

1. INTRODUCTION

1.1 THE PURPOSE OF THIS SURVEY

In Malaysia, owing to their wide participation in the economic activities throughout the country, Chinese businessmen and business entities play an important role within the Malaysian economy. A biannual survey was carried out to gather feedback and opinions from Chinese businessmen pertaining to the economic conditions and performance in the 2nd half of 2017. This survey can be viewed as a means to gauge the economic situation facing the Chinese business community in the period concerned. This survey covers four major areas in relation with the Chinese business community, namely:

- i. **The Malaysian economic situation in the 2nd half of 2017;**
- ii. **Major factors affecting business performance;**
- iii. **Malaysian economic outlook; and**
- iv. **Current issues and challenges 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 and condition available today are collected by the Government through Bank Negara Malaysia and the Department of Statistics, Malaysia (under the Prime Minister's Department). Further, there also exists other research bodies in Malaysia that collate economic data, such as the Malaysian Institute of Economic Research (MIER) which tend to focus greater on the consumers and manufacturing sectors.

Given that the Chinese business community plays an important role in the Malaysian economy, the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCIM), as a national organisation representing the Chinese business community, takes the task to **assist the Government in gauging the economic situation facing the Chinese business community. It also attempts to collect feedback and opinions 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 2nd half of 2017. The questionnaire was constructed based on the current economic issues and challenges faced by the country and the business community, and the various measures undertaken by the Government to address the issues concerned.

The direct and indirect membership of ACCCIM Constituent Chambers consist of more than 100,000 members, representing Malaysian Chinese companies, individuals and trade associations. As most of the prominent Chinese businessmen are committee/ council members of ACCCIM either at the national or state levels, these committee/ council members could be taken to represent the Chinese business community. The total questionnaires sent out were 780.

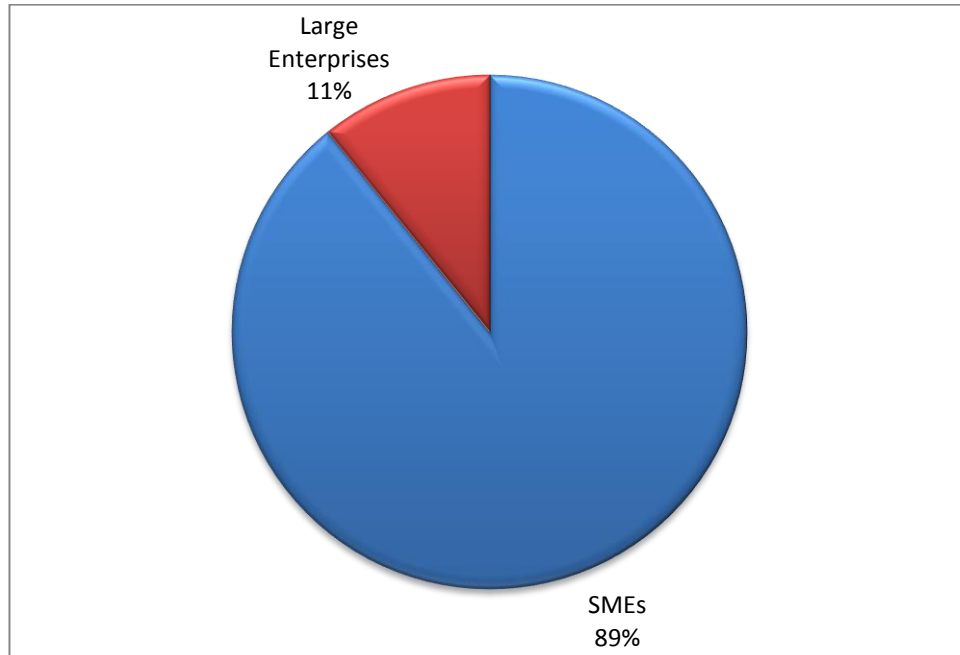
The response rate for this period of survey was 50.0%. These 390 respondents made up the sample of this survey.

The questionnaires were distributed to Chinese's businessmen across all sectors and industries. In terms of breakdown of distribution, the respondents are mainly from the **wholesale and retail trade (22.6%), manufacturing (21.0%), professional and business services (16.2%), construction (8.5%), tourism, shopping, hotels, restaurants, recreation & entertainment (8.2%), transportation, forwarding and warehousing (5.1%), real estate (4.4%), finance & insurance (4.1%), as well as others (9.9%)**. 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	22.6
Manufacturing	21.0
Professional & business services	16.2
Construction	8.5
Tourism, shopping, hotels, restaurants, recreation & entertainment	8.2
Transportation, forwarding and warehousing	5.1
Real estate	4.4
Finance & insurance	4.1
Others	9.9
Total (Sample Size)	100.0 (390)

With regards to the size of businesses of the respondents, about 10.8% of the respondents are from “Large Enterprises” (according to annual turnover and number of full time employees).

Large Enterprises vs SMEs



The definition of a ‘small and medium enterprise’ [SME] follows that as provided by the National SME Development Council in October 2013, which emphasizes two [2] sub-categories, being:

- Manufacturing
- Services and other sectors

A SME would be considered to belong to the category of **manufacturing** if it satisfies the following conditions:

- Sales turnover not exceed RM50 million or
- Full-time employees not exceeding 200 workers

A SME would be considered to belong to the category of **services and other sectors** if it satisfies the following conditions:

- Sales turnover not exceed RM20 million or
- Full-time employees not exceeding 75 workers

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A business would be deemed as an SME if it meets either one of the two specified qualifying criteria, namely sales turnover or full-time employees, whichever is lower.

In the case of microenterprises, it covers entities whose sales turnover is less than RM300,000 or has less than 5 full-time employees. This set of parameters is applicable for businesses in all sectors.

A summary of the abovementioned definition is shown below:

Category	Small	Medium
Manufacturing	Sales turnover from RM300,000 to less than RM15 million <u>OR</u> full-time employees from 5 to less than 75	Sales turnover from RM15 million to not exceeding RM50 million <u>OR</u> full-time employees from 75 to not exceeding 200
Services & Other Sectors	Sales turnover from RM300,000 to less than RM3 million <u>OR</u> full-time employees from 5 to less than 30	Sales turnover from RM3 million to not exceeding RM20 million <u>OR</u> full-time employees from 30 to not exceeding 75

(Source: Pg 2, GUIDELINE FOR NEW SME DEFINITION Issued by: SME Corp. Malaysia)

The classification of sectors is defined below:

- **‘Manufacturing’** refers to physical or chemical transformation of materials or components into new products.
- **‘Services’** refer to all services including distributive trade; hotels and restaurants; business, professional and ICT services; private education and health; entertainment; financial intermediation; and manufacturing related services such as research and development (R&D), logistics, warehouse, engineering etc.
- **‘Others’** refer to the remaining 3 key economic activities, namely:
 - (i) Primary Agriculture – Perennial crops (e.g. rubber, oil palm, cocoa, pepper etc.) and cash crops (e.g. vegetables, fruits etc.) – Livestock – Forestry & logging – Marine fishing – Aquaculture
 - (ii) Construction – Infrastructure – Residential & non-residential – Special trade
 - (iii) Mining & quarrying

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During the survey period under review, it was noted that for the manufacturing-based business, 58.4% of the respondents employed 74 employees or less, with another 33.1% employing 75-200 employees, whereas 8.5% of the respondents claimed that they employed more than 200 employees.

For the services-based businesses, 66.5% of the respondents employed some 29 or less employees, whereas 26.6% employed 30-75 employees. On the other hand, about 6.9% of the respondents claimed that they employed more than 75 employees.

Full-Time Employees

Manufacturing		Services	
Number of employees	Percentage (%)	Number of employees	Percentage (%)
Less than 5	6.9	Less than 5	22.3
5 ~ 74	51.5	5 ~ 29	44.2
75 ~ 100	16.2	30 ~ 49	13.1
101 ~ 200	16.9	50 ~ 75	13.5
More than 200	8.5	More than 75	6.9
Total (Sample Size)	100.0 (130)	Total (Sample Size)	100.0 (260)

In the case of turnover achieved annually, for the manufacturing-based businesses, about 67% of the respondents had an annual turnover less than RM15 million. 23% of the respondents in this classification had annual turnover that lie between RM15 million to RM50 million. The balance 10% of the companies surveyed reported having an annual turnover that exceeded RM50 million.

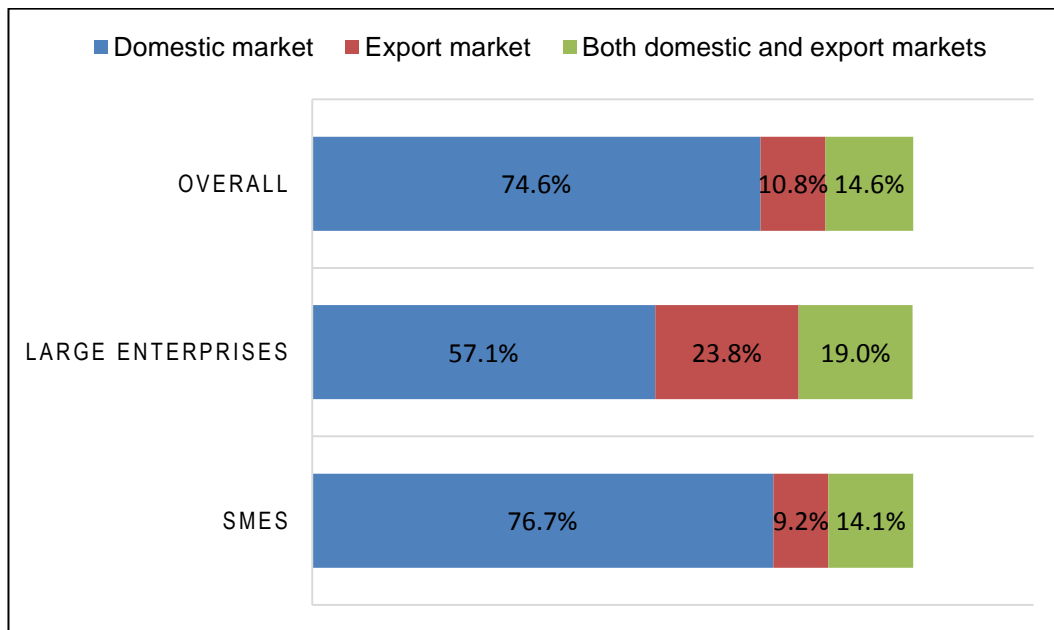
For the services-based businesses, about 69.2% of the respondents had an annual turnover less than RM5 million. 22% of the respondents in this classification had annual turnover that lie between RM5 million to RM20 million. Additionally, about 8.8% of the companies had an annual turnover of more than RM20 million.

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Annual Turnover

Manufacturing		Services	
in Ringgit Malaysia	Percentage (%)	in Ringgit Malaysia	Percentage (%)
Less than 300,000	3.8	Less than 300,000	12.7
300,000 ~ 1.49 million	22.3	300,000 ~ 1.49 million	27.7
1.5 million ~ 4.99 million	17.7	1.5 million ~ 2.99 million	15.4
5.0 million ~ 14.99 million	23.1	3.0 million ~ 4.99 million	13.5
15.0 million ~ 29.99 million	13.8	5.0 million ~ 9.99 million	11.2
30.0 million ~ 50.0 million	9.2	10.0 million ~ 20.0 million	10.8
More than 50.0 million	10.0	More than 20.0 million	8.8
Total (Sample Size)	100.0 (130)	Total (Sample Size)	100.0 (260)

About 74.6% of the respondents are “Domestic” market oriented whereas the remaining 25.4% focus on “Both Domestic and Export” markets (14.6%) and ‘Export’ market (10.8%).



In respect of source of marketing and sales orientation, the majority of respondents advised that their focus continues to be in the domestic market. This shows the continued high dependence by businesses (especially in the case of SMEs) on the economic health of the domestic economy to ensure the sustainability of the businesses. Any negative

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effects experienced by the Malaysian economy are bound to have significant ramifications on the businesses.

