A Report on the CIDB's Market Talk Series for India & Indonesia

A REPORT ON THE

CIDB'S MARKET TALK SERIES

1. Introduction

The CIDB's Market Talk Series was held on 14 August 2015 in Kuala Lumpur. The event was intended to serve as a forum to discuss the latest updates on the economic and current business environment in selected overseas market, in which for this inaugural event of the series, focus was given to India and Indonesia.

2. Welcoming Remarks

The welcoming remarks to officiate the CIDB's Market Talk Series was delivered by Dato' Sri Ir. Dr. Judin Abdul Karim, Chief Executive of CIDB Malaysia. In the remarks, Dato' Sri Dr. stressed to the market talk participants on the need to diversify their operations. He argued that Malaysian players of the construction industry have to look at the bigger picture and not to depend on the Malaysian economy in order to thrive. He said that the time has come for Malaysian construction companies to grow into global players and cited Bina Puri Holdings Berhad as an exemplary Malaysian construction company that have made its presence in many countries around the world.

Later, Dato' Sri Dr. moved on to discuss the construction project opportunities in India and Indonesia, which are two of the countries that are experiencing rapid development in its infrastructure. Malaysian construction companies are highly encouraged to take up this opportunity but they should also be doing so as a team and avoid competing with one another. Instead, Malaysian construction companies are strongly advised to complement one another and build up a concerted effort to gain footing in India. Later, he also added that Indonesia is seeking to attract fresh foreign investment into the country's infrastructure sector; and cited the success of the RM3.53 billion Cikopo-Palimanan toll road project, which is the UEM Group Berhad's first highway concession in Indonesia.

Dato' Sri Dr. stated that CIDB is willing to moderate such cooperation among Malaysian construction companies and help in any way it can to bring them to the international scene. This, he said, was exactly the steps that have been taken by the Turkish and Korean governments in order to assist the construction companies in their respective countries.

As for the opportunities in India, Malaysian construction companies already have an advantage in that the Indian government and construction players are actually looking to emulate the construction models in Malaysia and keen to work together with Malaysian companies. Dato' Sri Dr. also reminded the participants that in India, decisions are not made by politicians but rather by the civil servants; and fortunately, CIDB can assist very well in this respect as it has made good relationship with the related Indian civil sectors. Hence, Dato' Sri Dr. maintained that it is important for Malaysian construction companies to work together with the government through CIDB in order to successfully venture the overseas market.

Dato' Sri Dr. later shared that India is now aware of the need for good infrastructure, and having faced with problems in the construction of highways, they are now coming up with a new model called the *hybrid annuity model* which will make it easier for construction and infrastructure companies to implement highway developments. Under this model, the finances involved will be more assured and present less risks. However, this may also mean a less profit margin for the construction players involved in such projects.

The participants were then informed that the Rancangan Malaysia Ke-11 is geared towards exporting of services; which includes the export of expertise by Malaysian construction companies. The five-year plan will focus on transforming the construction industry by enhancing knowledge content, driving productivity, fostering sustainable practices and increasing global competitiveness, in line with the Construction Industry Transformation Programme (CITP), 2016-2020.

3. Outcomes of CIDB Market Intelligence

This segment was presented by Puan Zainora Zainal, General Manager of International Division, CIDB. Her presentation mainly focused on roles of the International Division and how it can assist construction companies that wish to venture overseas.

Puan Zainora explained on the overall functions of the International Division of CIDB while focusing on the provision of data, statistics and detailed information on global markets and current. To date, the division has had a number of sessions with MATRADE and EXIM Bank on how turn the data, statistic and information into impactful deliverables for the construction players in Malaysia. There have also been a number of coordination meetings to decide on the focus areas for the following year, with inputs from EXIM Bank. The focus areas are decided based on their viability in terms of financing assistance and position in the priority markets.

The division has been producing country reports in which country selection was done through the coordination meetings held every year. These reports dated back to 2004; however the most current ones with shelf life for the next 3 to 5 years are those for Nigeria, Guinea, Myanmar, Indonesia, India, Saudi Arabia, Iraq, Philippines and Qatar.

The division has also developed Market Alert reports based on quarterly data and information subscribed from a number of selected research houses. The data and information were then formulated and re-packaged into monthly report format and subsequently disseminated to local construction players. Other than that, the division also produced a number of newsletters and the Going Global Handbook. Later, Puan Zainora elaborated on the Statistics of Overseas Projects by region, country and construction players' presence throughout the world, based on the information gathered by the International Division and stored in the International Projects database system.

