plant either 'unchanged' or 'decreased'. On the bright side, the % of respondents in the 'decreased' category has dropped by 14% points for this period over the last survey period.

There was a 15% points decrease in the % of respondents in the 'manufacturing' sector that had chosen to reduce their investment levels. As noted in the earlier paragraph, there continues to be sufficient capacities to absorb new orders.

Moving forward, some 35% of the respondents stated that they are considering reducing their investment in new resources or plant for the period 2nd half 2014. This is mainly due to the significant excess capacity and rising costs of doing business. Only 13% of respondents advised that they planned to increase such investments during the period of 2nd half 2014.

Investment in New Resources or Plant

Investment	2 nd Half 2013 (%)		1 st Half 2014 (%)		Total (%)		
	Mfg	Mfg	Mfg	WRT	2 nd '13	1 st '14	2 nd '14 (Forecast)
Increased	14	14	11	11	9	10	13
Remain unchanged	50	50	68	56	48	60	52
Decreased	36	36	21	32	43	29	35
Total (Sample Size)	100 (50)	100 (50)	100 (75)	100 (96)	100 (231)	100 (319)	100 (299)

3.1.12 Economic Situation in Malaysia

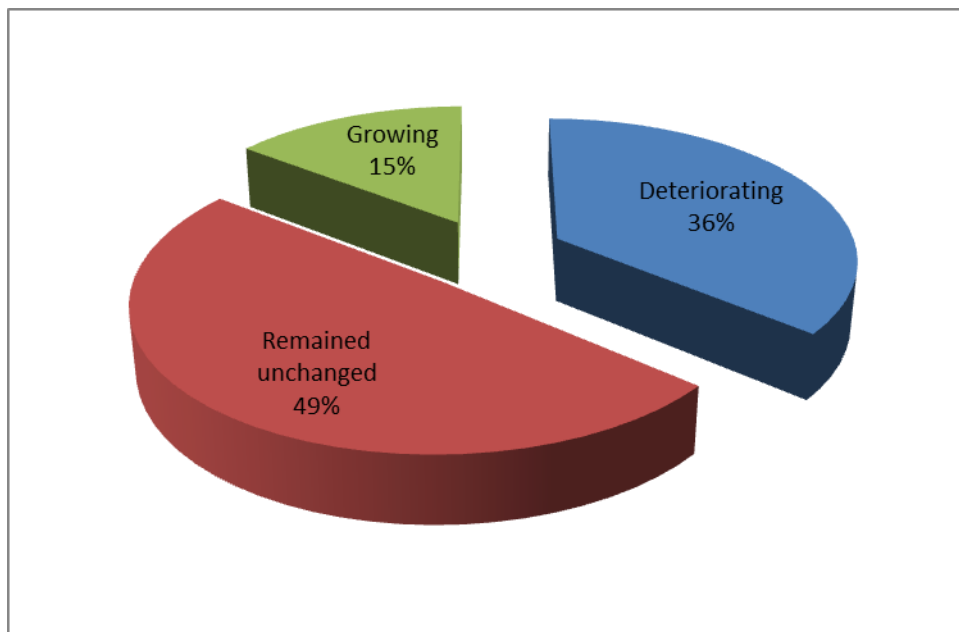
The Malaysian economy was seen to have experienced improvement in the 1st half of 2014

At the macro level, some 49% of respondents had the perception that the Malaysian economy remained relatively stable in the 1st half of 2014. The percentage of respondents under this category of response has increased by 5% points from a level of 45% for the last survey period.

However, in the ‘deteriorated’ category, there was a drop in the percentage of respondents choosing this category (drop of 9% points over that reported for this category in the last survey period). Correspondingly, more respondent felt that the Malaysian economy improved in 1H 2014, in line with an improvement in sales, even though a major segment of the business community continued to hold the perception that the Malaysian economy remained stable.