3. SURVEY FINDINGS

3.1 THE MALAYSIAN ECONOMIC SITUATION IN THE 2ND HALF OF 2017

3.1.1 Sales performance

Improvement in Sales Performance of Businesses

Based on the survey results, a slightly higher majority of the respondents (73%) replied that their firms' sales performances for the 2nd half of 2017 were either of the 'good' or 'satisfactory' classification. This means that majority of the businesses have been able to sustain their sales performance during this survey period.

Correspondingly, the % of respondents reporting poor sales fell in 2H 2017 by about 3% points to 27%.

When analysed by the major sectors, it is noted that sales performance of businesses in the manufacturing sector appear to have improved / stabilized with a rise of 8% points of respondents reporting 'good' and 'satisfactory' sales performance.

This pattern was also somewhat mirrored by businesses in the wholesale and retailers sector, which reported an increase of 4% points of respondents reporting 'good' and 'satisfactory' sales.

This sales performances as reported above is in line with the improvement in growth of the Malaysian economy during the survey period of 2H 2017 (economic growth of 6.2% in 3Q 2017 and 5.9% in 4Q 2017) that was largely driven and supported by private sector demand. Private sector activity continues to be the main engine and contributor for growth in the Malaysian economy. As advised in the past, attention should therefore be focused on assisting businesses to overcome these challenges, as their adverse performance could have significant impact on the Malaysian economy.

In the case of sales outlook (where respondents are asked of their forecast of expected future sales in the coming six-months in the future from the end of each survey period), sentiments among the business community appears to be more optimistic with a slightly higher majority of 13% of respondents expecting better sales performance in the near future (previous survey period: 10%) while those expect relatively unchanged sales fell. Still, there continues to be a significant % of respondents (28%) that forecast poor future sales performance.

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Sales Performance

Sales Performance	1st Half 2017 (%)		2nd Half 2017 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1st '17	2nd '17	1st '18 (Forecast)
Good	6	6	13	10	9	10	13
Satisfactory	60	54	61	54	61	63	58
Poor	33	41	26	36	30	27	28
Total (Sample Size)	100 (48)	100 (69)	100 (78)	100 (81)	100 (304)	100 (364)	100 (340)

3.1.2 Production volumes

Improvement in Production Volumes

Production volumes for the period under survey appear to move in tandem with the movement in sales. It was noted that 16% of respondents indicated that their production volumes had increased (4% in the previous survey) in 2nd half of 2017.

By industry, some 78% of respondents in the manufacturing sector had reported increased or unchanged production volumes, being an increase of about 20% points from the previous survey period. Production volumes may be surmised to be holding steady and improving.

Sentiments for the future also appear to show signs of improvement with some 19% of respondents forecasting increased production volumes (up from 11% in the previous survey period). A smaller group of businesses expect their production to drop in 1H18, in tandem with expected improving orders in 1H18.

Production volume

Production volume	1 st Half 2017	2 nd Half 2017	Total		
	(%)	(%)	(%)		
	Mfg	Mfg	1 st '17	2 nd '17	1 st '18 (Forecast)
Increased	5	18	4	16	19
Remain unchanged	52	60	57	58	53
Decreased	43	23	39	26	28
Total (Sample Size)	100 (44)	100 (62)	100 (77)	100 (92)	100 (79)

3.1.3 Stocks

Slight Increase in Inventory Levels

The results for this survey period of 2nd half 2017 showed that there was a slight increase in inventory levels of businesses. There was a slight increase of 7% points of respondents in the category of ‘increased’ inventory, indicating that businesses were confident of keeping more stocks given the earlier up trend of sales performances

Significant changes were however seen when it came down to analysis by sectors. For the manufacturing sector, there was a drop of 12% of respondents in the ‘decreased’ levels of inventory response, with the corresponding changes of rise in % of respondents in the other categories of change in inventory levels (with the biggest change of 7% points rise in the ‘increased’ inventory level).

In the case of the wholesale and retailers sector, the results appear mixed, with rises in % of respondents in the categories of ‘increased’ and ‘decreased’ levels of inventory categories. This indicates greater volatility in respect of inventory levels for businesses in this sector.

Going forward for the next six months in the 1st half of 2018, it is noted that a continued high proportion of respondents forecast that their stock levels would ‘remain unchanged’, at 61% (consistent with previous survey periods’ results), plus some 16% of respondents forecasting ‘increased’ inventory balances. This means that slightly more respondents believe that their inventory levels will rise or remain unchanged in the future, compared to previous periods of survey.

Stocks

Stocks	1 st Half 2017 (%)		2 nd Half 2017 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 st '17	2 nd '17	1 st '18 (Forecast)
Increased	7	4	14	17	8	15	16
Remain unchanged	66	71	70	47	66	61	61
Decreased	27	25	16	36	25	24	23
Total (Sample Size)	100 (41)	100 (48)	100 (63)	100 (66)	100 (131)	100 (161)	100 (141)

3.1.4 Collections

Unchanged Position in Terms of Collections from Customers

Based on the table below, on average, the state of collections from customers for the period of 2nd half of 2017 were satisfactory. The distribution of % of respondents who reported 'good' and 'satisfactory' collection remained high at 71%. There was no change in the % of respondents in the category of 'poor' collections.

When analysed between the different sectors, it is noted that in the case of businesses in the manufacturing sector, there was a significant drop in % of respondents indicating 'poor' collections, with a downward movement by about 18% points. Some 79% of respondents advised that they experienced 'good' or 'satisfactory' collections from customers.

In the case of the wholesale and retail sector, respondents of this sector appear to face some measure of difficulties with some 9% points increase in respondents under the category of 'poor' collections.

Forecasting into the future however, some 31% of respondents felt that their state of collections would be 'poor' (similar findings in the previous survey period). This would indicate that the % of respondents who opined that they would experience 'poor' collections remain large. This suggests that businesses could still face some cash flow issues and would need to be ever vigilant and properly manage their working capital.

Collection for Payment of Debt

Collection for Payment of Debts	1 st Half 2017 (%)		2 nd Half 2017 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 st '17	2 nd '17	1 st '18 (Forecast)
Good	5	10	8	5	9	7	11
Satisfactory	56	58	71	55	62	64	58
Poor	39	31	21	40	29	29	31
Total (Sample Size)	100 (41)	100 (67)	100 (65)	100 (73)	100 (279)	100 (325)	100 (294)

3.1.5 New orders from overseas market

Improvement in Level of New Orders from Overseas Markets

Overall, the level of new orders from overseas markets appears to have improved, with the high majority of respondents reporting unchanged level of new orders from foreign markets. The % of respondents that reported 'decreased' orders from foreign markets dropped by 5% points with the major corresponding rise of 4% in the 'increased' category of response.

A similar picture is seen when analysis is made by sectors of businesses. In the **manufacturing sector**, there were **more respondents who reported 'increased' and 'unchanged' level of new orders from foreign markets** (increase of about 3% and 4% points respectively from the previous survey period).

In the case of **wholesale and retail sector**, there also appears to be **significantly greater % of respondents who reported experiencing 'increased' and 'unchanged' level of orders from foreign markets. These categories of response rose by 5% and 10% points to 58%.**

The above indicates that the situation surrounding exports of goods and services by Malaysian businesses have improved.

In turn, this has fueled optimism for the future, with the majority of the respondents (about 80% of respondents) being hopeful that for the next six-months ending June 2018, their businesses would experience 'increased' and 'unchanged' levels of orders from foreign markets. Indeed, 24% of respondents expect their new export orders to pick up in 1H18.

New Orders of Goods and Services from Foreign Markets

New Orders	1 st Half 2017 (%)		2 nd Half 2017 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 st '17	2 nd '17	1 st '18 (Forecast)
Increased	15	0	18	5	10	14	24
Remain unchanged	66	58	70	68	66	67	55
Decreased	19	42	12	27	24	19	20
Total (Sample Size)	100 (41)	100 (19)	100 (54)	100 (19)	100 (139)	100 (159)	100 (132)

3.1.6 New orders from local market

Relatively Unchanged Position in Level of New Local Orders

This period of survey showed that the pattern of response in respect of new local orders was relatively unchanged from the previous survey period. No significant change in the breakdown of responses by % in the three categories was noted.

When new local orders data are analysed by sectors, it is noted that the manufacturing sector appears to have experienced some measure of change, with a drop of 13% points of respondents experiencing 'decrease' in local orders. The 'increased' and 'unchanged' categories for local orders for businesses in the manufacturing sector in turn saw improvements of up 8% and 5% points respectively.

In the case of the breakdown of levels of new local orders for businesses in the wholesale and retail sectors, minor movement was noted in respect of the % of respondents in each category of response between this survey and the previous survey period. Overall, the majority of businesses in this sector experienced relatively unchanged level of new orders from the local market.

In the case of future performance in the next six months ending June 2018, some 68% respondents expect their local orders to remain stable or increase. Some 32% of the respondents forecast that their businesses are expected to experience 'decrease' in new local orders (similar to the position in the previous survey period). This indicates that businesses continue to forecast unchanged order positions in the future periods.

New Local Orders of Goods and Services from Local Market

New Local Orders	1 st Half 2017 (%)		2 nd Half 2017 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 st '17	2 nd '17	1 st '18 (Forecast)
Increased	11	3	19	3	11	10	16
Remain unchanged	53	56	58	54	56	55	52
Decreased	36	41	23	43	33	34	32
Total (Sample Size)	100 (45)	100 (63)	100 (69)	100 (77)	100 (282)	100 (334)	100 (302)

3.1.7 Sales prices

Relatively Unchanged Local Sales Prices

Overall, some 63% of respondents replied that their businesses were able to sustain their local sales prices for the period six months ended December 2017. Overall, there has been minor movements in % of respondents in each category of response. This may indicate the local sales prices may be holding steady and have been relatively unchanged during the period of survey.

In the manufacturing sector, a lower level of respondents advised that they had to reduce their local sales price of goods (drop by 13% points). In turn, there was a somewhat similar upward movement in the % of respondents in the ‘unchanged’ sales price level. Perhaps, sales prices have been kept steady in attempts to improve sales via quantity.

In the case of businesses in the ‘wholesale and retail’ sector, there was a lower % of respondents who reported that they had been able to keep their sales prices ‘unchanged’ (decrease by 8% points). This downward movement was split evenly in terms of upward movement of % of respondents between the other two categories of ‘increased’ and ‘decreased’ sales prices, indicating slightly higher volatility in the ‘wholesale and retail’ sector.

Looking into the future, some 23% 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 1st half of 2018 (unchanged from the previous period of survey). 17% of respondents expected to increase their selling prices in the coming six months in the 1st half of 2018.

Local Sales Prices of Goods and Services

Local Sales Prices	1 st Half 2017 (%)		2 nd Half 2017 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 st '17	2 nd '17	1 st '18 (Forecast)
Increased	7	16	8	20	13	12	17
Remain unchanged	54	54	66	46	60	63	59
Decreased	39	30	26	34	27	25	23
Total (Sample Size)	100 (44)	100 (63)	100 (62)	100 (69)	100 (262)	100 (305)	100 (274)

3.1.8 Number of employees

Employment Market Relatively Unchanged

Overall, the majority of the respondents (71%) did not experience change in the employment levels in the firms, with insignificant movements in the other categories of responses noted.

In the case of the ‘manufacturing’ sector, there was a slightly higher % of respondents who reported having ‘increased’ number of employees (rise of 4% points).

This is similarly reflected in the ‘wholesale and retail trade’ sector where respondents generally advised that they have kept their employee levels unchanged (similar position to the previous survey period).

Overall, the majority of businesses are expected to maintain their capacity level in terms of human resource requirements for the next 6 months ending June 2018. Minor and insignificant change in the breakdown of responses was noted for the forecast period.

