# KERATAN AKHBAR

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## Fixed asset investments fall short


**ECONOMY**

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**PETALING JAYA:** Investments in Malaysian fixed assets have not only remained below pre-pandemic levels but underperformed against neighbouring countries like Singapore and Indonesia in 2022.

With the economy expected to hit a soft patch, fixed asset investments or gross fixed capital formation (GFCF) could potentially grow slower this year following a 6.8% expansion in 2022.

Socio Economic Research Centre executive director Lee Heng Guie hinted that the country's GFCF would likely remain below the pre-pandemic level this year.

Speaking with *StarBiz*, Lee said the private sector may continue to see weak capital formation this year in line with the softer macroeconomic outlook.

It is noteworthy that the country's Leading Index (LI) has remained in the negative territory, registering a decline of 2.7% in April and 1.1% in May.

The LI is a predictive tool used to anticipate economic upturns and downturns in an average of four to six months ahead.

"The private sector, which contributes almost 78% of the GFCF, is affected by the high cost of doing business and the weak export performance, given the soft external demand. Private investments are likely to grow moderately by 4% to 5% this year in line with Bank Negara's earlier guidance.

"For now, the private sector is adopting a wait-and-see attitude," said Lee.

Nevertheless, he expressed optimism that the country's strong approved foreign direct investments (FDIs) in the last two years would translate into improved private sector investments from 2024.

The country recorded approved FDIs of RM208.6bil and RM163.3bil in 2021 and 2022 respectively.

The Statistics Department reported yesterday that Malaysia's GFCF was at RM297.82bil at constant prices, marking a 6.8% increase from RM278.98bil in 2021.

In pre-pandemic 2019, the value of Malaysia's GFCF stood at RM328.54bil.

For comparison, Indonesia's GFCF grew by 9% in 2022, while Singapore recorded a growth of 8.7%. Fixed asset investment in Thailand increased by 6.8%.

Centre for Market Education chief executive officer Carmelo Ferlito said Malaysia is "paying the cost for the suicidal Great Lockdown".

"Indonesia and Thailand, where restrictions were enforced in a more relaxed manner, had a limited impact during the lockdown and recovered faster.

"Malaysia and Singapore had a big fall and in general, Malaysia is recovering at a slower pace when compared with the city-state," he said.

Ferlito noted that Malaysia's private investments as a percentage of gross domestic product (GDP) has been declining even before the pandemic hit.

According to him, the country's private investment was as low as 15% to the GDP before the pandemic, while in Indonesia, the percentage stood at around 30%.

"We have an older trend, whereby Malaysia lost competitive value when compared with some of the neighbouring countries.

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## Ferlito: Radical shift in policies to encourage investments *crucial*

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"Malaysia is falling back due to the deterioration in the domestic investment framework, and the leap forward from Indonesia and Vietnam, which, among other things, have availability of unskilled workforce and a bigger domestic market.

"After the lockdown, political uncertainty and the lack of a clear policy, together with some structural issues, had kept investors at bay," he added

In a statement yesterday, chief statistician Datuk Seri Mohd Uzir Mahidin said the GFCF remained the second largest component of the country's GDP, with a share of 19.7% of the total economy.

The private sector was the major contributor to the GFCF with a share of 77.8%, registering an expansion of 7.2% as compared to the preceding year.

In addition, investments by the public sector also increased by 5.3% as compared to a decline of 11.1% in 2021.

"The services and manufacturing activities were the main contributors to the GFCF of the private sector.

"The share of services activity jumped to 63.6%.

"Moreover, manufacturing activity upholds its position as the second largest contributor with a share of 22.8% as compared to 22.1% in the previous year.

"Meanwhile, other activities accounted for 13.6% of the total GFCF of the private sector," he said.

As for the public sector, the GFCF in 2022 was also driven by the services activity, with a contribution of 80.9%.

This was followed by mining and quarrying as well as manufacturing activities, with contributions of 9.3% and 9%, respectively.

According to Mohd Uzir, all major sectors showed an improvement in GFCF for 2022, especially investment in fixed assets in the services and manufacturing sectors.

"The strong performance of the services sector was driven by wholesale and retail trade, and transportation and storage and information and communications, which increased by 13.6% and 10%, respectively in 2022," he said.

Meanwhile, positive growth in fixed assets in the manufacturing sector at 9.9% was led by strong performance in the food, beverages and tobacco (2022: 14.1%) and non-metallic mineral products, basic metal and fabricated metal (2022: 13.9%) sub-sectors.

Investments into the sub-sector of electrical, electronic, optical products and transport equipment had also increased to 9.4%.

The Statistics Department noted that the GFCF for the mining and quarrying sector grew by 1.5%, recovering from a decline of 14.2% in 2021.

The agriculture sector showed a slight increase of 0.2%, supported by a better performance in livestock and fishing and other agriculture sub-sectors.

On the other hand, the GFCF of the construction sector rebounded by 3.3% year-on-year in 2022.

Looking ahead, Ferlito called for a radical shift in government policies to encourage investments.

"We hear that facilitations will be given to investors who invest more than RM5bil. This means keeping a lot of other investments away.

"And big investors may decide to go to Indonesia, where regulation is getting easier and there is a bigger market and availability of labour. I believe we need open arms not selection.

"Furthermore, we need a radical rethinking of government-linked companies, which play too big a role, while private entrepreneurs struggle to gain size through consolidation," he said.