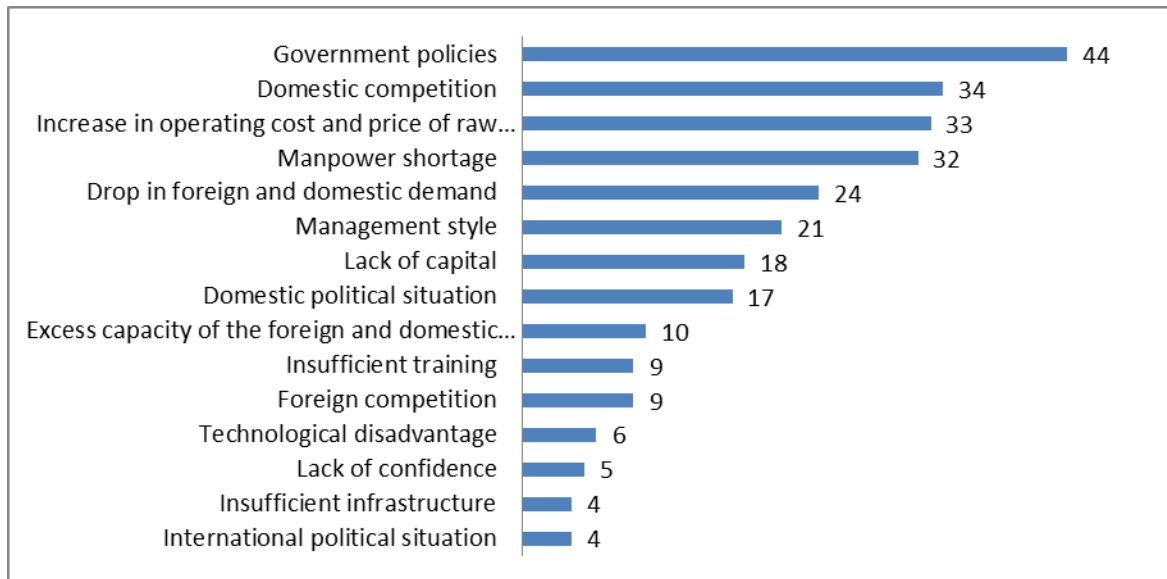
Certainly, Malaysian businesses wish to see more robust economic growth. Whilst the figures released by Bank Negara Malaysia depict higher economic growth and performance for Malaysia as a whole, in particular for the 1st half of 2014, such growth appears not to have fully filtered down to the businesses, especially at the SMEs level.

The Malaysian Economy in the 1st Half of 2014



3.2 MAJOR FACTORS ADVERSELY AFFECTING BUSINESS PERFORMANCE

Factors Affecting Business Performance for 1st Half 2014 (%)



Government policies

For the period six months ended June 2014, the greatest concern among businesses continues to be the need for business friendly government policies that promote and support businesses activities.

Some 44% of the respondents cited Government policies to be the most important factor affecting the performance of their businesses during this period of survey. This could be due to rising costs of doing business, after the implementation of the minimum wage policy in Malaysia, followed by fuel prices hike in in 2013 and power tariff and gas price hikes in 2014. Businesses have also expressed concern about the implementation of new rules such as the extension of retirement age, feed in power tariff and an increase in EPF contributions for certain income group as well as the proposed increase in bank charges for the use of cheques for payments that led to an increase in the cost of doing business. As noted in the past, Malaysian businesses continue to expect the Government to introduce and implement economic policies that are business friendly, increase the speed and efficiency of Government / regulatory related processes and in turn, reduce cost of doing business. The Government is also looked upon to implement efficient public

projects and spend its money wisely that can spur greater economic growth.

The business community sees the implementation of business friendly policies as imperative and necessary to boost private investment and spur the Malaysian economy. It should also be noted that despite efforts to transform the Malaysian economy, the effects and benefits appear to have not filtered down meaningfully and significantly to the SMEs.

Domestic competition

This concern is ranked as the second most important factor affecting business performance during the survey period (ranked 3rd most important in the last survey period).

As noted in the past, business environment has become more challenging and more and more businesses are being set up, forcing the SMEs to compete fiercely with each other. The situation was compounded by rising cost of doing business and softening domestic demand.

Increase in operating cost and price of raw materials

Increase in operating costs and prices of raw materials have now become the third most important concern among businesses (down from second most important factor in the last survey period).

This has to do with the government policies and the implementation of new rules highlighted above such as the 1% point increase in EPF contribution (for workers who earned RM5,000 and below), the implementation of the Competition Act 2010, the implementation of the minimum wage and the increase in utilities costs and fuel prices. The mandatory extension of the retirement age to 60 for the private sector and the maintaining of EPF contribution rates by employers until the age of 60 also added on to operating costs. Also, there continues to exist fluctuations in some prices of raw materials, which in turn have had some impact on businesses' operating costs.

Manpower shortage

Concern was expressed by the respondents in respect of this factor with close to 32% of respondents feeling this as an important factor during the 1st half of 2014's survey.

Businesses and employers in Malaysia have long complained of shortage of suitably qualified workers and the problem of supply of foreign workers as well as lack of job-fit and job-readiness Malaysians (in particular, job readiness and employable graduates) that are likely to have impacts on their businesses. The situation is expected to worsen with more and more foreign workers returning to their home countries and less are willing to come to Malaysia given that economic activities in their home countries are picking up.

Overall, government policies, increase in domestic competition, increase in operating costs and price of raw materials and manpower shortages were the four (4) major factors that affected the business performances in the 1st half of 2014.

3.3 MALAYSIAN ECONOMIC OUTLOOK

The Chinese business community is generally less pessimistic about the economic outlook for 2014 but not so in 2015, with improvements expected in 2016.