Number of Employees

Number of Employees	1 st Half 2017 (%)		2 nd Half 2017 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 st '17	2 nd '17	1 st '18 (Forecast)
Increased	8	5	12	5	8	8	12
Remain unchanged	63	70	59	70	72	71	68
Decreased	29	25	29	25	20	21	20
Total (Sample Size)	100 (48)	100 (64)	100 (75)	100 (75)	100 (291)	100 (345)	100 (311)

3.1.9 Wage cost per unit of output

Marginal Increase in Level of Wage Costs Per Unit of Output

The majority of businesses advised that the wage cost per unit of output for the period of 2nd half of 2017 largely remained unchanged, with some 66% of respondents in the ‘unchanged’ wage costs category. A slightly higher % of respondents was reported to have experienced increase in wage costs per unit of output.

When analysed by sector, it is noted that 68% of respondents in the ‘manufacturing’ sector experienced ‘unchanged’ wage costs per unit of goods (increase of 6% points compared to the previous survey period).

In the case of the ‘wholesale and retail trade’ sector, wage costs per unit of output appeared to be increased with higher % of respondents having experienced ‘increased’ wage costs per unit of goods and services (rise of 7% points). This effect was seen in the corresponding decrease in % points in the other two categories of responses.

Looking into six months ahead, 29% of the respondents expect their wage cost to increase in the future six months, up from 23% recorded in the previous survey period, pointing to possible upward cost pressure. On the other hand, a smaller 58% of the respondents believed that wage costs would remain unchanged for the period ending June 2018.

Wage Costs per Unit of Goods and Services

Wage Costs per unit	1 st Half 2017 (%)		2 nd Half 2017 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 st '17	2 nd '17	1 st '18 (Forecast)
Increased	28	11	21	18	17	20	29
Remain unchanged	57	68	63	65	67	66	58
Decreased	15	21	16	17	16	14	12
Total (Sample Size)	100 (47)	100 (62)	100 (70)	100 (71)	100 (279)	100 (327)	100 (295)

3.1.10 Capacity utilisation

Capacity Utilisation Levels Rising

Overall, businesses that achieved capacity utilisation rates of 61-80% saw improvement during the period but it was offset somewhat by a drop in businesses that achieved capacity utilisation rates of 81-100%. This resulted in no significant movement in respect of respondents indicating that their business were operating at more than 60% levels of capacity from the last survey period. However, those recorded lower capacity utilisation rates of 60% and below saw a decline. This points to an improvement, albeit not very satisfactory.

Indeed, majority of businesses were still in the capacity utilisation levels of 41-60% and 61-80% levels. The capacity utilisation rate continues to be well below the desired level of 'more than 80%' for most businesses.

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, such as promoting and assisting more business tie-ups and undertaking more innovative types of trade promotions. Lessons may be learnt from trade fairs of other countries.

At the individual business level, business should consider more innovative efforts and approaches to reduce the excess capacity, coupled with greater efforts 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	1 st Half 2017 (%)		2 nd Half 2017 (%)		Total (%)	
	Mfg	WRT	Mfg	WRT	1 st '17	2 nd '17
81 ~ 100%	11	4	11	3	13	8
61 ~ 80%	50	53	53	45	47	53
41 ~ 60%	30	33	28	47	36	33
0 ~ 40%	9	10	8	5	5	6
Total (Sample Size)	100 (46)	100 (49)	100 (72)	100 (62)	100 (245)	100 (291)

3.1.11 Investment in new resources or plant

Unchanged Level of 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 not a surprise to see that 90% of the respondents replied that they were keeping their investments in new resources or plant either at ‘unchanged’ or ‘decreased’ levels. Overall, the pattern of response for this survey period was relatively unchanged compared to the results in the last survey period.

When analysed by sectors, there was a rise in % of respondents that reported ‘increased’ investments in new resources or plant (rise of 6% points) in the manufacturing sector. This would augur well for the future of businesses, in line with the reported improvements in order levels from foreign and local markets, as indicated earlier.

In the case of ‘wholesale and retail’ sector, there was also a greater % of respondents reporting ‘increased’ investments levels in new resources (increase of 8% points), with the major corresponding change reported in the ‘decreased’ category of response.

Forecasting for the next six months ending June 2018, the pattern of breakdown of responses for the different categories of responses showed no significant change from the last survey period. Nonetheless, a possible area of concern is that some 43% of the respondents stated that they are considering reducing their investment in new resources or plant for the period of 1st half of 2018. This is partly due to the significant excess capacity and rising costs of doing business.

Investment in New Resources or Plant

Investment	1 st Half 2017 (%)		2 nd Half 2017 (%)		Total (%)		
	Mfg	WRT	Mfg	WRT	1 st '17	2 nd '17	1 st '18 (Forecast)
Increased	9	0	15	8	10	10	14
Remain unchanged	53	46	49	45	46	48	43
Decreased	38	54	35	47	44	42	43
Total (Sample Size)	100 (47)	100 (50)	100 (65)	100 (64)	100 (249)	100 (296)	100 (268)

3.1.12 Economic Situation in Malaysia

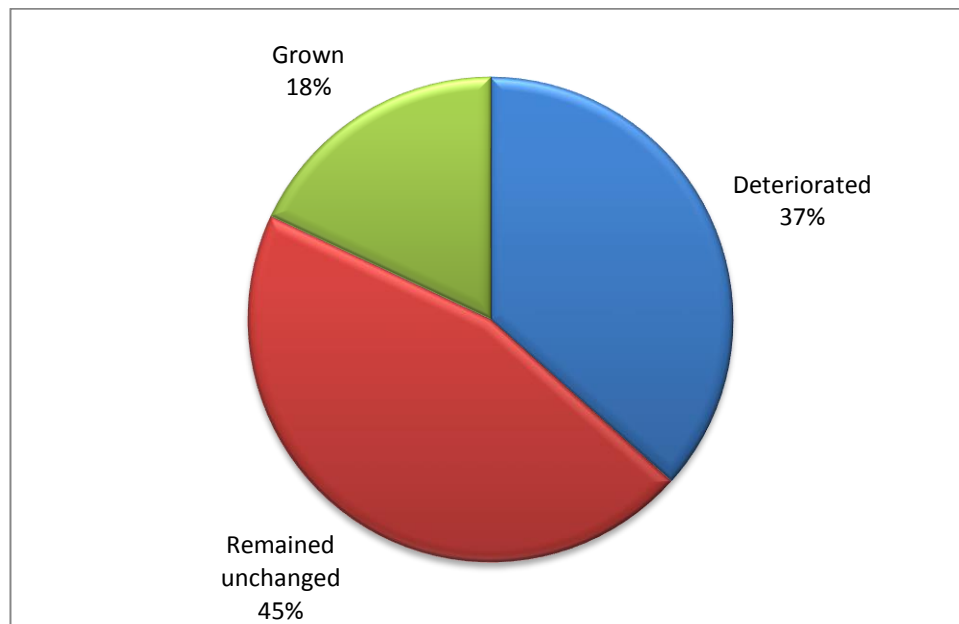
The Malaysian economy was seen to have experienced a slight improvement in the 2nd half of 2017

Based on the results as shown in the diagram below, some 63% of respondents opined that the Malaysian economy had either 'grown' or 'remained unchanged' in the 2nd half of 2017. For the last survey period, the corresponding figure was 55%. A lower % of respondents felt that the Malaysian economy had deteriorated.

Some 18% of respondents believed that there were signs of economic recovery, a rise of 3% from the results in the previous survey.

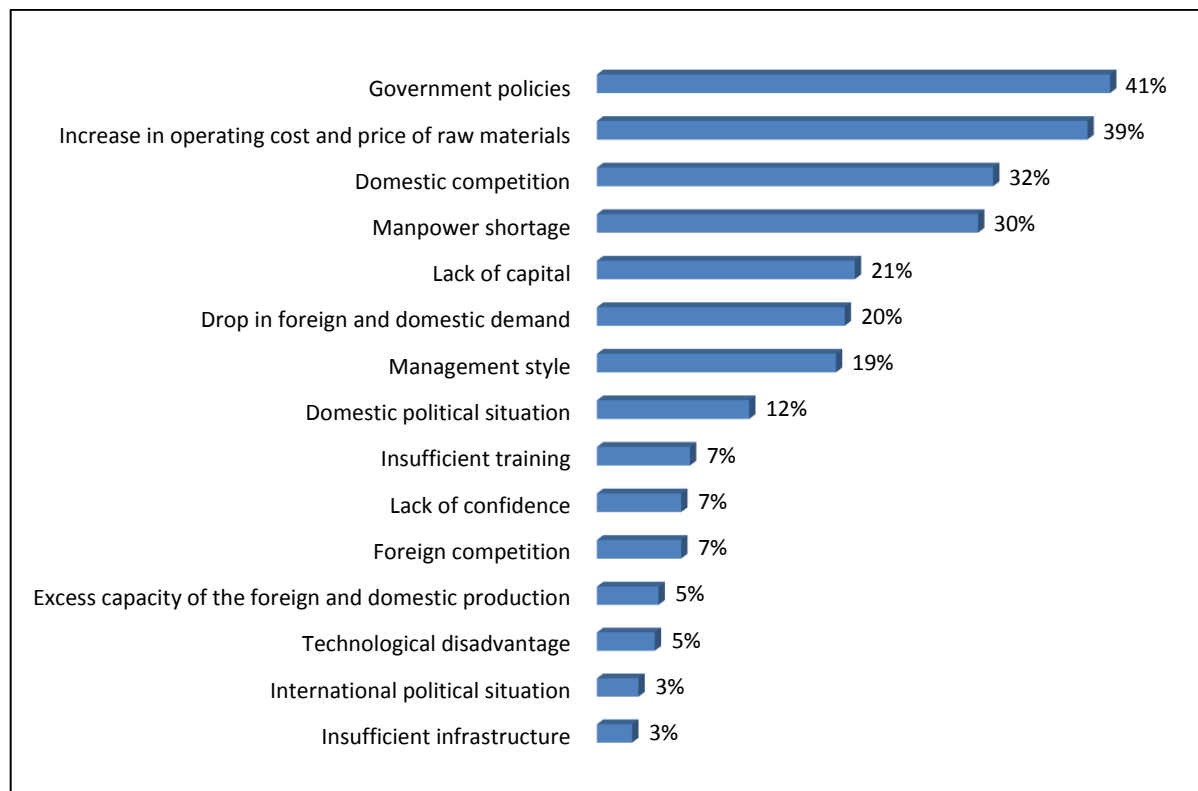
In summary, businesses felt that the Malaysian economy had shown slight improvement in the 2nd half of 2017.

The Malaysian Economy in the 2nd Half of 2017



3.2 MAJOR FACTORS ADVERSELY AFFECTING BUSINESS PERFORMANCE

Factors Affecting Business Performance for 2nd Half 2017 (%)



Government policies

Consistent with the previous survey results, the greatest concern among businesses for the period six months ended December 2017 continues to be the need for business friendly government policies that promote and support business activities.

Government creates the rules and frameworks in which businesses are able to compete against each other or grow together, besides contributing towards the national economy. The Government is the party that has the authority and ability to change the many existing rules and frameworks, and put in place new ones, thus nurturing and forcing businesses to change the way they operate. Undeniably thus, businesses are indeed very much affected by the various Government policies in force.

For this period of survey, some 41% of respondents pointed to the importance of this factor (a rise of 2% points). As noted in the previous surveys, many businesses have put forth their grouses, issues and concerns, mainly in relation to factors such as rising costs of doing business in Malaysia, and the ever increasing compliance requirements to be adhered to by businesses.

Issues related to the need to comply with requirements such as the Competition Act 2010, minimum wages, foreign workers' levy, Anti-Profitteering mechanism and Goods and Services Tax (GST) Act 2014, Employment Insurance System, and the many other legal and regulatory compliance requirements, all of which are said to have added to the burden of doing business in Malaysia.

As noted in the past, Malaysian businesses look to the Government to introduce and implement economic policies that are business friendly and facilitate the conduct of businesses. It is fervently hoped that the Government will always seek to build close rapport and have continuous dialogue with the business community (especially those in the SME sector) to allow for the voices of the business community to be heard, improve efforts to increase the speed and efficiency of Government / regulatory related processes and in turn, contribute towards the various entities in being able to reduce the cost of doing businesses in Malaysia.