The participants' attention were then directed to the CIDB's Global Reach which explain the outbound and inbound missions that have been carried out to explore various markets all over the world. Consequently, Indonesia and India have been chosen as the focus of this inaugural Market Talk Series as both are the most active countries with regard to the missions aforementioned. The International Division also embarked on projects facilitation activities over a number of countries such as Morocco, Myanmar, Turkey, Kazakhstan, Indonesia, Philippines and India, not only through the dissemination of information but also through engagements with the respective governments and relevant ministries/agencies; and at the same time, assist Malaysian companies that wish to venture into those markets.

Puan Zainora mentioned about the invitation made by the government of Morocco requesting for Malaysia to look into the PPP projects opportunities that are available in the West African country. CIDB has also been building a good relationship with the Myanmar government, promoting Malaysian construction companies and recently has helped its Ministry of Construction in setting up the CIDB for Myanmar and possibly training centres similar to the Akademi Binaan Malaysia as well.

Puan Zainora also mentioned about the mission made to Turkey primarily to see how Malaysian companies can participate in the construction sector and to share how Malaysia have been developing its development corridors. CIDB has also participated in the Astana Economic Forum (AEC) in Kazakhstan to explore opportunities that are available for Malaysian companies. During the visit, CIDB Holdings has also exchanged MoUs with KAZNEX Invest, the national export and investment agency of Kazakhstan in the area of information exchange. The Kazakhstan government has also requested CIDB to propose for a transportation hub and upgrading works of its existing airport to prepare for the Expo 2017, an international exposition scheduled to take place in 2017 in Astana.

As for Indonesia, CIDB has had a number of engagements with the relevant ministries and agencies in the past including a construction mission to Jakarta and Bandung in November 2014 and a working visit to the Indonesian Ministry of Transportation in the following month along with MATRADE and four Malaysian companies. CIDB also made a working visit to PT Jababeka TBK, the largest industrial estate developer in Indonesia, in May 2015 and brought along 10 Malaysian companies. Later, in August 2015, CIDB played host to an inbound visit by PT Jababeka TBK during which a number of meetings have been organised with specific focuses on airport, toll road, MRT, low cost and affordable housing, commercial/residential building, leisure and hospitality.

Puan Zainora also cited the working visit made by CIDB to New Delhi and Rajasthan, India in June 2015 and a technical visit in August 2015. Later, she shared some of the CIDB's current initiatives in India, per Table 1 below.

Table 1: CIDB's current initiatives in India

Initiative	Owner	Status
20 National Highway Projects on Hybrid Annuity Model	MORTH/NHAI	Tender
28 National/State Highway Projects on PPP (Annuity) or PPP (VGF)	PWD Rajasthan	Tender
Jaipur Metro Development Phase 2	JMRC	Proposal
Re-Development of Delhi Sentral	NBCC/Delhi Muni.	Master Plan
Affordable Housing	NBCC	Proposal
Property Development	Jaypee Group	Open

Aside from missions on project opportunities, the International Division of CIDB has also approached financial institutions such as the Asian Development Bank (ADB) that can offer financing to emerging markets. In one of the engagements, CIDB has brought along Malaysian players to expose them to financial assistance that can be offered by the ADB for overseas projects.

4. Latest Updates on the Economic and Current Business Environment in Selected Overseas Market

This segment was presented by Puan Zabedah Giw, Head of Global Advisory & Research, EXIM Bank. Her presentation mainly focused on the August 2015 progress of markets where Malaysians are involved and have interest in.

<u>Quarterly GDP Growth of Selected ASEAN Markets</u>

BNM cited a 4.9% 2nd quarter GDP growth for Malaysia, which is considered as not bad given the difficult environment that Malaysia is facing. Malaysian as an export nation will however be affected by the ongoing headwinds in the external markets especially in terms of how much can be exported on a monthly basis. With reference to the economic indicators, Malaysian GDP growth has slowed down in the 2nd quarter of 2015 as consumer spending fell due to the implementation of the GST, lower government spending and lower oil prices which has dragged down exports.

Indonesia, on the other hand, has recorded a 4.67% growth for the 2nd quarter. Compared to the previous quarter, growth has actually trending down. Nonetheless, growth for the 2nd quarter of 2015 remained stable due to support from consumer spending which help offsetting sluggish government spending and weaker exports as a result of the slowdown in China.

Singapore and other ASEAN economies were also facing the same problem with their economic growths. Singapore which cited a 1.8% GDP growth for the 2nd quarter of 2015 has had a continued weakness in the manufacturing sector due to lower global demand for its exports and government restriction on foreign labor that have hurt private investment and business expansion.

No data was made available for the 2nd quarter GDP growth of the Philippines and Thailand. However, it was noted that the Philippines has had a slower 1st quarter GDP growth due to weak government spending and a decline in exports; while Thailand's 1st quarter GDP grew 3% on higher tourism receipts, private consumption recovery, continued real estate construction and the resumption of government investment.