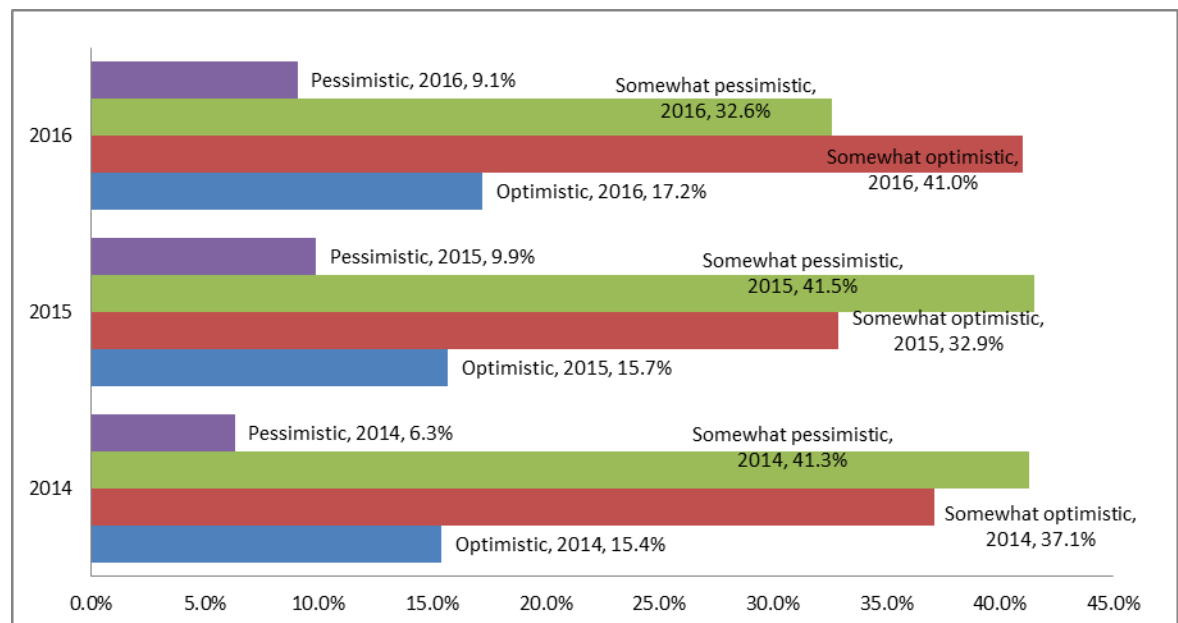
There appears to be a significant change in perceptions by the business community surrounding the future economic outlook of Malaysia.

About 47.6% of the respondents expressed that they were pessimistic about the performance of the Malaysian economy for 2014. This represents a significant decrease from 64% recorded in the last survey. The significant drop was in line with the growth data released by Bank Negara Malaysia that shows that the Malaysian economy recorded growth of more than 6% during this period of survey.

The expectation of the respondents for the Malaysian economy in 2015, however, is somewhat split, with a small majority (51.4%) of the respondents believing that the Malaysian economy is expected to struggle going into 2015 and perhaps, is only likely to perform better in 2016. This could be because respondents are concerned over the implementation of the Goods & Services Tax on 1 April 2015 that could hurt consumer spending and increase costs of doing business.

Overall, the Chinese business community is generally less pessimistic about the economic outlook for Malaysia for 2014 but not so in 2015 and they are looking towards an improvement in 2016.

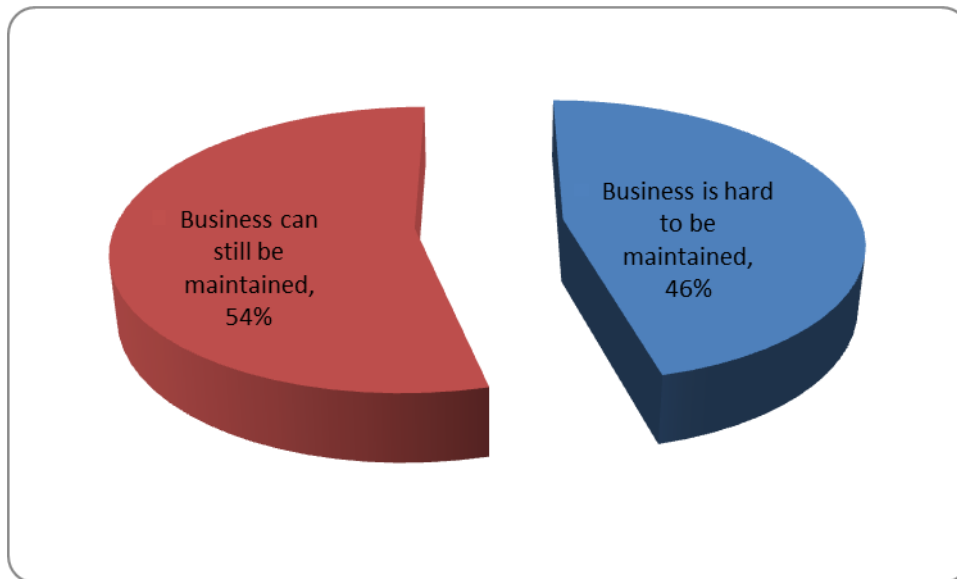
Malaysian Economic Outlook 2014-2016 (%)