The Government is also looked upon to look for ways to implement efficient public projects and pump in greater expenditures 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. SMEs in particular feel that despite the many efforts to transform the Malaysian economy, the effects and benefits do not always appear to have filtered down meaningfully and significantly to the SMEs.

Increase in Operating Costs and Prices of Raw Materials

'Increase in operating costs and prices of raw materials' is the second most important factor (marginal rise in importance; 2H2016: 35%; 1H2017: 34%; 2H2017: 39%).

Businesses have complained that they have been experiencing rising operating costs. Businesses continue to gripe about the effects of the minimum wage requirement and more recently, with the coming into force the Employment Insurance System. The situation is not helped by the difficulties in employing foreign workers in Malaysia, in addition to the many compliance requirements as mentioned earlier.

Increase in Domestic Competition

This concern (with regards to domestic competition) is ranked as the third most important factor affecting business performance during this period of survey, similar as per previous survey periods. Its relative importance has also seen some measure of increase (2H2016: 29%; 1H2017: 27%; 2H2017: 32%)

The global and local economic conditions continue to be seen as volatile and open, contributing to more intense competition among SMEs to fight to maintain their market shares. This pressure has intensified with liberalisation efforts to open up the Malaysian economy. It is very much hoped that the world economies and that of Malaysia would grow at a faster rate in the coming future to stimulate and push the performances of businesses in Malaysia.

Manpower Shortage

This issue was similarly highlighted in the previous survey (marginal rise in importance; 2H2016: 25%; 1H2017: 24%; 2H2017: 30%).

This concern is voiced out by the business community given the slight increase of production volumes due to the continued relative weak ringgit and slightly improved rise in oil price. The concern is mainly in the fact that businesses continue to face difficulties in recruiting staff / manpower with the right set of skills.

Overall, government policies, increase in operating costs and prices of raw materials, increase in domestic competition and manpower shortage were the four (4) major factors that affected the business performances in the 2nd half of 2017.

3.3 MALAYSIAN ECONOMIC OUTLOOK

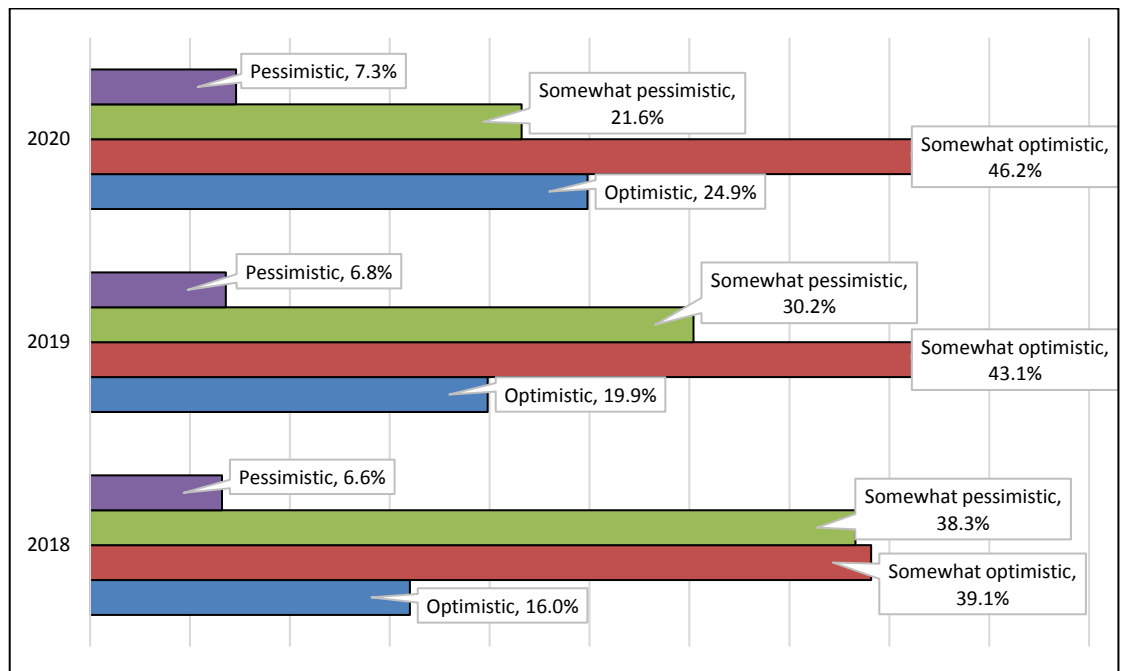
The Chinese business community is slightly more optimistic about the economic outlook for 2018, with continuous improvements expected in 2019 and 2020.

Based on the table below, about 55% of respondents were optimistic about the economic outlook for Malaysia for the year 2018, being a rise of 6% from 49% as noted in the previous survey. This optimistic sentiment is seen to improve gradually in the following two years, being 63% in 2019 and 71% in 2020.

Accordingly, there appears to be greater levels of optimism about the future of the Malaysian economy for 2018, 2019 and 2020.

Overall, the Chinese business community is slightly more optimistic about the economic outlook for Malaysia for 2018, with increasing optimism in 2019 and 2020.

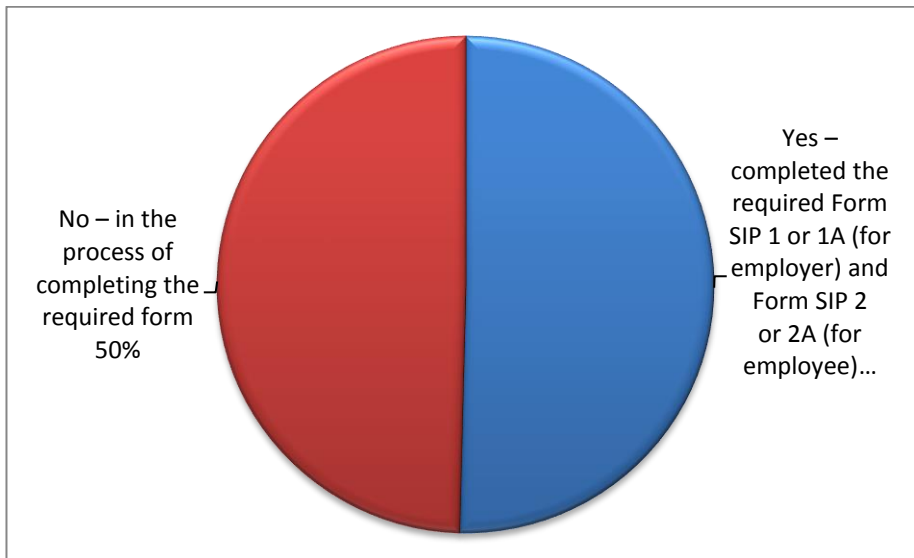
Malaysian Economic Outlook 2018-2020 (%)



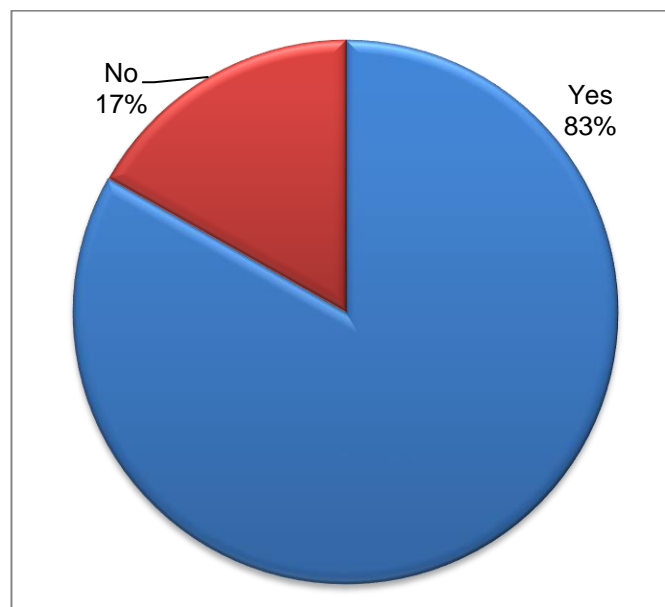
3.4 **EMPLOYMENT INSURANCE SYSTEM (EIS)**

EIS is a social safety net for retrenched workers who have not been compensated by employers by providing them temporary income relief. It is in force from 1 January 2018 and applies to all organisations and companies with one or more employees. All employers and employees need to make the required contribution. ACCCIM has taken various measures to prepare its members in respect of this system.

(a) Has your business completed the necessary registration for EIS?



(b) Are you aware of the required contribution rate, being 0.2% each by employer and employee, of the monthly salary (up to a ceiling of RM4,000 per month salary)?

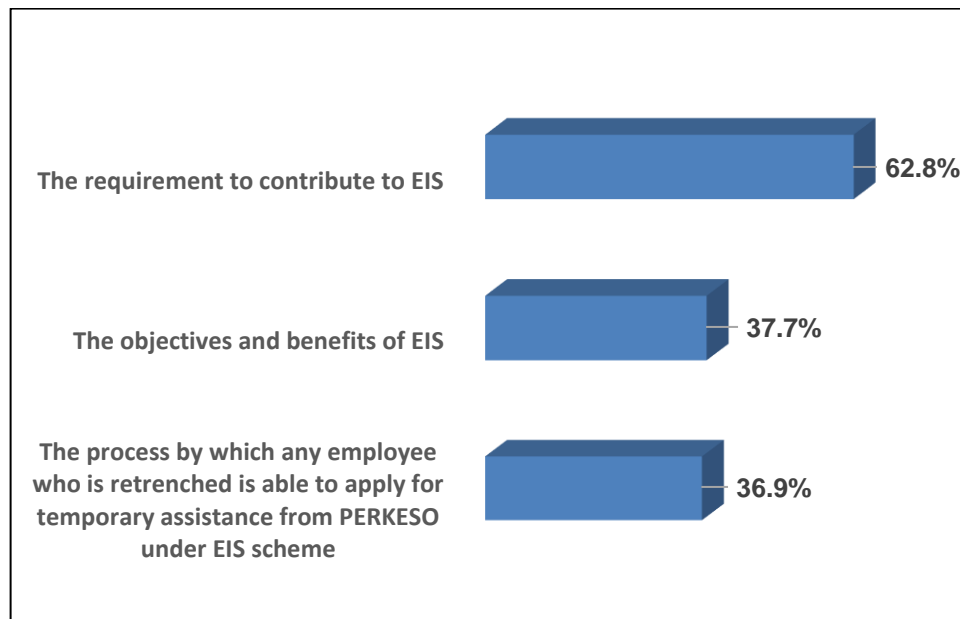


Commentary for responses in part (a) and (b) above:

As at the time of conduct of the survey, being in the month of January 2018, it is noted that **some 50% of respondents were still in the process of completing the registration process of their employees for the newly implemented Employment Insurance System (EIS). A significant majority of the respondents (83%) replied that they were aware of the new requirement for employers to contribute for the benefit of employees who may be retrenched. They were aware of the contribution rate of 0.2% each by employer and employee, of the monthly salary (up to a ceiling of RM4,000).**

Nonetheless, it is expected that through the topic raised in this survey, this has resulted in continued greater awareness among members of ACCCIM with regards EIS, especially the 17% of respondents (ref: part (b)). ACCCIM is thus confident of the compliance by members by the time of the deadline. ACCCIM has been advising its members of this requirement since the early days when this system was first mooted and will continue to do so in the future to ensure that its members comply with the employment requirements.