Quarterly GDP Growth of Major Economies

China has managed to achieve a 2nd quarter of GDP growth of 7%, which is within its government expectations, as the booming stock market contributed to growth. UK had a 2.6% of GDP growth due to continuing support by consumer spending as the employment market remained healthy with rising wages and as a result of higher oil output. Meanwhile, the US achieved a 2.3% GDP growth for the same period supported by consumer and government spending, although business spending has declined due to the slowdown of investment by energy-related firms.

Based on the figures, it is apparent that China, as the second largest economy in the world, is no longer experiencing double digit growth. Such a development does matter to economies that are depending on China such as Malaysia. Being its largest export market, China's economic growth will obviously have an impact over Malaysia.

Malaysia Economic Outlook for 2015

Malaysia is expected to experience a slower growth which EXIM Bank puts at 4.8% and the figure has already taken into account of the cutbacks of investment in Malaysia's main economic sector i.e. oil and gas that has been a major contributor to the economy. The slow growth is also attributed to the implementation of the GST and the inflationary effect of a weak ringgit which will curb domestic consumption. And given the position of oil and gas as a major source of revenue for the government, further drop in oil prices will not bode well for Malaysia. A current account deficit is expected should the Brent oil price averages below USD50 per barrel for 2015.

Also, it is important to note that the oversupply issues in oil and gas has not been addressed yet and unlikely to improve anytime soon. OPEC is unlikely to cut its production and as for Saudi Arabia, it has been reported that the oil-rich nation may cut its oil supply between 200k to 300k barrels a day at most, when the summer ends. The fight for the market share will still be going strong and with the incoming of influx of oil from Iran beginning the 2nd quarter of 2016, there will be further surplus in the oil market. As a result, oil prices will continue to be under pressure.

Malaysia: External Trade

With regard to trade performance, Malaysian export is still showing a positive achievement. June exports have been reported to increase by 5% on higher exports of electronics, palm oil and metal. In terms of destination, exports to China recorded the strongest growth of 49% followed by the EU at 16% and the US at 9.5%. The surge in palm oil exports is likely due to buyers taking advantage of the weakness of the RM (17-year low) and weakness in CPO prices. Most importantly, Malaysian trade balance is not showing a stable trend but rather a fluctuating condition. And if the oil prices remain low, thus affecting Malaysian exports, the trade balance is expected to getting thinner as time progresses.

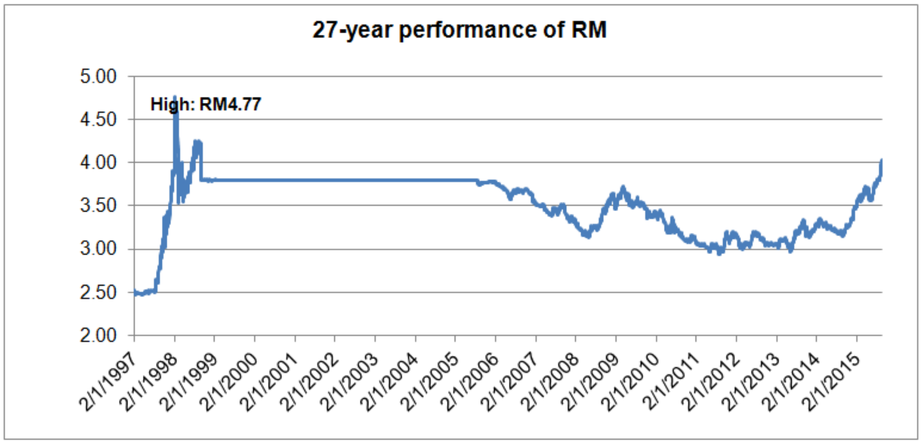
Figure 1: Malaysia: External Trade

Given the thinning trade balance, it is important for Malaysian construction companies to go into overseas market thereby contributing to the export of Malaysian goods and services. If Malaysian companies decline to venture outside of Malaysia, there is a risk that the export figures (in terms of services) will be affected. Should the trade position becomes deficit, Malaysia will be experiencing a twin deficit – i.e. budget deficit and current account deficit, and such a situation will not lend much strength to the RM.

Foreign Exchange

In addition to domestic political developments, the devaluation of the Yuan triggered weakness in regional currencies including the RM. The RM breached the RM4.00 level as a result.

Figure 2: 27-year performance of RM



The RM generally weakened against most currencies on domestic political uncertainty and the devaluation of the Yuan with the exception of the Rupiah which weakened against the USD by a similar extent largely due to the strengthening USD. EXIM Bank is looking at RM4.20 for USD1 as a worst-case scenario, taking into account of the current economic situation. However, it is hard to say whether the exchange condition will persist until the end of 2015.