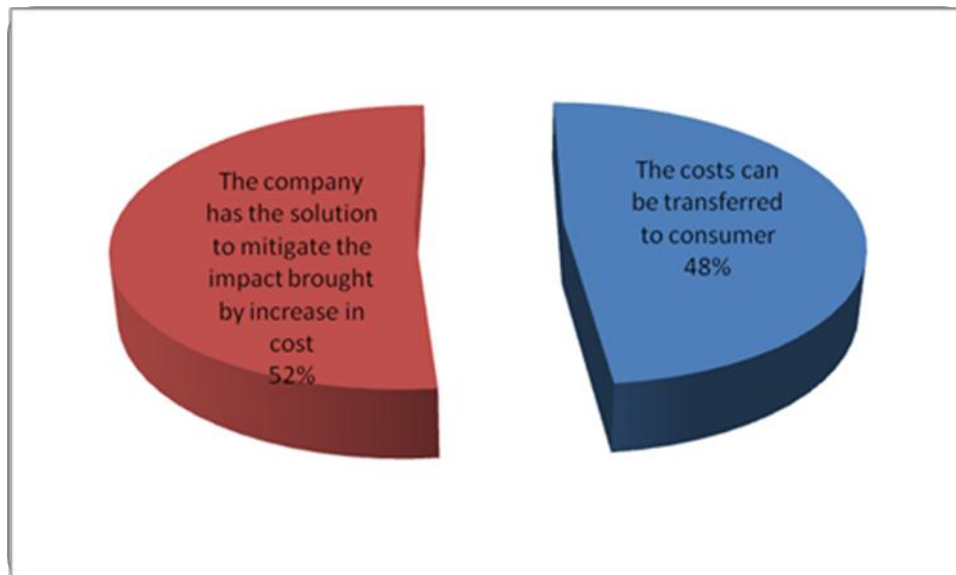
3.4 INCREASE IN COSTS

(a) According to “Asia Business Sentiment Survey” conducted by Thomson Reuters and INSEAD, although there is a general improvement of business sentiment index in Asia, yet the business sentiment index in Korea, Japan and Malaysia declined. Among these three (3) countries, Malaysia ranked number 2 due to increase in cost and global economic instability.

(i) Did the increase in cost affected your company during the 1st half of 2014?



(ii) Business can still be maintained because:



**ACCIM SURVEY REPORT ON ECONOMIC SITUATION OF MALAYSIA
FOR THE 1ST HALF OF 2014**

Issues with regard to rising costs of doing business continue to be a major concern for businesses in Malaysia. For many businesses, this factor represents a great concern and many have voiced their frustration and hoping to see the Government taking steps to address this issue.

Contributors to the rise in costs of doing business in recent periods include:

- a) Increase in fuel prices
- b) Increase in electricity tariffs and gas prices
- c) Minimum wage policy
- d) Higher prices for some materials
- e) Higher compliance costs and so on.

For instance, the CPI has been steadily rising month on month:

Month	CPI
December 2012	105.5
January 2013	105.9
December 2013	108.9
January 2014	109.5
February 2014	109.8
March 2014	109.9
April 2014	109.9
May 2014	110.0
June 2014	110.2
July 2014	110.3

(source: <http://www.statistics.gov.my>)

Fuel prices rose in September 2013, where the prices for RON95 and diesel were raised to RM2.10 per litre and RM2.00 per litre respectively. The Government is currently looking to implement a subsidy rationalisation programme, the decision of which is expected to be made by the fourth quarter of 2014. It is expected that this would result in a further increase in fuel prices and costs of doing business for businesses. To add to the concerns, at the time of writing, no decision has been made by the Government on whether fuel would be exempted from the Goods and Services Tax (GST).

Effective January 2014, electricity rates in Peninsular Malaysia, Sabah and Labuan were also allowed to increase by between 15% - 17%.

In addition, beginning January 2014, the Minimum Wage policy was fully rolled out to include small companies. The minimum wage was set at RM900 per month in Peninsula Malaysia and RM800 per month in Sabah and Sarawak. It came into effect on 1 January 2013 for employers

with more than 5 employees, whereas businesses with five or fewer employees had to adhere to the minimum wage requirement beginning 1 July 2013. The policy for foreign employees in small and medium enterprises (SMEs) was deferred until the beginning of 2014. This has had some negative impact on wages.