- (c) Have the employees in your business been briefed in respect of the following (you may select more than one of the items below):



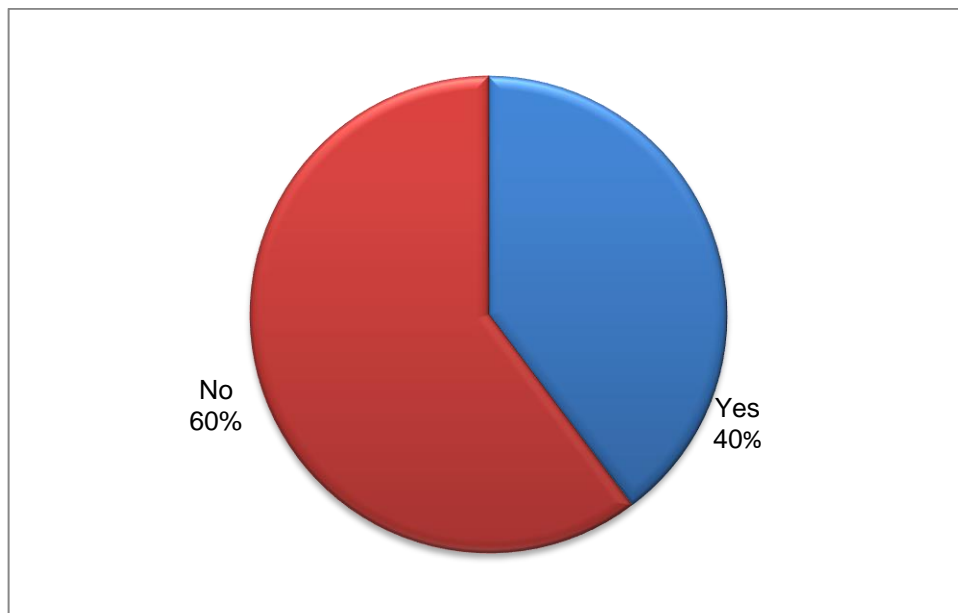
At the time of conduct of the survey, the **majority of respondents(62.8%) indicated that their employees noted the need to contribute to EIS**. It is expected that employees would have noted the need to contribute to EIS now that this requirement has been in force since January 2018.

Nonetheless, of greater significance is the finding that the majority of businesses have not been explained sufficiently about the following:

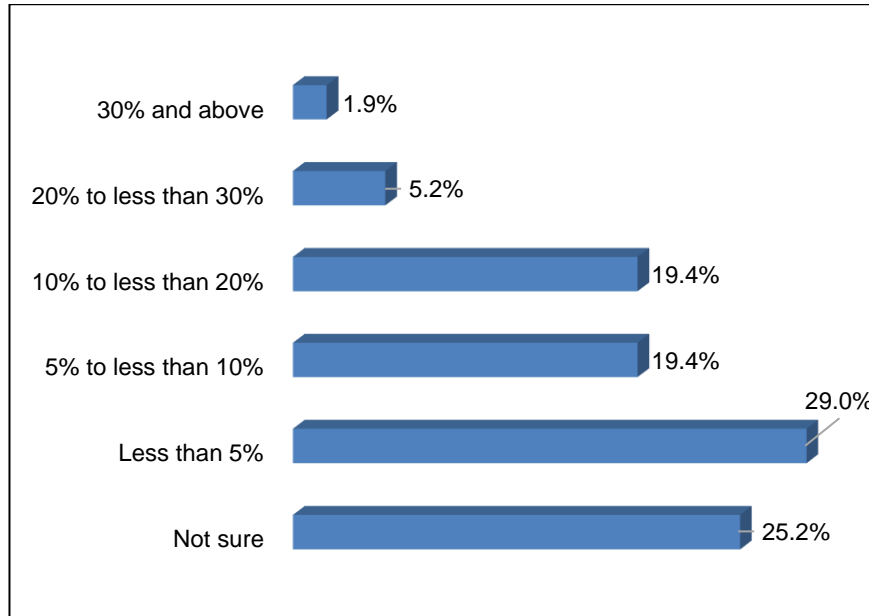
- Objectives and benefits of EIS, which is mainly targeted for the benefit of any worker who has the misfortune of being retrenched by a business (especially the temporary assistance which may be sought from PERKESO)
- The process by which any such employee who is retrenched will have to go through to avail oneself to the temporary assistance from PERKESO

Accordingly, PERKESO may decide to take proactive action to educate and explain to employers and employees with regards this system.

- (d) Do you anticipate any plan to retrench employees in your business in the coming 12 months in view of the higher operating cost, including the newly implemented EIS and foreign worker levy, along with the minimum wage scheme to be reviewed later this year in July?



(e) If your answer to part d) above is 'Yes', what would be the estimated percentage (%) of employees in your business to be retrenched?



Commentary for responses in part (d) and (e) above:

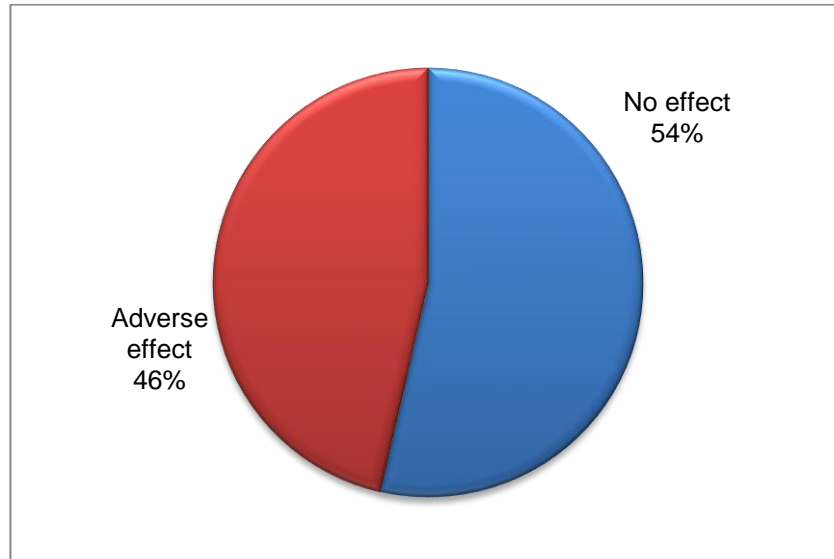
SMEs continue to face business challenges (as explained earlier). Two of the chief concerns are the compliance requirements and the rising costs of doing business. One of the components of costs that businesses would look into would be employee costs and businesses have been (and continue to be) affected by rising staff costs on an individual basis. Accordingly, efforts would generally center on ways to reduce the component of employee costs in each unit of product or service. This unfortunately may involve increasing automation and reducing staff strength in certain areas. **The 40% of respondents may have plans for 'retrenchment' due to the rising labour cost.** However, it should be noted that varying the reliance on staff in certain areas of activities is a norm as businesses strive to remain competitive.

Nonetheless, for respondents that have opined that their businesses are considering reducing their staff strength (part (e)), it is noted that **some 25% of such respondents have indicated that they were 'unsure' of the % of staff strength to be reduced**, thus indicating that such businesses are merely worried that they may have to entertain thoughts of retrenchment in the future based on their business performance. As for the other categories of responses, it is noted if there shall be retrenchment, the % effect is not expected to be significant.

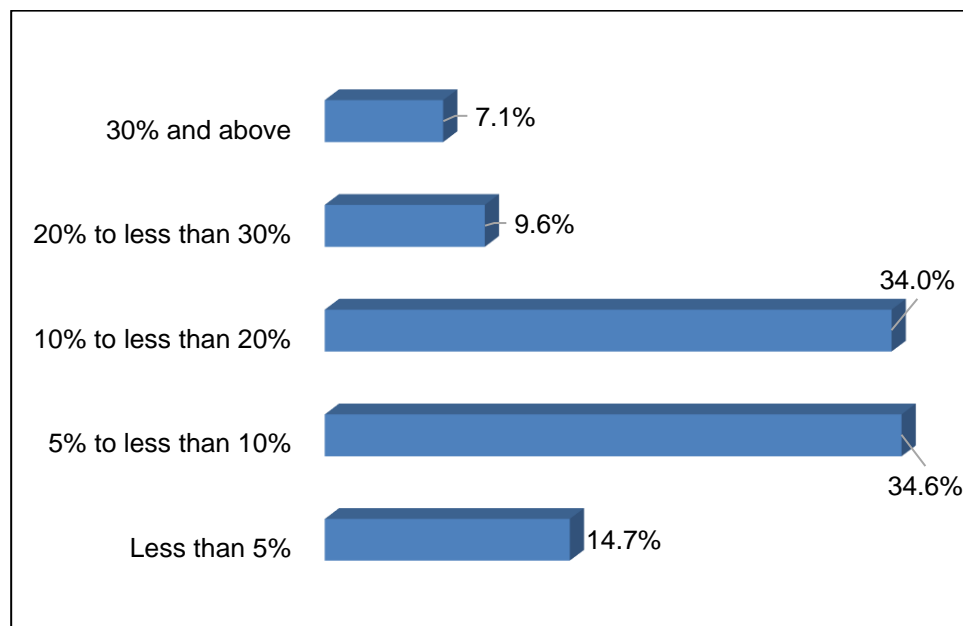
3.5 RISE IN PRICE OF GAS

Price of gas used for fuel by the industrial and commercial sector has increased with effect from 1 January 2018 at an average of RM4.47 per million British thermal units (mmBtu).

(a) How will this tariff hike affect your organisation's cost of doing business?



(b) If your answer to part a) above is 'adverse', what is the expected rise in cost of doing business attributable to rise in cost of gas?



Commentary for responses in part (a) and (b) above:

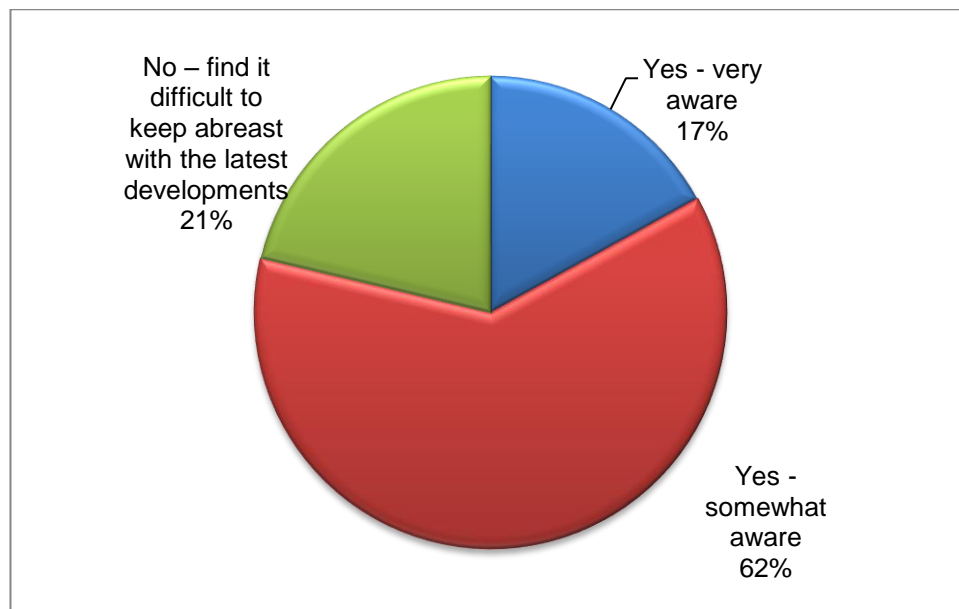
Based on the survey results, only **about 46% of respondents opined that their costs of doing businesses would be expected to be adversely affected** owing to the tariff hike on gas used by the industrial and commercial sector. The price increase came into effect from 1 January 2018.

For those respondents who forecast that the businesses would be adversely affected, the expected corresponding effect on their costs centres mostly in the 5 – 10% range (34.6%) and 10 – 20% range (34%). Such predicted rise in costs may be regarded as significant and is likely to be passed on to consumers.

3.6 **DIGITAL FREE TRADE ZONE AND e-HUB**

Malaysia Digital Economy Corporation (MDEC) has launched various initiatives (especially e-Hub) to transform the Malaysian economy, in particular the area of digital economy. This has also been complemented by the launch of the Digital Free Trade Zone (DFTZ) by the Government that provides physical and virtual zones to facilitate SMEs to capitalise on the convergence of exponential growth of the internet economy and cross-border eCommerce activities.

