

The Sabah economic model: A general overview

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SINCE the formation of Malaysia in 1963, Sabah has accomplished many things in terms of economic development. Infrastructure has improved. Per capita income has increased by many folds. Poverty rate has also been reduced significantly. In addition, Sabah has become one of the biggest producers of petroleum, rubber and cocoa in Malaysia and palm oil in the world.

The trade performance is no exception. Sabah's trade was recorded to be US\$154.4 million in 1963 (R. Idris, 2015) while in 2011 the trade value was reported to worth approximately US\$77.3 billion (R. Idris, 2015).

Sabah's trade sector has also become more dynamic with more diversified export products are reported in the last four decades.

Service sector is the main contributor to Sabah's economy. In the early years of independence, the first sector economy such as natural resources and agricultural products were the most important contributors.

Gradually, there was structural transformation when the economy shifted to service sector, as the main contributor to the economy. Sabah has a large reserve of hydrocarbons and minerals. In fact, Sabah's rainforest is one of the oldest in the world and is highly diverse in flora and fauna.

Apart from commercial harvesting of timber resources, the rainforests of Sabah also provide opportunities for eco-tourism, extraction of non-timber forest products and medicinal plants for the pharmaceutical industry. Despite all these, some argue that Sabah should and could have done better. Some even claim that Sabah is still backward compared to many other states in Malaysia.

In this regard, some view that Sabah's economic performance is "underperforming" due to inadequate allocation from the federal government, lack of autonomy in decision-making and infrastructure, among other things.

Obviously, there are still many issues that require serious attention such as non-favourable food self-sufficiency level or deficit food trade balance position (R. Idris, 2016), regulation and institution transformation issues in areas such as labour and business licensing and even unstable water supply in certain areas.

Moreover, it might also be that Sabah is in the present economic circumstances due to non-conductive policies. The question now, what is the best comprehensive economic or econometric model that can explain the variables that influence Sabah's economy? To what extent drafted economic plans so far were based on a comprehensive economic model? Have all policies been introduced considered the various inter-related variables in the economy?

This article highlights my personal view as well as the view of many stakeholders that were obtained from my ongoing study on Sabah's economy. Inputs are obtained from various stakeholders in some main districts in Sabah.

An ongoing study of Sabah's economy headed by myself and a group of researchers from Universiti Malaysia Sabah (Research grant: SDK6094-2019) look into this subject. This idea proposed in this article are merely suggestions that might have been the thought of many Sabahans including policy makers. Some might also be in the plan or pipeline for implementation.

Proposed model and recommendations



Figure 1: Gross Domestic Product (GDP)

Equation 1 in figure 1 shows the typical component of a country's Gross Domestic Product (GDP). It consists of four key elements of an economy: consumption, investment, government expenditure and net export.

GDP is the monetary value of all final goods and services produced within the geographical boundary of a country over certain period of time. In other words, it is the total income or production of goods and services in a country.

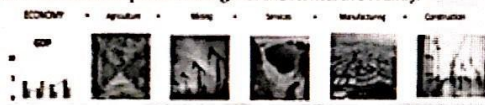


Figure 2: Gross Domestic Product (GDP) from Sectors Perspective

Equation 2 in figure 2 shows the highly aggregated sectors which contribute to Sabah's economy. They include agriculture sector, mining sector, service sector, manufacturing sector and construction sector. In 2019, service sector contributes 46.1pc to Sabah's GDP. Mining, agriculture, manufacturing and construction sector represent 26.4pc, 16.1pc, 7.6pc and 3.6pc of Sabah's economy respectively.

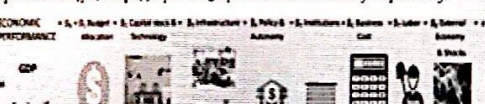


Figure 3: Sabah Economic Model

Equation 3 of figure 3 depicts the component of a proposed Sabah's Econometric Model where it presents some of the key determinants of Sabah's economic performance. Those variables in equation 3 (in figure 3) directly or

indirectly have influenced on the variables in equation 2 (in figure 2) and equation 1 (in figure 1).

In other words, it implies that budget allocation, capital stock and technology, infrastructure, policy and autonomy in decision making, institutions, business cost, labour supply and skills, external economy and shocks have influenced on all the aggregated sectors mentioned in equation 2 (figure 2) which are namely agriculture, manufacturing, mining, service and construction sectors.

It also indicates that budget allocation, capital stock and technology, infrastructure, policy and autonomy in decision making, institutions, business cost, labour supply and skills, external economy and shocks influence all the GDP components mentioned in equation 1 (figure 1) which are namely private consumption in the economy, investment in the economy, government expenditure and net export.

Figure 3 shows the importance of infrastructure or enablers such as port facilities and airports in determining Sabah's economic performance. Without proper infrastructure, the economic performance will be affected.

In addition, stable water and electricity supply play a key role in supporting economic activities. Production activities will be disrupted by unstable supply. Stable supply may attract more investment. Besides that, some viewed insufficient allocation for the state by federal government has also slowed down development process.

The fact is, Sabah is a huge state. Certain administrative districts such as Beluran alone is bigger than a few states combined in West Malaysia. As such, sufficient allocation on infrastructure is important.

Besides, as depicted in many economics text book, capital stock, labour supply and skills as well as productivity (which is related to level of technology) play important role in determining economic growth.

It explains why certain countries grow faster compared to others. Availability of right labour force and businesses in the economy determine the performance. Supply of labours, labour type and capital do influence economic outcome.

Furthermore, non-conductive or less business friendly policies also have a major influence on Sabah's economy. For example, maritime policy, labour market related policy, investment policy and policy related to industrial parks have been identified as among the policies that need significant improvement.