To add to the apparent gloom or deluge of bad news, many businesses have also complained of rise in prices of raw materials, particularly those in the manufacturing and construction sectors.

The introduction of many new laws and regulations (for e.g. Competition Act, Minimum Wage etc) have resulted in businesses having to dedicate more resources towards ensuring compliances. Adding to the pressure is the impending implementation of the Goods and Services Tax (GST) beginning 1 April 2015. Many businesses are now scrambling to have better understanding and readiness in respect of implementing GST. Certainly, compliance costs will continue to rise in the future.

The extent of the seriousness of the rising cost of doing business in Malaysia is reflected by the recent news that International Trade & Industry Ministry has formed a task force to tackle this serious problem, besides the issue of productivity. The task force is required to identify solutions to all issues and difficulties faced by the business community and to present their findings to the Cabinet of the Government.

The respondents were thus asked several questions with regards to this issue of rising costs of doing business and its impact.

The results of the survey shows that **54% of respondents opined that they would still be able to maintain their business operations in existing condition with the remaining 46% claiming that they would face significant difficulties in keeping up their business in the months ahead.**

In the case of respondents claiming that they were able to maintain their operations:

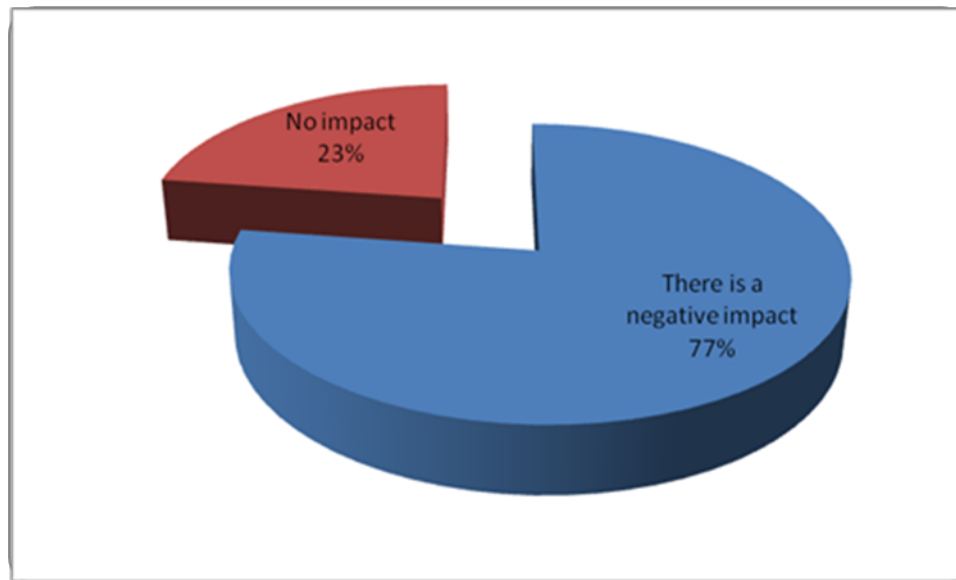
- a) The majority of businesses (52%) believe that they will have some ways to mitigate the effects of rising costs; whereas**
- b) The balance 48% claimed that they are able to pass on the effects of rising costs to customers or end-users**

This suggests that for those respondents who claimed that they will face difficulties in the future, they too will likely be forced to pass the effects of rising costs to the customers in order for them to survive.

Surely, all the above will result in consumers having to bear the brunt of the effects of rising costs in the future.

3.5 ECONOMIC AND TRADE COOPERATION BETWEEN MALAYSIA AND CHINA

- (a) Do you think the tourism, economic and trade cooperation between Malaysia and China is affected by MH370 tragedy?



A significant majority of respondents (77%) were of the opinion that the MH370 tragedy that occurred in March 2014 would have a negative impact on the level of economic and trade cooperation between Malaysia and China.