The household debt to GDP in Malaysia is about 88% and it is the highest in Asia. If BNM were to increase the interest rates from the current position of 3.25%, it will hit the household debt, causing a sudden increase in the NPL of the banking sector and curb in spending by local consumers. On the other hand, lowering the interest rates will not help the RM as well, as people will not be saving their money and instead start spending. Either way, Malaysia is in a very tight position and what Malaysia need at this moment is a higher export in order to sustain the position of its currency.

Latest Updates on the Economic and Current Business Environment in Indonesia

Given the impactful relationship China has with ASEAN economies, Indonesia's export will indeed be affected by the slowdown in China's economy, particularly over its current account position. While Indonesia is actively pursuing the development of its infrastructure, which would require a lot of imports for capital goods, the deficit will get wider and increase further pressure on the Rupiah.

There is also a concern regarding the latest policy issued by the Indonesian government, which aims to curb imports by raising taxes. If the taxes are indeed raised; this will limit imports and ultimately affect the progress of new infrastructure projects taken up or issued in Indonesia. Consequently, this may create a much more difficult environment for investors to be involved in further infrastructure development projects in Indonesia. In turn, there will be a lack of liquidity when investors pull out of Indonesia whereby such announcement was made by UBS arising from the weaknesses in the economic prospect.

Difficulties of funding will also pose a problem for the business environment in Indonesia. Another important factor to note is the new policy issued by the government, following the falling of Rupiah, whereby foreign currency transaction is banned from taking place in the domestic market and business transactions need to be carried out in Rupiah. All these are moves done by the Indonesian government in order to improve and sustain the position of Rupiah. The move become necessary when the central bank announced that it won’t be aggressive in intervening the market to sustain its currency (Rupiah).

There is also a new policy in Indonesia that require foreign companies undertaking huge projects and taking offshore loans to be rated by rating agencies, most likely designated by the Indonesia government. Furthermore, Malaysian construction companies (and their partners) operating in Indonesia should not expect a lower lending rate as the country’s move to defend its Rupiah will create an environment of high-cost borrowing.

On the bright side, there will be more PPP infrastructure development taking place in Indonesia because the government will try to minimize its deficit position and would therefore still welcome foreign investors. The abolishment of petrol subsidy and capping of diesel subsidy has enabled the Indonesian government to reallocate savings from subsidies towards greater capital spending in 2015. The allocation to infrastructure spending has also been increased by RP112 trillion or 66% to RP281 trillion. Indonesia’s total FDI stood at USD22 billion for 2014 compared with USD19 billion in 2013. Japan is the largest investing country with USD5.9 billion contributing to 26% of total FDI followed by China with USD1 billion of investments.

Risk and Challenges in Indonesia

- Infrastructure spending – limited by availability in funding;
- Current leadership - lack of support in the parliament;
- Efforts to sustain the economy such as new regulation of offshore borrowings, nationalization policy;
- Indonesia’s central bank has banned the use of foreign currencies for domestic transactions, aimed at controlling onshore demand for dollars and easing downward pressure on the Rupiah; and

- The deposit interest rates have declined in line with the Bank Indonesia decision to lower its benchmark interest rate to 7.5%. However, the average lending rate increased to 12.95%.

Despite the various challenges for Malaysian companies to venture abroad, it is important to note that the EXIM Bank is receptive to such an endeavor. EXIM Bank is looking to finance companies that managed to thrive during economic turmoil in the past and have been involved in a number of overseas projects. These will be used as part of the basis in evaluating for potential financing. EXIM Bank will also look into the companies' financial capabilities to see how they can withstand the current economic situation and assist in terms of the structure of financing by taking into account of the forex risks as well as arrangements to minimize the financial risks.

Also, Indonesia is actually one of EXIM Bank's top exposed markets and the bank would like to continue to provide assistance to Malaysian companies. EXIM Bank's portfolio for financing in Indonesia includes, power, highways and roads.

Latest Updates on the Economic and Current Business Environment in India

A major plus point about India is the fact that it practices the same legal system as Malaysia, i.e. based on the common English law and it has such a big market. India welcomes foreign investment and to date, has been growing a strong relationship with Malaysia – which is in line with Malaysia's plan to turn to India as the next big market for Malaysian exports.

India's economic growth is mainly driven by tourism and supported by information, communications and technology. India's trade deficit narrowed to USD143.1 billion in 2014, from USD162.6 billion in 2013. Goods imports have declined owing to lower global oil prices, while exports have expanded with the help of a weaker rupee. Exports grew by 3.1% in 2014, to USD329.6 billion, while imports contracted by 2%, to USD472.8 billion.