Apart from that, centralisation of decision making and lack of autonomy may have influenced the performance of Sabah's economy. The insufficient space to solely decide on maritime policy, investment agenda, export promotion and infrastructure development would affect the performance of Sabah's economy in the long run.

Moreover, the cost of doing business also requires state intervention. Expensive land or property price and higher logistic cost, among others, make business cost to be higher, hence reducing competitiveness. These certainly have effects on the economy. In addition, institutions and administration also play a part in affecting the economic performance of any countries.

Less efficient services though gradually improve have effect on the economy. There is a need to further transform institutions so that effort to implement and achieve good economic plan can be done.

"Shocks" also influence economic performance. Shock here refers to any situations or events that affect economy beyond normal circumstances. Shocks include economic crisis, natural disaster such as earth quake, sudden disease spread and sudden change in regulations due certain circumstances such as Covid-19 where it restricts movement of people.

Lastly, the effect of external economic situation on the performance of domestic economy must also be considered. Recessions and changes in trade policy of major economies have effects on domestic economy. Export to these economies will be affected.

Table 1 depicts the summary or checklist of things that are within government and domestic firms' control which are necessary to boost Sabah's economic performance and to influence at least certain variables stated in equation 3 (figure 3), equation 2 (figure 2) and equation 1 (figure 1) based on the inputs obtained from several stakeholders as well as the author's view. There are still many factors that can influence the economy and not limited to those in Table 1 (right).

All in all, the preliminary findings of the study revolve around the issues, challenges and variables which influence Sabah's economy highlighted by some stakeholders who took part in various interviews or focused group discussions in major districts in Sabah.

In order to improve Sabah's economic performance, the actions, policies or regulations or incentives should be targeted at related variables mentioned above and other factors not mentioned in this article.

Recommendations mentioned in table 1 can be considered and there are still many rooms available for improvement. Economic Model proposed in this study is a simplification of how different variables affect

Sabah's economy. It explains the factors that influence Sabah's economic performance as a whole. Some of them are not new idea, but may have not been implemented.

The things discussed might not be easy to implement and are subject to many constraints.

Having said that, I believe that the state government has better plan for the development of Sabah. It is hoped that Sabah is focusing on the target of achieving developed and high-income status.

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Table 1: Recommendations for Sabah's Economy to Move Faster

SUMMARY OF IMPORTANT ELEMENTS FOR SABAH'S ECONOMY TO MOVE FASTER	DETAILS
Conducive policies and regulations for business-economic activities investment. Hence, a review on critical existing policies and regulations is not an option	This includes all sorts of policies and regulations which are not limited to logistics, maritime, business licensing, investment, trade, labor, property ownership, tax, competition, government procurement, intellectual property, security and immigration among others. At times, certain regulations or policies can be related to accommodate the need of business players and investors.
Game changer project	There is a need to introduce new game changer projects or development program to add velocity to the economy. Without any new big things to be introduced into the economy, the growth might be just an ordinary linear growth. This may require fiscal intervention by federal government.
Heavy allocation on basic infrastructure	Sabah is way back behind compared to certain states in Malaysia. This can be related to the game changer project. Without a more stable water supply throughout Sabah or at least at strategic areas, the state may not be attractive. In addition, road connectivity within Sabah and with neighboring country state is not an option. The issue of unstable supply of water must be addressed.
New growth area	The plan to build road from Sempang-Sempang should be continued and supported by the development of a border town in Kalimantan. Some other activities to diversify the source of growth for Sabah's economy.
Special Policy Program to attract investment	In complementing existing projects activities and whatever carried out by the government, there is a need to expect both domestic and foreign investment. However, on certain policies/regulations related to labor, property ownership, licensing and tax among others are crucial to attract foreign investment or investment from Peninsular Malaysia. Effort to attract billion dollars worth companies to park their money in Sabah for long term must be intensified. Moreover, effort on this may also include certain program such as Special PR Program to attract certain people with money to stay and invest money in Sabah. Incentives for investors to do business in industrial parks must be given to attract big players to operate in that industrial park.
Diversify attraction for Sabah	The idea to make Kinabalu Geopark in National and UNESCO Geopark can be pushed faster. This has the potential to create a new traffic of tourist to Sabah if being pronounced at least in the long run. Besides natural beauty, diversification to attract different segment of tourists can be considered such as by creating concentrated branded student stores in a specific area and by developing an international standard theme park among others.
Education	Establishment of world's renowned university branch campus in Sabah. This will create an alternative for parents in Sabah or in Borneo islands to send their students to this university instead of certain foreign university which can be costly.
Health	Promote the existing specialist hospitals in Sabah to attract foreign medical tourists.
Down streaming activities	It is indeed crucial for government to do and support down streaming activities. This can be done by funding for the access to machinery equipment and technology to enable down streaming. Down streaming activities in petroleum and palm oil sector will be beneficial to Sabah's economy.
Digital Infrastructure	Digital infrastructure must be developed to support gig economic activities and make Sabah more competitive.
Economic Planning	There is a need to come up with a short-medium long term economic planning. What should be done in the next few years? How about the next 5 years, 10 years, 20 years, 30 years or more? There is a need to rethink and improve existing plans, policy and target to ensure Sabah is heading towards a more promising destination and much faster. This includes a general economic planning, by specific sectors (manufacturing, agriculture, mining, construction, service) and by infrastructure or enablers (port, airport etc) development among others. For example, we may have plan or strategy to project Sempang Port as the Port Transshipment Hub for east Malaysia, or the busiest port in East Malaysia/Borneo.
Economic Goal	There is a need to have a clear economic goal. What do we want to achieve in the next few years? How about the next 5 years, 10 years, 20 years, 30 years or more? (the workers, infrastructure). What is our priority? What is our target for per capita income in the next 10 years? What is our goal with regards to job creation and reducing unemployment rate?