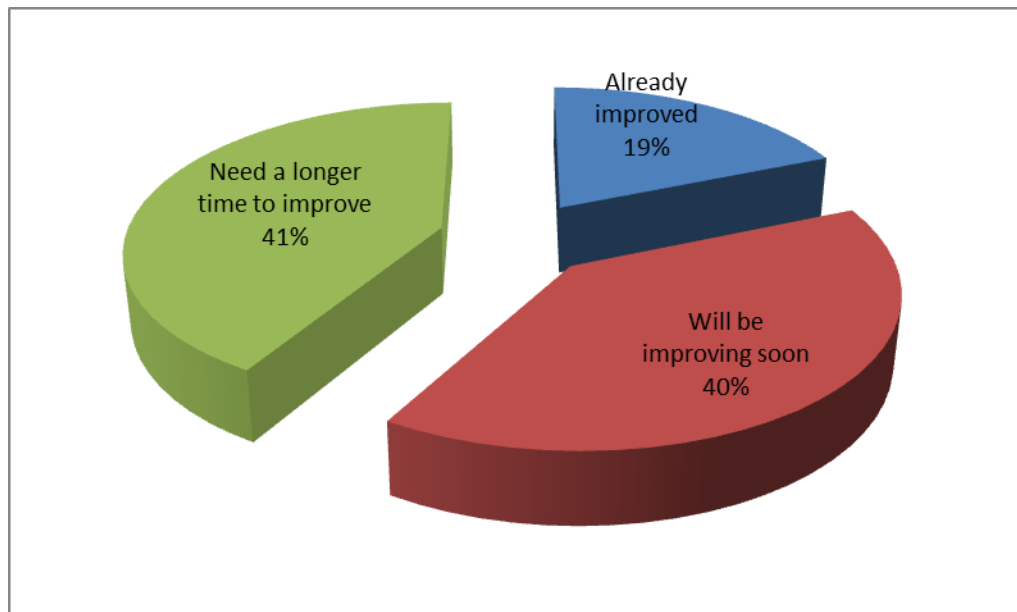
The biggest area of concern is the tourism and its related sectors. Tourists from China are feeling fear and shunning Malaysia and its effect may be significant since tourists from China account for 12% of tourist arrivals and is a key driver of tourism growth for Malaysia. The number of visa applications from China is said to have halved since the unfortunate incident.

Based on the latest available data, the effects are clear for readers to see:

Month	No of tourist arrivals from China
January 2014	172,396
February 2014	180,069
March 2014	168,001
April 2014	132,158
May 2014	102,072

(source: Tourism Malaysia)

- (b) **We welcome the arrival of two (2) pandas to Malaysia. When Prime Minister of Malaysia visited China at the end of May 2014, he was treated to the “Red Carpet” by China. Do you think the economic and trade cooperation between Malaysia and China will improve?**



Certainly, keen and earnest efforts are being put in by the Malaysian Government to improve economic and trade ties between Malaysia and China. Bilateral trade between Malaysia and China has expanded at an average of 18% per annum since 2000. Seeing the market potential, the Government has set an ambitious plan under a five (5) year programme to increase bilateral trade between the two countries to USD160 billion by 2017.

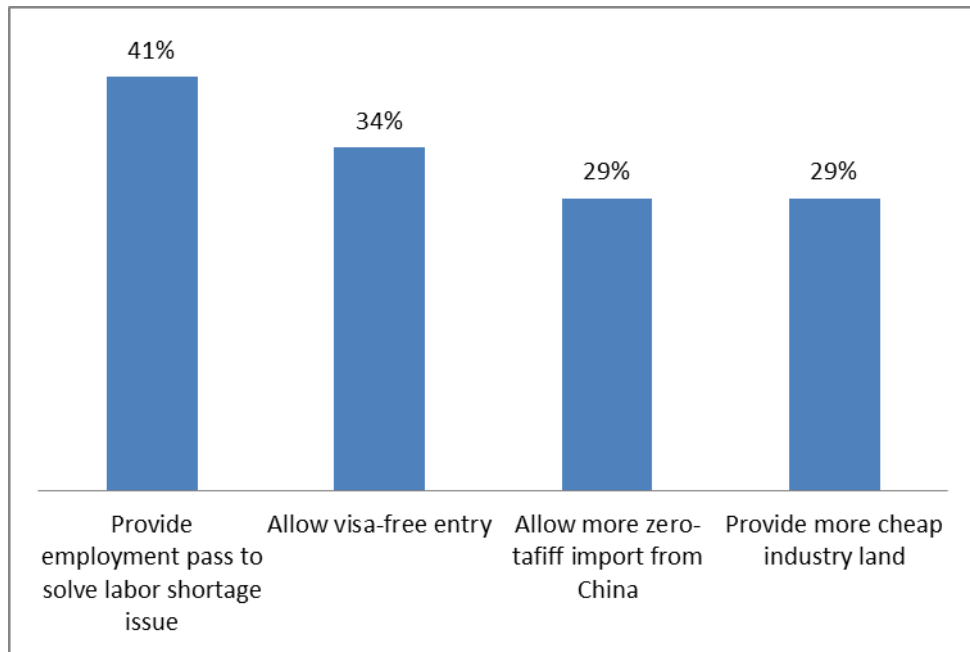
However, after the MH 370 incident there are concerns that it may put a damper towards such promotional efforts put in by the Government. Nonetheless, since the unfortunate event of MH 370, much promotional efforts have been put in to ensure that economic and trade ties between Malaysia and China are not affected. This has been evident based on the visits to China and Malaysia by the leaders of the two countries concerned of late.

The key issue remains: when would improvement in economic and trade ties be expected in the future?