Foreign direct investment inflows totaled at USD33.88 billion with main sectors being service, electrical equipment, transportation industries, telecommunication, fuel and food processing industries. For a complete list of sectors and FDI distribution, please see Table 2 below.

Table 2: Indian FDI according to sector

Sector	2000-2015 Total FDI in USD million	% from total FDI
Services	43,202	16.88
Construction	24,006	9
Telecommunications	17,421	6.81
Computer Software & Hardware	13,389	6.76
Automobile Industry	13,279	5.23
Drugs & Pharmaceuticals	10,486	5.19
Chemicals	9,712	4.1
Power	8,723	3.79
Trading	8,620	3.41
Metals	8,073	3.37
Hotel & Tourism	6,574	3.15
Petroleum & Natural Gas	6,369	2.57

In terms of region, the top five in India to receive the most FDIs are Mumbai, New Delhi, Chennai, Bangalore and Ahmedabad as depicted in Table 3. These regional indicators can indeed help Malaysian companies to recognize which state has actually been most welcoming to foreign investors. As for the regions with low FDIs, Malaysian companies should actually explore the existing opportunities and work on sharing their expertise to help develop them, especially the infrastructure development which is one of the main factors to attract investors.

Table 3: Indian FDI according to region

Region	Total FDI in millions of USD 2000-2015	Percentage from total FDI
Mumbai	363,630	29
New Delhi	265,359	20
Chennai	93,725	7
Bangalore	89,419	7
Ahmedabad	56,735	5
Hyderabad	50,787	4
Kokata	14,900	1
Chandigarh	6,362	1
Jaipur	6,901	1
Bhopal	6,096	1
Kochi	6,159	0.3
Kanpur	3,917	0.2
Bhubaneshwar	1,963	0.2
Not Indicated	1,280,188	24

Bilateral trade between India and Malaysia has increased by 7.5% to reach RM45.24 billion in 2014. Malaysia's exports rose by 23.9% or RM6.16 billion to reach RM31.9 billion. Exports of palm oil were up by RM2.33 billion, crude petroleum RM1.82 billion as well as chemicals RM536.5 million. Other products that registered increases were furniture, textiles, clothing and footwear as well as processed food.

While the economic performances are commendable, it is important to note that India is a twin deficit country; and a country with such a deficit will tend to change its domestic policies on economic management.

Overview of India's Construction Sector

- 50% of the demand for construction activity in India comes from the infrastructure sector valued at over USD 126 billion;
- Construction activities contribute more than 10% of India's GDP;
- An estimated USD 650 billion will be required for urban infrastructure over the next 20 years;
- India has an estimated urban housing shortage of 18.8 million dwelling units; and
- The housing shortage in rural India is estimated at 47.4 million units, in 2012.

Malaysia's Investors/Players in India

i. Sime Darby Bhd – Plantations/ Property
ii. Petroliam National Bhd – Refinery
iii. Khazanah Nasional Bhd – Public Transport
iv. UMW Holdings Bhd – Automotive
v. Scomi Engineering Bhd – Construction
vi. IJM Corp Bhd – Highway construction
vii. Malaysia Airports Holdings – Infrastructure

Project Financing

India is currently facing difficulties in funding and financing as well as a growing non-performing loan (NPL) in its banking sector. And because of this, a majority of the banks are cautious in giving out further financing. Businesses are facing difficulties to secure loans even though having good projects and thus creating a very unsupportive environment despite the government's announcement for big infrastructure projects.

Therefore, it is better for businesses to look for financing from overseas such as from the Asian Infrastructure Investment Bank and the New Development Bank rather than from India's local banks that are having difficult situations to lend further. That being said, EXIM Bank is willing to finance viable construction venture by Malaysian companies in India.

Latest Updates on the Economic and Current Business Environment in China

China has been re-balancing its economy since 2012 in a much slower and subtle manner, in which the whole idea is to avoid the slowing down of its economic growth at an unacceptable degree relative to inflation and unemployment. And China did not intend for such actions to be the cause for world economic recession.