- (a) Are you aware of the various developments and initiatives in Malaysia to develop the business of using Information and Communications Technology (ICT) and eCommerce in Malaysia?

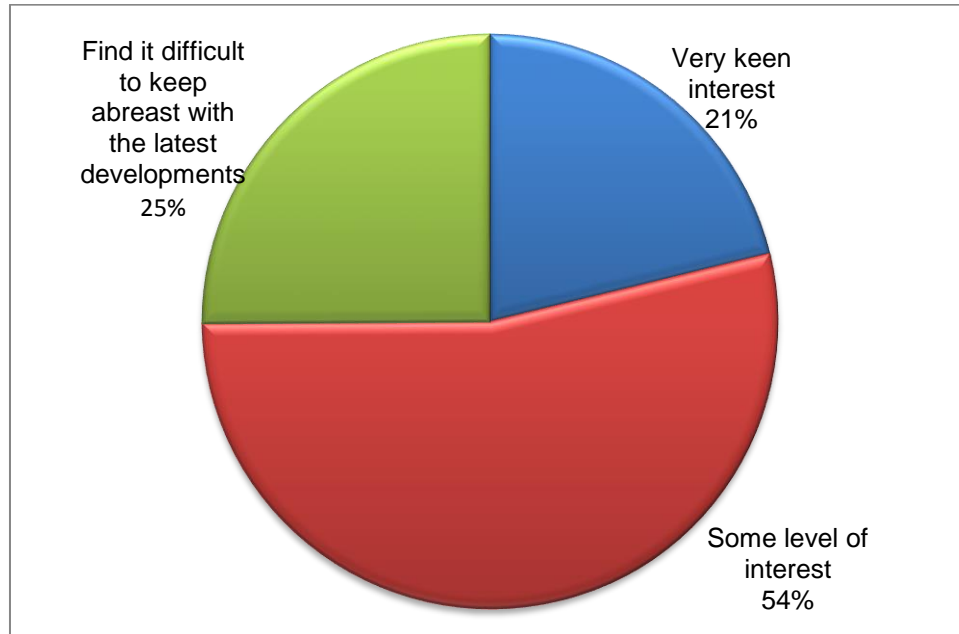


The majority of businesses (some 79%) expressed some measure of interest to know more and attempted to keep abreast with the developments in Information and Communication Technology (ICT). Businesses believe that ICT is the key to drive higher long-term business gains, competitiveness, productivity and innovation.

However, perhaps worryingly, a significant portion of respondents find it increasingly difficult to keep abreast with the latest developments in the field of ICT, whether it is owing to source of information, level of sophistication of developments concerned or lack of time and resources to keep up to date with such developments. It is this group of respondents whose concerns ought to be targeted.

In Malaysia, various stakeholders have attempted to promote greater awareness and introduced schemes to promote investment and use of such technology, including nurturing the necessary talent. And such efforts should continue and be encouraged.

- (b) How keen an interest have you and your business put in to keep abreast with the latest developments in the IT initiatives by various bodies such as MDEC and the recent launch of DFTZ?

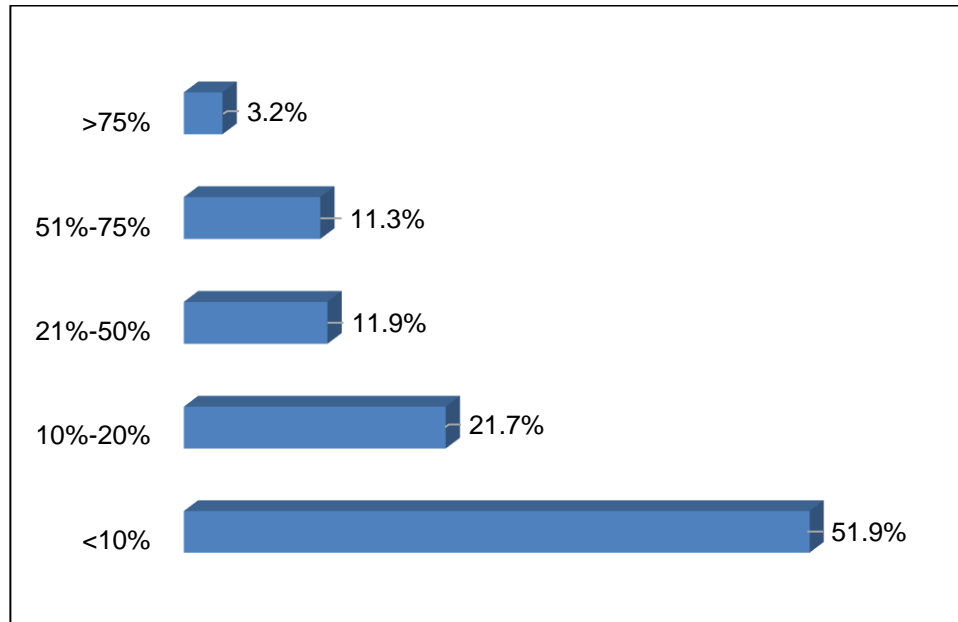


The results for this question appear to somewhat mirror that shown for part (a) earlier.

Again, the **majority of businesses (some 75%) expressed some measure of interest to know more and attempted to keep abreast with the developments and initiatives promoted in MDEC and the launch of DFTZ.**

Once again, the relevant stakeholders are encouraged to promote awareness of the various activities, promotions and incentives available under the Digital Economy initiatives.

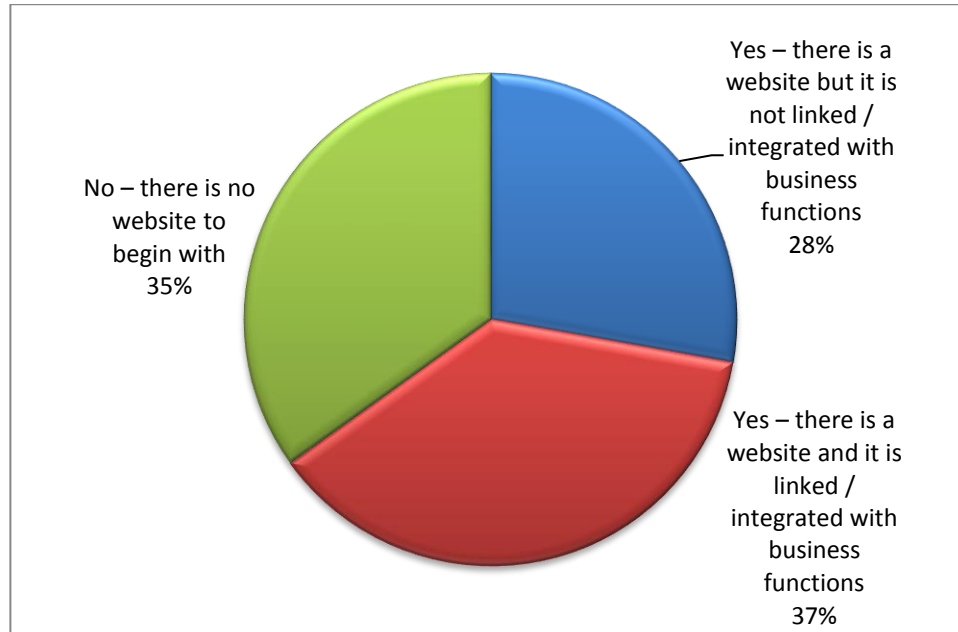
(c) What proportion of your overall sales is made up of sales via e-commerce?



The diagram above represent the proportion of sales derived via e-commerce. **Some 52% of respondents advised that sales generated via e-commerce contributed to less than 10% of total sales, denoting significant opportunities and scope for leveraging on technology and ICT in businesses.**

Certainly, this trend would need to be monitored as the % of sales derived from e-commerce varies among businesses.

(d) Does your business maintain a website? Is the website linked / integrated with business functions?



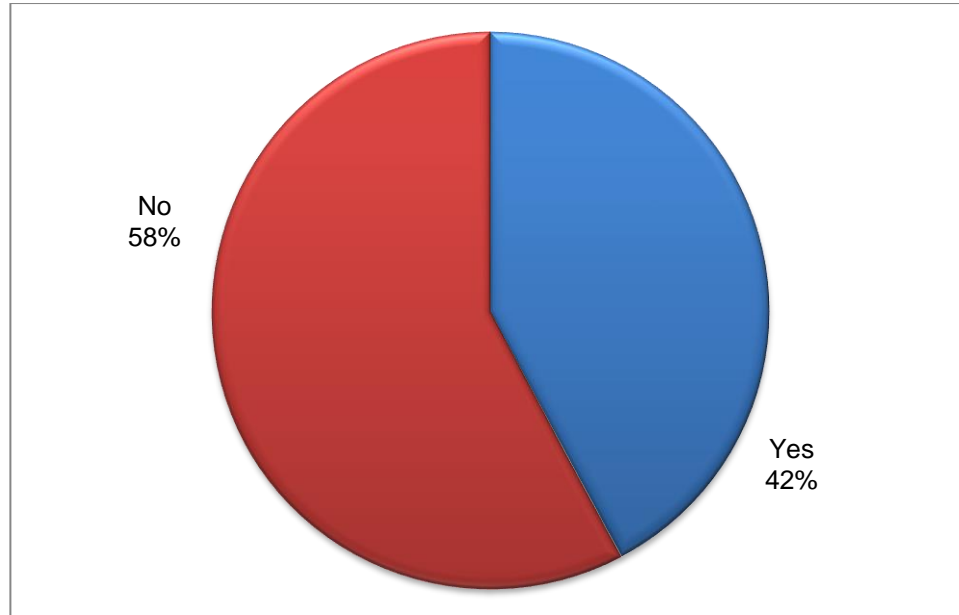
The **majority of businesses are indeed aware of the benefits to be derived by businesses having a website (65%).**

Of interest to readers would be that:

- 1. Significant proportion of respondents have websites that are linked / integrated with other business functions (37%)**
- 2. Equally significant proportion of respondents have websites that merely serves to promote their business and products, but are not linked / integrated to other business functions (28%)**
- 3. 35% of respondents did not have websites for their business**

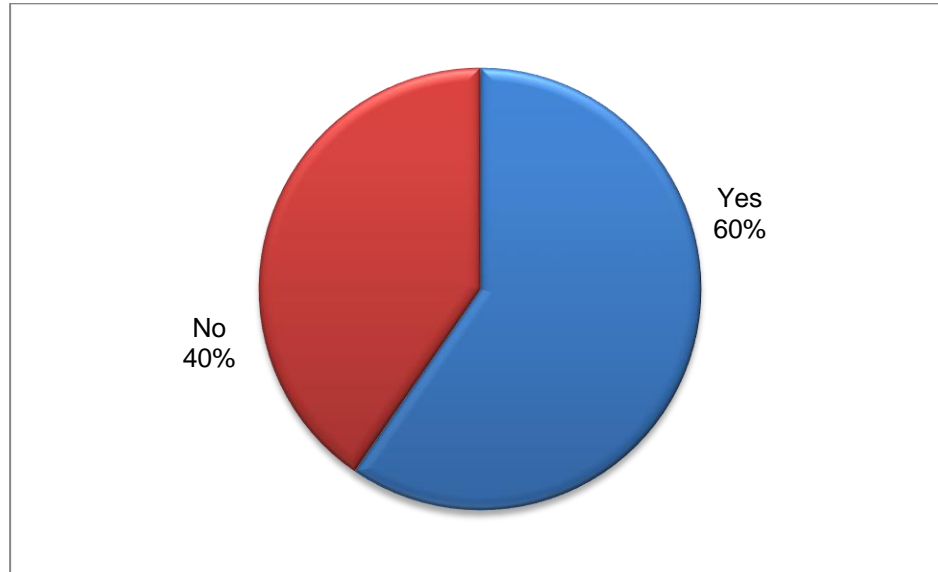
Certainly, there is scope and opportunities by businesses as they need to be aware of the benefits that would accrue to them if they were to fully leverage on the technologies in their businesses. The result above demonstrates that the majority of businesses have not fully tapped on the upside potential and benefits of ICT.