The majority of respondents were optimistic with regard to this issue, with some **19% of respondents believing that the efforts by the governments of both countries have already started to bear fruit since the MH 370 tragedy, whilst another 40% opined that improvements are expected in the not too distant future.**

The balance 41% of respondents felt that more time would be required before improvements desired set in. Nonetheless, what is clear is that time and patience indeed are required by all parties as recovery and improvement cannot take place overnight.

- (c) **Because of Vietnam’s anti-China protest and riots in Thailand, Malaysia gets the best opportunity to attract more Chinese investors to invest here. What do you think the government should do to attract more Chinese investors?**



There were comments made whereby Malaysia may stand to benefit given the recent events that have taken place in other countries in South East Asia, namely:

- a) The anti-China sentiment among Vietnamese and the recent unrests, protests and riots that took place recently in Vietnam in May 2014 in response to China deploying an oil rig in a disputed region in South China Sea close to the Vietnam shores.
- b) Political instability in Thailand, starting with anti-government protests that took place between November 2013 and May 2014, and the subsequent removal of the incumbent prime minister, Yingluck Shinawatra. This was followed by a coup d'état and the establishment of a military junta.
- c) Philippines has also been engaged in South China Sea territorial standoffs with China

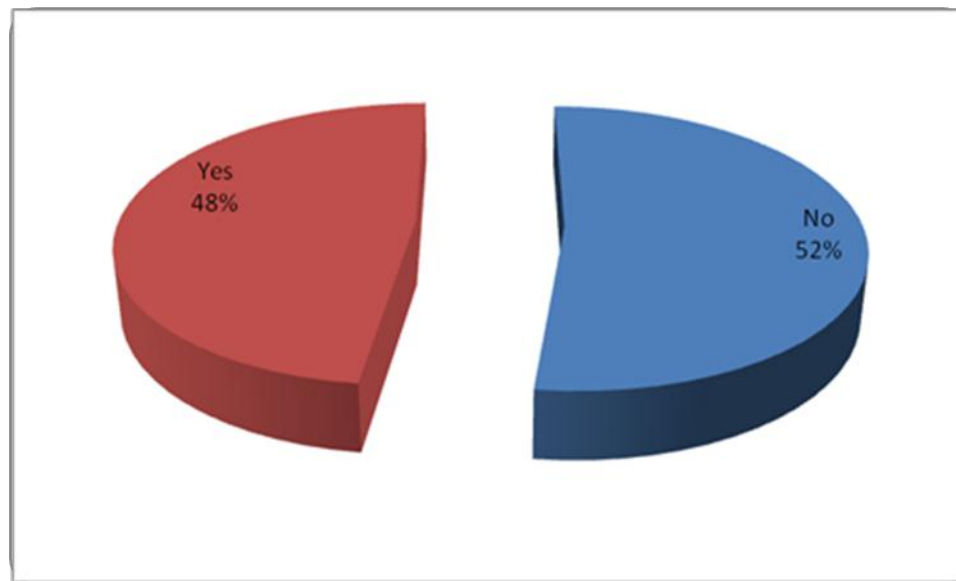
The abovementioned events have resulted in investors from China shifting their focus away from countries such as Vietnam, Thailand and Philippines. Malaysia may therefore stand to gain from such a situation.

Respondents were thus asked as to what efforts the Malaysian Government should put in to attract more investors from China into Malaysia and the results are summarised in the bar chart as shown above.

3.6 ASEAN ECONOMIC COMMUNITY (AEC) 2015

After implementing the AEC in 2015, there will be free flow of goods, skilled labours and capital among the ASEAN countries.

- (a) Are you aware of the coming deadline for the implementation of the integration of the economies of the ASEAN countries by 2015?