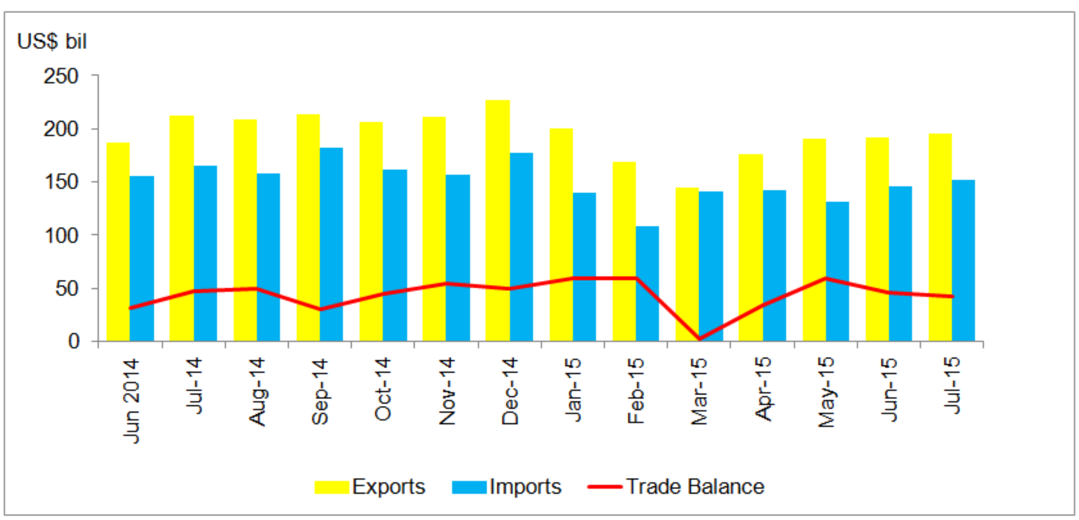
The re-balancing approaches that it has been taking do not give much impact as China is still experiencing high domestic debt among its state governments and State-Owned Enterprises (SOEs). Hence, there is not much room for China to further push up its economy. The central government is trying to solve this problem by extending further borrowing to the state governments but this is only possible if the central government has adequate revenue.

EXIM Bank and the IMF are however confident that the China government will be able to come out of the current difficult situation. Yet it is important for the external markets to be aware that China is undertaking measures that may be seen as unprecedented in re-balancing its economy.

<u>China: External Trade</u>

July exports fell by 8% on weak global demand and a strong Yuan has made China's export less competitive. And as the world's second largest economy, any policy and directions that have been taken and executed by China will ultimately affect the rest especially the Asian economies.

Figure 3: China: External Trade

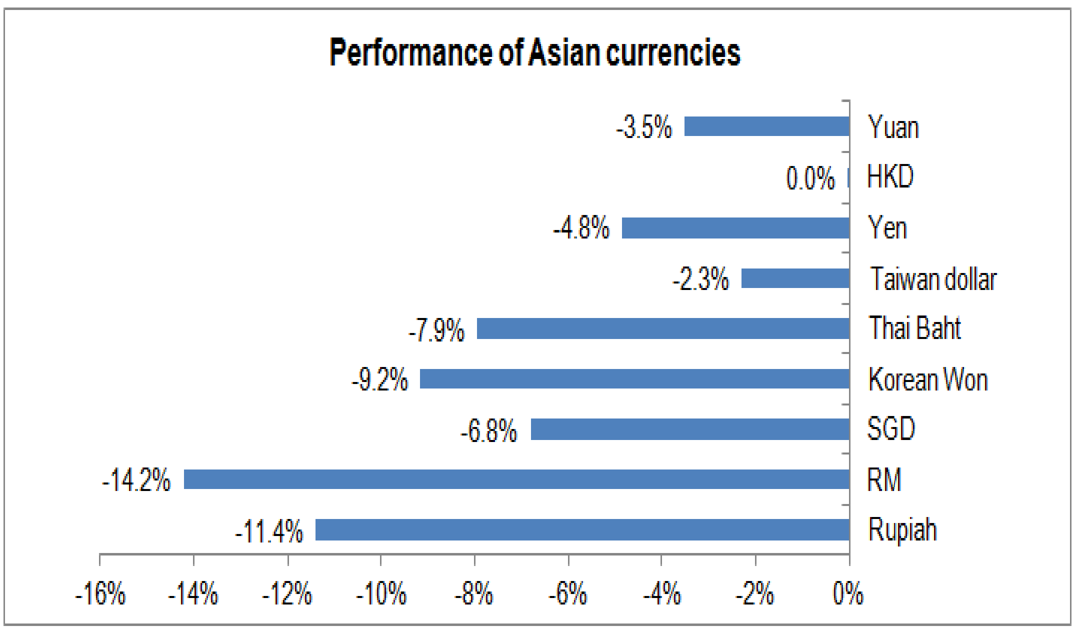


The Devaluation of Yuan

The devaluation of Yuan is admittedly being discussed among Malaysians as well as the situations concerning Ringgit Malaysia and how these will affect businesses – not only domestically but with regard to overseas undertakings as well. The devaluation, which caught everybody by surprise, is actually one of the unprecedented measures taken by China in order to sustain its exports and has caused many economies to rethink their economic strategies to pursue, following this situation.