- (e) If your answer to “Part d” is NO, would you be investing to equip your business with up to date ICT?



Owing to challenges faced by businesses and the increasing levels of compliance and regulatory requirements, it is unfortunate to note that the **majority of businesses (58%) that have not made use of ICT may not consider investing in up to date ICT to improve on business performance.** It is this group of respondents that ought to be targeted to explain the benefits of using up-to-date ICT

(f) Is your business keen to participate in the e-Hub initiatives and DFTZ?

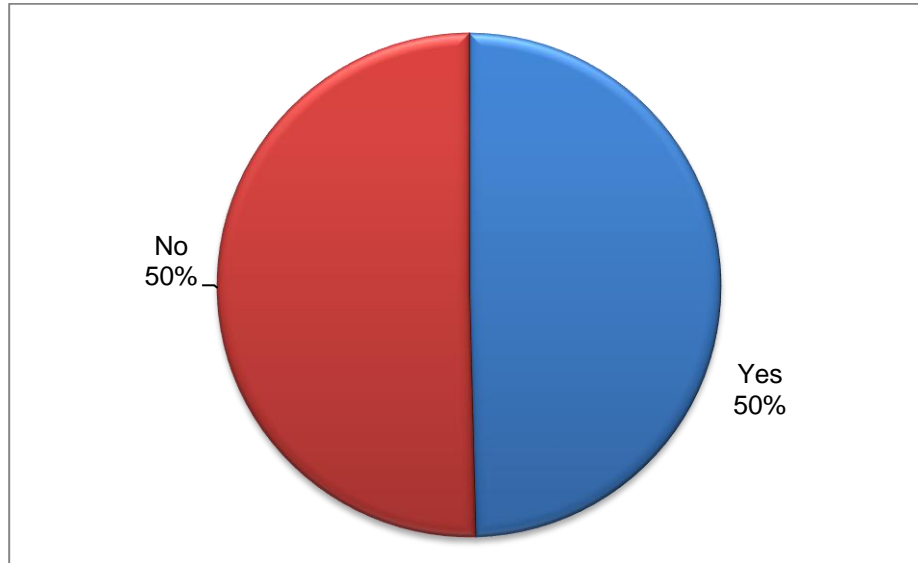


The chart shown above depicts that the **majority of respondents (60%) indicated interest to participate in e-Hub initiatives, DFTZ and Electronic World Trade Platform (e-WTP)**. Businesses need to be aware that such initiatives and developments will transform the way small and medium enterprises (SMEs) do business, in particular since these efforts are expected to overcome complex regulations, processes and barriers of trade.

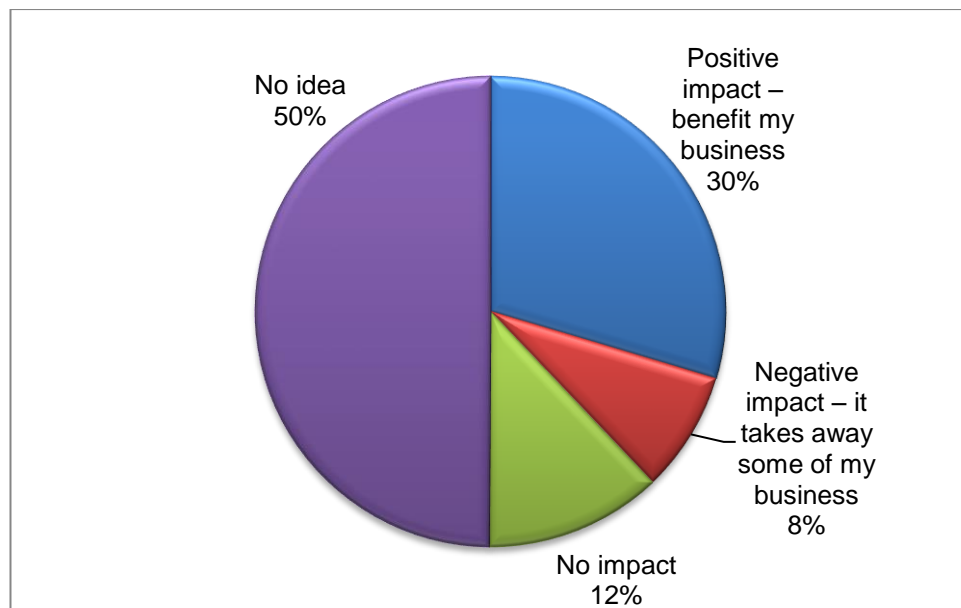
Accordingly, consistent with earlier comments, efforts to spread greater awareness of such initiatives plus explanations / promotions to encourage participation should be stepped up.

3.7 FOURTH INDUSTRIAL REVOLUTION

(a) Have you heard of the 'Industrial Revolution 4.0' (IR 4.0)?



(b) How likely would the developments and advancements that are a result of IR 4.0 impact your business in the coming 1-2 years?



Commentary for responses in part (a) and (b) above:

Industry 4.0 (IR 4.0) has been described to represent the fourth industrial revolution in manufacturing and industry. It is the current industrial transformation with automation, data exchanges, cloud, cyber-physical systems, robots, Big Data, AI, IoT and (semi-)autonomous industrial techniques that enables the realization of smart industry and manufacturing goals in the intersection of people, new technologies and innovation.

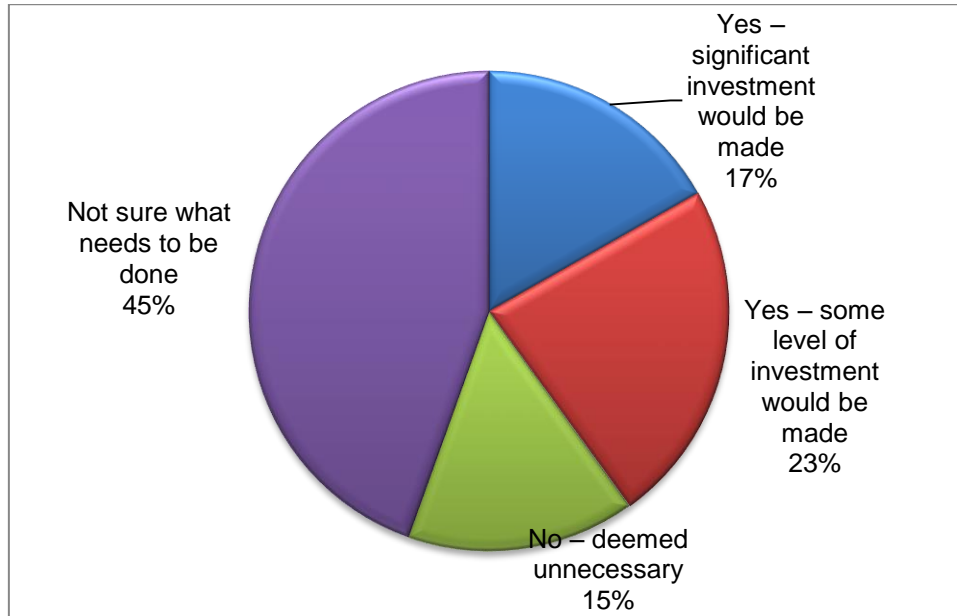
Based on the survey results, it shows that **50%** (part (a)) **of respondents are not aware of IR 4.0**. The results shown may be consistent with the findings and comments made earlier in respect of survey question 3.6. A lack of appreciation of the developments and benefits of ICT may be linked to lack of knowledge of Industrial Revolution 4.0.

Linked to part (a), **some 30% of respondents expressed optimism about the effects of IR 4.0** that is expected to accrue benefits for their businesses. Such businesses are predicted to have begun to take positive steps towards leveraging greater on technologies.

Accordingly, once again, it is the balance 70% of respondents for which attention the relevant authorities and other stakeholders ought to provide some measure of attention since:

1. 8% of respondents expressed negative effect from IR 4.0
2. 12% of respondents do not expect any effects from IR 4.0
3. 50% of respondents are unsure of the effects of IR 4.0

- (c) Would your business be investing to ensure that it is equipped to face the challenges that may be posed by IR 4.0?

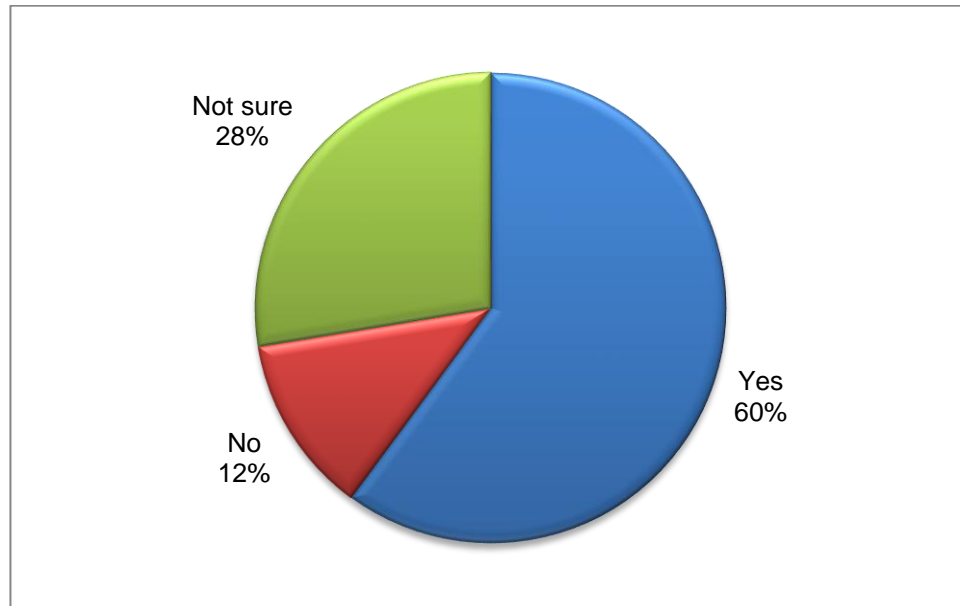


As a follow-on from part (b) above, **only some 40% of respondents forecast that some measure of investments would be made by the businesses to take advantage of IR 4.0.**

Some 45% of respondents were uncertain of their next course of action, consistent with their lack of knowledge about IR 4.0.

3.8 **PROPERTY SECTOR**

Following the implementation of measures to curb rising property prices and in tandem with a slowdown in sales, housing construction activity growth slowed down significantly from about 30% in 2011-12 to 11-12% in 2015-16 and further to 5% in the first nine months of 2017. Do you think the sharp deceleration in housing construction activity has contributed to a sluggish domestic economy due to its strong and wide linkage with so many domestic industries?



