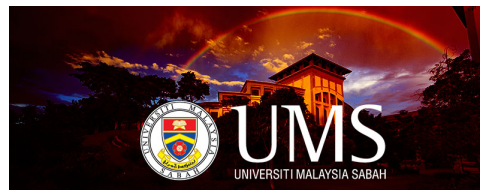


# Fundamental changes needed for Labuan's economic recovery, says senior lecturer



LABUAN – Having endured the pain inflicted by COVID-19 in 2020, Labuan's economy is on a bumpy road to recovery in 2021, according to Universiti Malaysia Sabah (UMS) senior lecturer Dr Romzi Ationg.

He said the duty-free island, a federal territory like Putrajaya and Kuala Lumpur, has taken a beating on the economic front as COVID-19 has "rubbed salt into an open wound" in 2020.

But there is still hope if fundamental changes could be made to deal with the unprecedented impact of the pandemic, both in terms of policymaking and the way businesses operate, he told Bernama in an interview.

"There is a need for federal government consensus for fundamental changes in the way Labuan is to be managed.

"It is generally agreed that changes should include severance of the collusive link between government and business as well as financial institutions," he said.

Dr Romzi said the pandemic posed formidable challenges to policymakers and had direct and indirect effects on the interconnected global economy.

"Labuan, being Malaysia's international business and financial centre contributing hundreds of millions (of ringgit) in taxes to the government's coffers, was not spared the impact," he added.

"On the supply side, (the COVID-19) infections reduced labour supply and productivity, the lockdowns resulted in business closures and supply disruptions.

"On the demand side, there were layoffs and the loss of income (from morbidity, quarantine and unemployment) and the worsened economic prospects reduced household consumption and firms' investment," he said.

He is of the view that the extreme uncertainty about the path, duration, magnitude and impact of the pandemic could pose a vicious cycle of dampening business and consumer confidence and tightening financial conditions, which could lead to loss of jobs and investment.

He said the key challenges for any empirical economic analysis of COVID-19 are how to identify this unprecedented shock, how to account for its non-linear effects, how to consider its cross-country spillovers and how to quantify the uncertainty surrounding forecasts, given its unprecedented nature.

To be sure, it had not been smooth sailing for Labuan's economy even before the deadly coronavirus struck early in 2020.

On April 29, 2019, Labuan business chambers submitted a memorandum to the Federal Territories Ministry with a list of 15 economic issues which it said were "sine qua non" for economic recovery. The pandemic simply exacerbated the situation.

Bernama had reported that at least 29 entertainment outlets and sports bars, including karaoke outlets, on the island were at risk of closure after the owners incurred losses to the tune of RM6 million since the start of the Movement Control Order (MCO) on March 18.

The losses led to concerns over the future of the local entertainment industry.

Associate Professor Dr Geoffrey H. Tanakinjal of Universiti Malaysia Sabah Labuan International Campus (UMSKAL) said Labuan's Gross Domestic Product (GDP) was RM7.6 billion in 2019 according to the Department of Statistics Malaysia.

The main economic leader was the services industry with a contribution of RM5.9 billion (2018: RM5.5 billion), followed by the manufacturing industry (RM1.4 billion), construction industry (RM177.2 million) and the agriculture industry (RM133.3 million), all of which reported increased values.

The situation changed in 2020 due to the pandemic which suspended global economic activity, said Geoffrey, a senior lecturer in the Faculty of International Finance.

"Owing to the need to remain indoors, work losses were inevitable. While work from home has been implemented, the fact that companies are not used to closing their doors during business hours has not changed.

"Labuan also depends on outsiders to spur the island's tax haven status. Education is a significant segment," he said.

He said UMSKAL has a capacity for 1, 900 students, the Labuan Matriculation College usually has around 2,100 students and the Labuan Vocational College and the Industrial Training Institute, 500 each.

"Approximately 5,000 students from outside Labuan spend on their daily needs, food, transport and accommodation. The trickle-down effect of student spending has had a huge impact on Labuan's economic environment as their spending directly impacted small business establishments.

"Imagine, if one student spends RM100 per month, the total group spending will be RM500,000 per month or RM6 million per year," said Geoffrey.

Source: <https://www.bernama.com/en/general/news.php?id=1917337> (<https://www.bernama.com/en/general/news.php?id=1917337>)