For year-to-date (Jan-Aug 2015), RM has declined by 14.2% and if China were to devalue its currency, a similar action wouldn't have to be taken for RM as it is already happening at this moment as far as RM is concerned. Although rightfully, this should present a positive effect to Malaysian exports (which has yet to materialize), the slowing down of China's imports will also particularly hurt Malaysia.

Figure 4: Performance of Asian currencies



ASEAN and ex-ASEAN Exports to China

China has an important connection with the ASEAN markets. For example, the Indonesian export to China has amounted to USD17.6 billion or 10% of its overall exports. As for Malaysia, the export to China has amounted to USD28.2 billion or 12% of total exports. With regard to the Asian (ex-ASEAN) exports to China, India's export has amounted to USD13.4 billion or 4.2% of its overall exports.

Australia's export to China took up almost 36% of its overall exports while Kazakhstan's export amounted to USD9.8 billion or 12.5%.

Construction in China

China had consumed more cement in the three years leading to 2013 than the US had in the whole of the 20th century. Between 2011 and 2013, China used 6.6 gigatonnes of cement; 1.1 gigatonnes more than what the US used between 1901 and 2000. Such is the measure of massiveness of construction projects undertaken by China within the given time period alone. This has helped drive the commodity market to the maximum level.

Many countries that have had China as their main export market of commodities have expanded their capacities in producing and meeting the demand from China. And with the recent economic slowdown in China, which also means lesser import of commodity coming into China, all the said exporter countries will be experiencing a situation whereby their capacities are not utilized. For example, countries like Australia, a major exporter of iron ore and copper to China, will be experiencing a chain reaction from the current slowdown faced by its main customer.

The problem of overcapacity faced by the exported countries is also encountered by China, particularly in its steel industry. The steel industry in China is largely made up of state-owned enterprises and one of the directions given by the central government is that there will be no retrenchment of workforce out of fear of unrest. Therefore, the unemployment rate in China should not exceed 4.5% which is the target set by the China government for 2015. Yet, the overcapacity and inefficiency issues persist. China is targeting to resolve its economic issues at least within the next 12 months.

China's Property

1st tier cities in China seem to be doing well compared to 2nd and other tier cities. The 1st tier cities (Beijing, Shanghai) recorded a surge in property prices despite downtrend in sentiment. Possible causes are:

- Limited land areas has curtailed further new development;
- Densely populated including migration from other provinces;
- High percentage in the high income earner category; and
- Equipped with better infrastructure.

There is a slight improvement in the 2nd tier cities property prices despite the steep dip. For the past 6 months, the cities recorded and average price drop of 5.64%. A greater dip in prices recorded in the 3rd tier cities. For the first 6 months of 2015, the cities recorded an average price drop of 6.33%.

Latest Updates on the Economic and Current Business Environment in the US

The US economy is doing well compared to other major economies and at the moment is moving towards achieving its inflation target. The US is also in a full employment position because the current unemployment rate of 5.3% is considered by the Federal Reserve to be consistent with the full employment term. Wage increases have been within expectation as well as the sale of properties – all of which are factors to trigger the increase of interest rates.

In retrospect, the federal funds rate of 2007 was 5.25% before the economy started to slowdown. In the original plan, the federal funds rate is to be at 4% by the year 2017. But after taking the current economic situations into account, the rate has been revised down by 25-basis points for a federal funds rate to be at 3.75% by 2017.

Basically, the direction in the US at the moment is to increase the interest rates. This is a necessary move in order to avoid creating a bubble within its own economy. Such increase in interest rates will unfavorably increase the cost in borrowing for customers who are vying for overseas market. However, the increase, planned to be made in September 2015, is also now putting the devaluation of Yuan under considerations prior to making that decision.

5. Introduction on Services Export Fund

This segment was presented by YM Raja Badrulnizam Raja Kamalzaman, Director of the Construction and Professional Services Section, MATRADE. His presentation was mainly focused on Services Export Fund (SEF) scheme and later on the National Export Council (NEC).

<u>Background of the Services Export Fund (SEF)</u>

The YAB Prime Minister, Dato' Sri Mohd Najib Tun Abdul Razak announced to re-introduce the Services Export Fund (SEF) with budget allocation of RM300 million during the Budget 2015. The Economic Council (EC) has endorsed the proposals for action plan based on the study undertake by Economic Planning Unit (EPU) in August 2014 and MATRADE has been mandated as the implementing agency.