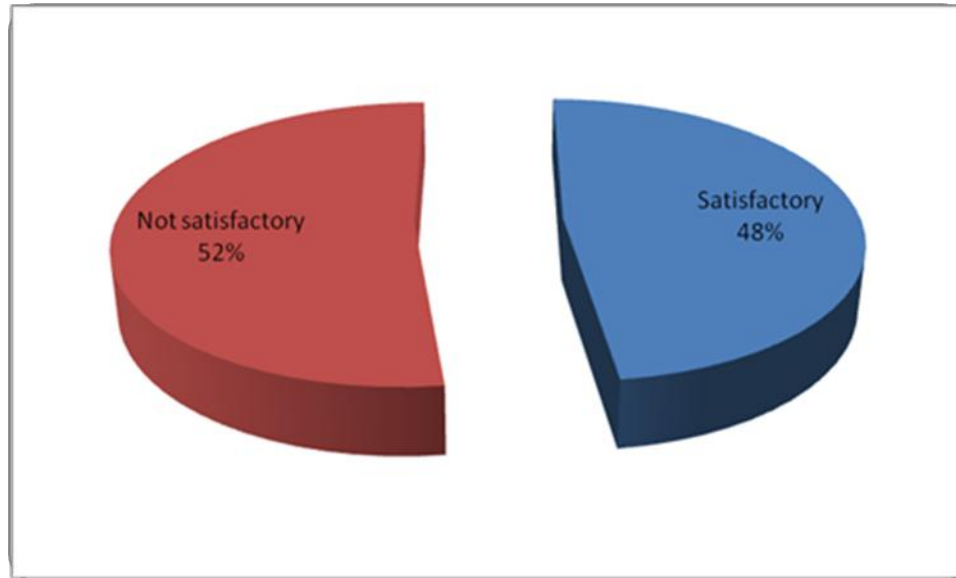


The deadline for the implementation of the ASEAN Economic Community is getting closer, i.e. at the end of 2015. This follows after the heads of the ASEAN countries has agreed to achieve a greater regional economic integration by the said deadline. ASEAN ECONOMIC COMMUNITY (AEC) seeks to achieve the following, being the creation of:

- a) Single market and production base
- b) Highly competitive region
- c) Region of equitable economic development and
- d) Region that is fully integrated into the global economy

Based on the survey findings for this period, **more than half of the respondents surveyed replied that they were not aware of the coming deadline.**

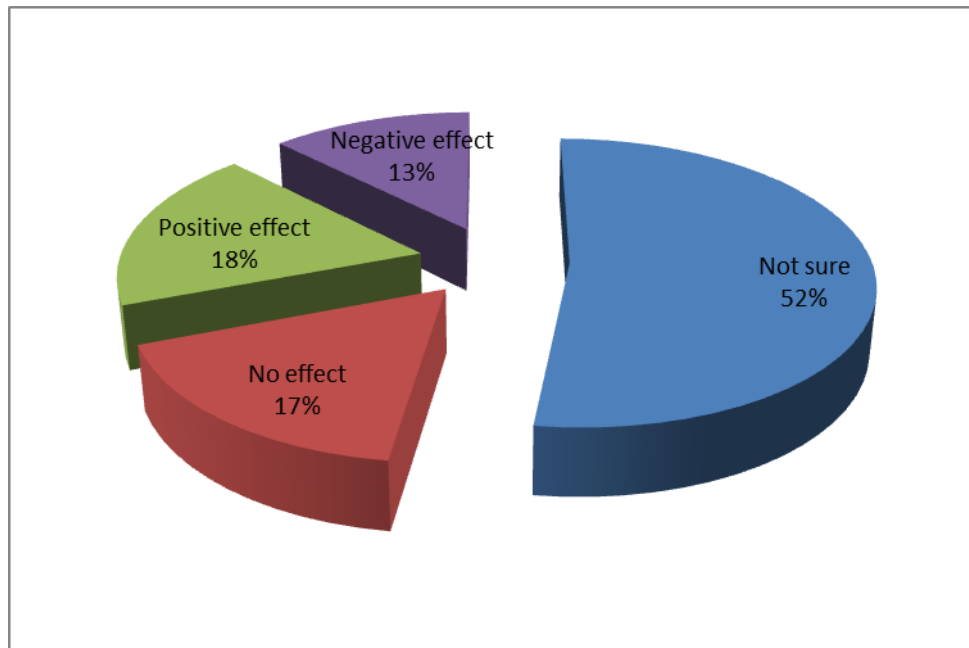
(b) How are your company's preparations for the impending integration under AEC?



As commented earlier, **more than half of the respondents are not aware of the coming deadline for the implementation of AEC. This has contributed to more than half of the respondents advising that they are not satisfied with their preparations for the said deadline.** After all, not being aware of the deadline would translate to the lack of efforts towards the necessary preparations to face the effects of the integration. Worse still, steps to take advantage of the economic potentials that may accrue to businesses would not have taken place.

As mentioned in previous surveys, efforts should be put in by the Government to raise the awareness among the business communities and all other stakeholders of the purpose behind the creation of AEC, its benefits, its implications to businesses and hence, the preparations that would need to be put in place before the coming deadline. Otherwise, businesses in Malaysia would be at a significant disadvantage vis-à-vis their counterparts from other AEC countries.

(c) How will your business be affected by the impending integration under AEC?



In line with the earlier comments, **more than half of the respondents are unsure of the impact that AEC would pose on their businesses. Only small groups of respondents felt that there would be positive (18% of respondents) or negative (13% of respondents) effects .**

Businesses are thus advised to start to undertake the following:

- a) Understand what are the objectives of AEC
- b) Undertake preliminary analysis of their products and services that would be affected by the integration of the ASEAN economies
- c) Understand what opportunities that may accrue and the threats would be posed by competitors from neighbouring countries
- d) Perform self-analysis to identify strengths and weaknesses
- e) Take corrective actions to prepare for AEC