Economists usually tend to highlight and point to the importance of the property sector towards the health of a nation's economy. Bank Negara Malaysia (BNM) has expressed concern with regards the Malaysia property market and in its quarterly reports covering this survey period, have listed the following concerns:

- Rise in unsold residential properties
- Oversupply of office and shopping complexes

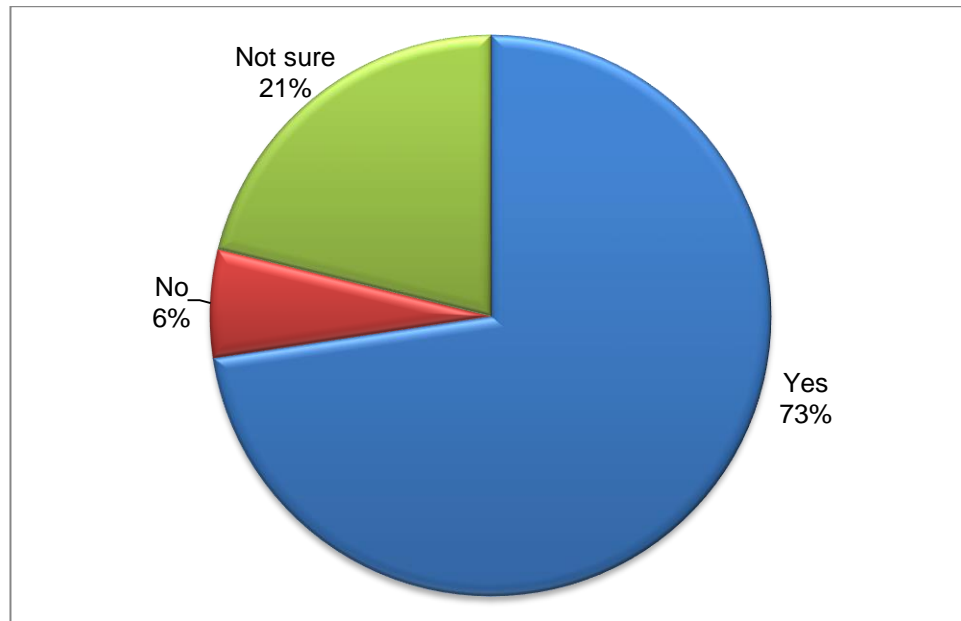
In turn, the risks posed to the nation's economy stemming from a 'vulnerable property' market are as follows:

- Slower economic growth
- Higher unemployment
- Multiple sectors of the economy to suffer prolonged weaknesses
- Negative effects on the banking and financial institutions
- Negatively impact the Current Account of the nation's Balance of Payments
- Impair the Government's fiscal positions if bailouts are required

Consistent with the concerns raised by BNM, the **majority (60%) of respondents expressed that the current downturn in the property market has negative effects on Malaysian economy, impacting several domestic industries.**

3.9 TAX MATTERS

- (a) In recent months, many of the big listed companies have been slapped with additional income tax by the Inland Revenue Board. Other SMEs are likely to suffer the same also even though it was not reported. The additional tax imposed would likely cause cash flow problem to these companies. Do you think it has also caused fear among businesses and many would likely keep more cash in hand and result in a further slowdown in domestic economic activity?

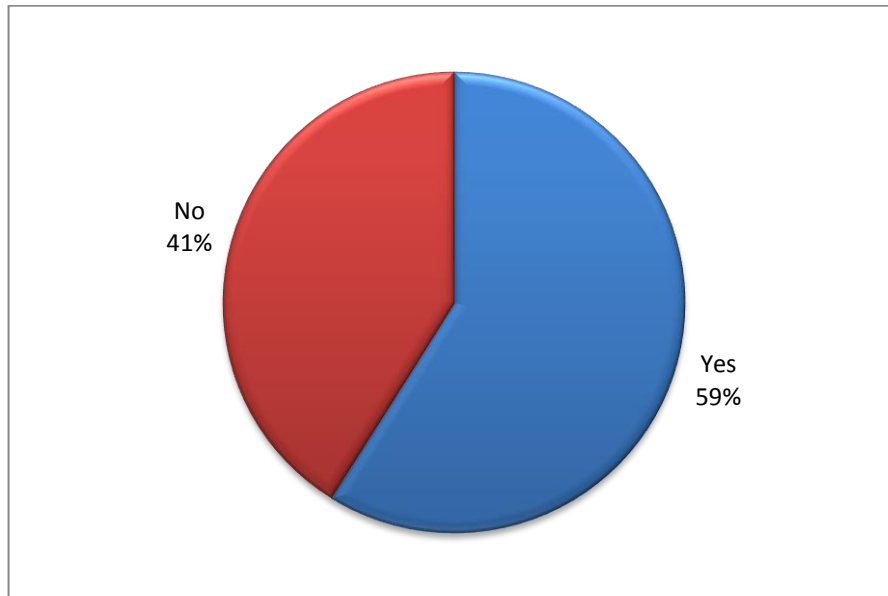


ACCCIM does not encourage its members to evade paying tax to the Government. Instead, it promotes the need to comply with the requirement, with emphasis on paying the right amount of tax.

However, the several high-profile cases in the press concerning the additional taxes (and the penalties) to be paid by corporations for previous years' tax submissions appear to have raised concerns in many parties as to whether their tax submissions have been erroneously made in the past. Many have expressed that it may be due to their lack of understanding of the appropriate tax treatment and interpretation of the tax laws.

Such concerns are reflected in the result of the survey whereby **some 73% of respondents believed that they need to set aside a greater portion of their cash balances for possible increase in tax liabilities for past submissions.** Such setting aside of cash balances would then have the corresponding negative effect on the economy as expenditures may reduce.

- (b) Inland Revenue Board has announced that from 1 January 2018, it would impose a 100% penalty (from the previous high rate of 45%) on the tax of individuals and companies dodging payment or filing incorrect income tax returns. Are you aware of the rise in the rate of penalty?

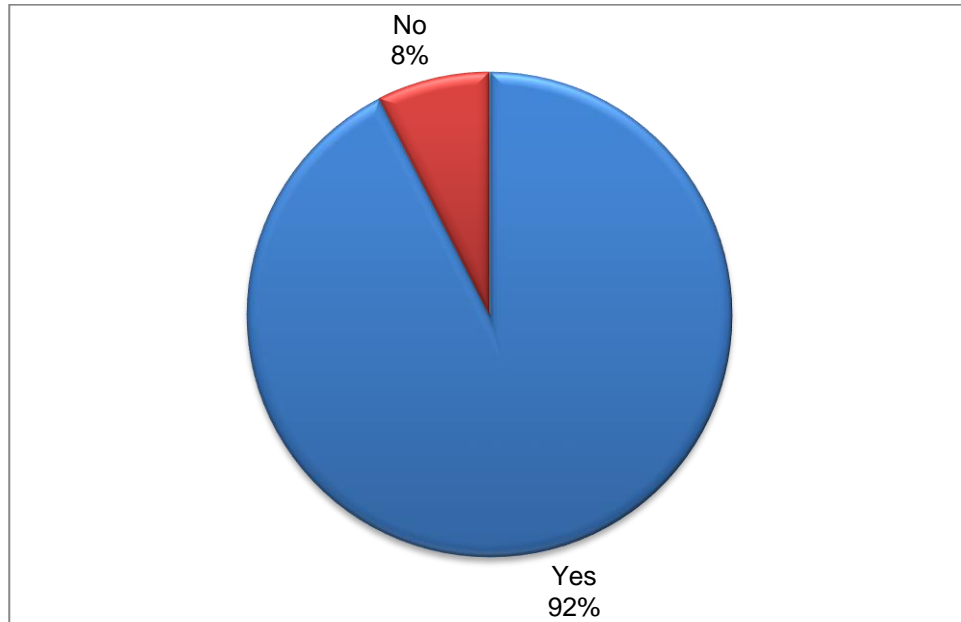


In 2017, the penalty imposed by Lembaga Hasil Dalam Negeri (LHDN) for arrears of taxes was 45%. In 2018, the penalty rate imposed by LHDN has been increased to 100%.

The majority of respondents (59%) replied that they were aware that the rate of penalty imposed by LHDN for arrears of tax has been increased to 100%.

3.10 MISCELLANEOUS

(a) Do you think the inflation rate in Malaysia will rise in the future?

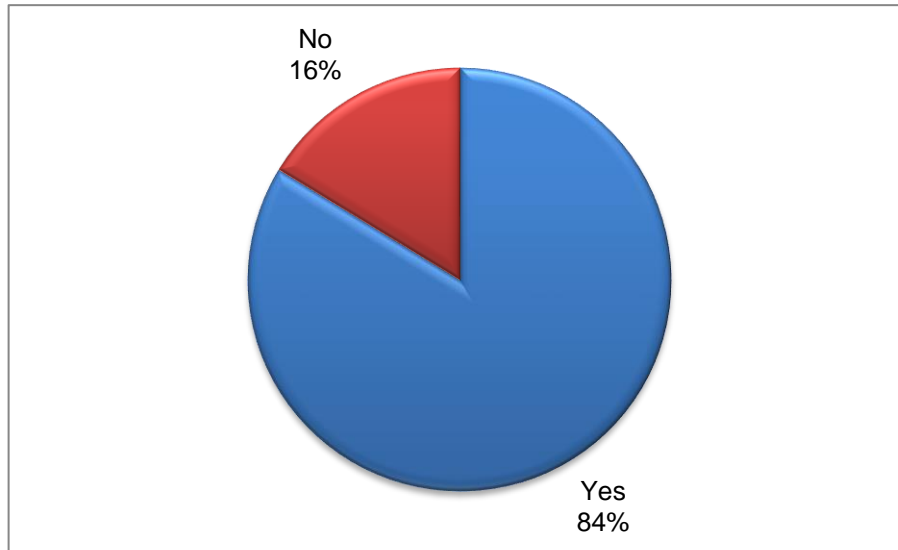


The diagram above reflects the concerns of Malaysians, be they individuals or businesses.

An overwhelming majority of respondents (92%) believe that inflation rate in Malaysia will continue to rise in the future. As mentioned in the earlier paragraphs, businesses have been lamenting the rise in costs of doing business in Malaysia, and that in the majority of cases, cost increases would be passed on to the consumers or end users.

Certainly, efforts to curb or manage rising costs should be looked into by the Government and the business community.

(b) Do you think the interest rate in Malaysia will rise in the future?

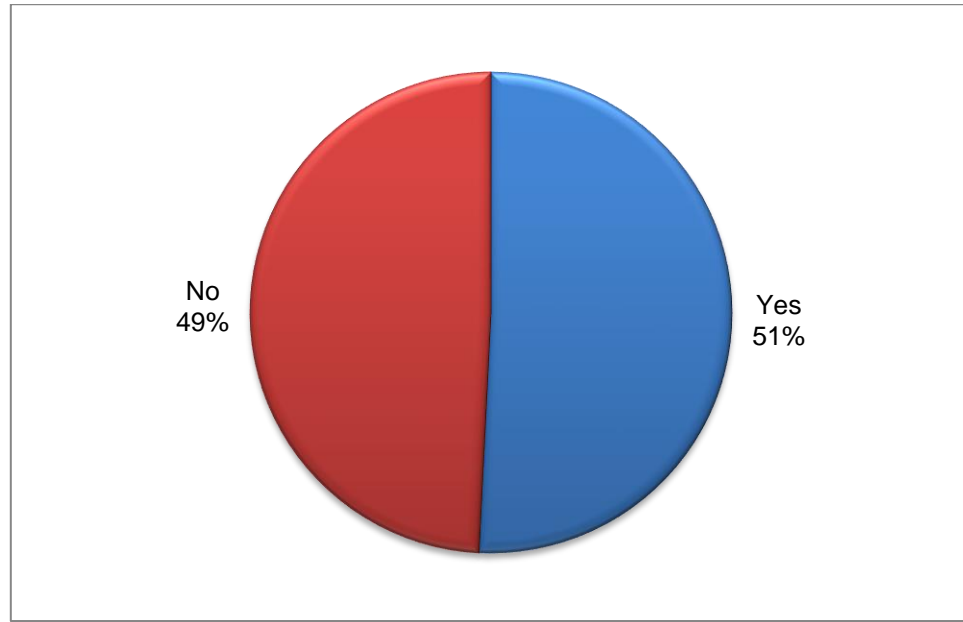


In general, economic theory predicts that when inflation rate of a country's economy rises, among the various measures available to any Government to reign in inflation is to increase interest rates (monetary measure).

Perhaps, owing to sentiments expressed in part (a) above, **the majority of respondents (84%) predict that interest rates would increase as a consequence of the expected rise in inflation rates.**

It may also be in part to news of possible increases in interest rates in other countries, such as the United States of America.

(c) Are you aware of the various provisions and incentives that are provided for in the recent Budget 2018 to help SMEs?



Various incentives and measures were included in Budget 2018 to assist SMEs in the businesses.

The level of awareness among respondents was almost evenly mixed, between those aware (51%) and those not aware (49%).

Efforts should be taken to spread such awareness so that more SMEs may apply for the various schemes and measure, which will in turn contribute towards better economic growth of Malaysia.