The Services Export Fund (SEF)

The Services Export Fund (SEF) is a scheme to provide assistance to Malaysian Service Providers (MSPs) (which includes Malaysian construction companies) to undertake activities to expand and venture into international market. The disbursement of this fund to MSP is made through provision of grants. The MSPs can obtain from 50% up to 100% of reimbursable or matching grant on the approved cost of the eligible activities. Priority will be given to companies with good track record in project delivery. The maximum assistance provided under the SEF for an MSP is up to RM5 million per company for the duration of the fund (2015 - 2020).

Eligibility Criteria

In order to apply for the SEF, MSP applicants will have to meet the following criteria:

- Registered with MATRADE (MER);
- Incorporated under Companies Act 1965;
- Having at least 60% equity owned by Malaysia;
- Malaysian sole proprietors, professionals and partnerships;
- Exporting products made in Malaysia or Malaysian services;
- Not a Government Linked Company (GLCs); and
- An active business entity (at least 12 months in operation with the latest Audited Financial Statements (2014).

All services sectors except tourism and financial sectors are eligible for the SEF; and the Construction & Related Professional Services is among the fourteen focus sectors.

Eligible Activities for Grant

1. To promote Malaysian expertise in specific services areas overseas

   Under this grant, MSPs can apply for 100% reimbursable grant of the eligible activities to a maximum of RM50,000 per company.

2. To cover related cost in rendering services for projects abroad

   Under this grant MSPs can apply for 50% reimbursable grant of the eligible expenses incurred in rendering services for overseas projects to a maximum of RM50,000 per company.

3. Establishment of physical commercial presence/office overseas

   Under this grant, MSPs can apply for 50% reimbursable grant for cost of rental of office (exclude deposits) incurred in the initial set up of physical commercial presence/office overseas up to a maximum of RM150,000 per company.

4. Supplying Made in Malaysia products for Malaysian projects abroad

   Under this grant MSPs can apply for 50% matching grant of logistic costs of sending Malaysian products, equipment/merchandising for overseas projects to a maximum of RM1 million per company.

5. Feasibility Study Fund (FFS)

   Under this grant, MSPs can apply for 50% reimbursable grant of the eligible costs of conducting feasibility studies on specific international projects to a maximum of RM3 million per company.

<u>Eligible Activities for Soft Loan</u>

6. To assist Malaysian Services Providers (MSPs) in proposing and planning for negotiating projects overseas

   Under this fund, MSPs can apply for a soft loan to cover costs incurred in the preparation and submission of project proposals, subject to: a maximum of RM2 million per company; with 2% interest rate; payable in 2 years.

7. To defray cost of raising bank guarantee or performance bond for project execution

Under this fund, MSPs can apply for a soft loan to raise the bank guarantee or performance bond for project execution, subject to: a maximum of RM5 million per company; with 2% interest rate; payable in 2 years.

Application Procedures

Application for the SEF Grant must be submitted online to MATRADE, while application for the SEF Soft Loan is to be submitted directly to MIDF. Malaysian construction companies are encouraged to take up this opportunity to facilitate in bringing their services to overseas market.

National Export Council (NEC)

The National Export Council (NEC) was established on 8th of December 2014, as a catalyst to propel Malaysia's exports of Malaysian products and services. The NEC is chaired by the YAB Prime Minister and its members are Economic Council Members, selected ministries and selected private sector representatives with an aim to boost exports through better facilitation, including improving processes, procedures, regulations and documentation for exports, infrastructure, certification requirements and logistics.

The NEC has decided to form focus groups of key export sectors including the construction services sector which has contributed RM2.69 billion or 2% of the RM137.26 billion services exports value in 2014. The focus working group on construction will be co-chaired by the Minister of International Trade and Industry and the Minister of Works, while the Secretary General of the Ministry of Works will be heading the group.

Members of the focus working group for construction services sectors will be represented by industry players, financial institution, government link companies and ministries. This focus group will be involved in:

i. Identifying challenges;
ii. Setting KPIs and export targets from 2016 to 2020; and
iii. Formulate an action plan for the construction sector.

6. Wrap-Up Session

Puan Zainora Zainal, General Manager of International Division, CIDB concluded the Market Talk Series by stating that all the findings gathered from the event will be developed into a paper and CIDB will work together with MATRADE and forward it to the government for further deliberation.

7. Feedback from Market Talk Series' Participants

- Malaysian companies should work together instead of competing when bidding for overseas project particularly the PPP projects that would always require long term commitment.

- The government must play a role to prevent a repeat of the 1997 economic crisis. Citing the formation and actions of the MTEN which were commendable at that time due to its close cooperation with the construction industry, such a situation can be better handled if the measures are planned and in place before the crisis, not after it occurs.

- A huge majority of the participants responded favourably by show of hands to a query made by Puan Zainora Zainal, General Manager of International Division, on whether they wish for CIDB to conduct further Market Talk Series in the future.