



# Pushing Sarawak's economy into the future

THE turbulent waves brought upon by the global economic slowdown and US-China trade war has weakened growth in many countries.

However, the Sarawak government has continued to demonstrate excellent financial management of the state's operations, which S&P Global Ratings affirmed with an 'A-' rating with a stable earnings outlook.

The rating house said Sarawak's exceptional budgetary performance and liquidity will likely mitigate its elevated debt and support its creditworthiness.

In a statement end-December, the agency said the rating on Sarawak is supported by the state's large cash surpluses and strong capacity to generate revenue from its abundant natural resources.

"Prudent policymaking and financial management have resulted in consistently large operating balances for Sarawak, underpinning its strong fiscal performance," S&P Global Ratings explained in the statement.

"The introduction of a sales tax on petroleum-related exports in 2019 is likely to strengthen budgetary performance and support the state's economic development.

"These factors should offset Sarawak's increased reliance on oil-related income in its tax receipts, elevated debt, and lower income level compared with international peers."

## Alternative financing model to boost development

Describing the process of collecting income from various sources and consolidating them into the revenue of local authorities as 'revenue reengineering', Chief Minister Datuk Patinggi Abang Johari Tun Openg said the Sarawak government has to undergo the same process to increase the state's revenue from potential sources based on the law.

He cited the sales tax on petroleum and gas products for export from Sarawak as an example of 'revenue engineering', saying the imposition of the tax in accordance with the power provided by the Federal Constitution to Sarawak would be able to provide the state with an additional revenue of RM3 billion.

Abang Johari said alternative sources of funding provided by the Development Bank of Sarawak (DBoS) are another example of how reserve funds could be used to fund strategic development programmes without diminishing the state's reserves.

He said specific projects such as water supply and provision of infrastructure had the potential to expand the economy and generate revenue that would



Abang Johari (front second left) with from front left Deputy Chief Minister Datuk Amar Douglas Uggah Embas; Minister of Tourism, Arts and Culture Datuk Abdul Karim Rahman Hamzah; Deputy Chief Minister Tan Sri Datuk Amar Dr James Jemut Masing; and Minister of Transport Datuk Lee Kim Shin with some of the Sarawak products on display at Statos.

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## S&P Global Ratings

be paid back to the bank, thus enabling the government to recoup the amount lent to DBoS.

Abang Johari also pointed out that proper planning of towns to turn them into vibrant commercial centres is also vital to enable local authorities to enlarge their revenue base.

The pursuit of alternative financing alternatives is necessary as the conventional financing model is no longer a viable option, he said.

He said the state government has to be creative and develop a new mechanism and explore uncharted waters, if necessary,

to come up with alternative financing initiatives.

"We have to look for other financing models that can help achieve our development goals, particularly in the area of physical infrastructure and amenities," he said in his winding-up debate speech during the State Legislative Assembly sitting last year.

He said the state government will not touch the reserves to meet potential shortfalls in the state Budget, adding that the state government can alternatively tap into funding provided by DBoS, which is fully

owned by Sarawak.

"Securing financing facilities for long-dated financing from DBoS to finance socioeconomically important projects such as water supply, power supply, roads, and bridges as well as other sectors such as digital economy, tourism, and convention infrastructure, oil and gas, and agriculture, will provide the state with a competitive rate, long tenure, and limited recourse.

"It is worthwhile to note that, like conventional loan repayment terms, the financing repayments to DBoS will be

on staggered repayment terms spread over a periodic number of years, based on the duration of project implementation, as opposed to lump-sum or bullet payment as some might think.

"The financial provisions for these progress payments will be provided for in our normal annual budget," he added.

## Delving into 'uncharted waters'

On this note, the Chief Minister has encouraged the Sarawak Economic Development Corporation (SEDC) to go into 'uncharted waters' of industry after the state-owned statutory body recorded healthy revenue growth for 2018.

Abang Johari pointed out that 'uncharted waters' that SEDC could delve into are methanol production, hydrogen production, and tourism.

"SEDC has recorded a healthy growth revenue for 2018. On the group level you also achieved profit which we are proud of.

"As you know the whole economic scenario has changed. And for Sarawak, we have to adapt ourselves to this changing environment. And as a result we have sometimes to go to uncharted waters.

"But before we go to that area we have to have a thorough study, feasibility study, and also the outcome that we want to achieve in the next 47 years," Abang Johari said at SEDC's 47th anniversary dinner.

Notably, SEDC recorded RM41.52 million in revenue for 2018, which was RM1.22 million or 3 per cent higher than 2017.

On top of that, at group level, all of its subsidiaries posted a total revenue of RM236.4 million, with an Operating Profit Before Tax (OPBT) of RM46.3 million for 2018.

In view of this, Abang Johari said SEDC could play a part in the state's petrochemical industry by establishing a methanol plant.

"We have plenty of gas, offshore as well as, maybe onshore, and methanol is a base for derivatives in the

petrochemical industries.

"Also the demand for methanol worldwide is increasing, meaning the methanol plant will give a new stream of revenue to SEDC."

On hydrogen production, Abang Johari encouraged SEDC to work together with the state government to produce the gas to transform Sarawak's economy into a hydrogen economy.

This is in sync with Malaysia's national hydrogen blueprint, which was initiated by the federal government in 2017.

He also revealed that after the hydrogen pilot project, two countries have shown interest to buy hydrogen from Sarawak, and thus this would be a potential revenue stream for the state as well as SEDC.

"Surely it will become another revenue stream for the government, besides the fact that if we export the hydrogen, perhaps we can impose 1 or 2 per cent sales tax on hydrogen.

"This is how we shape our economy based on the strength of our resources and we go towards these uncharted waters.

"We just had our hydrogen pilot plant but now it seems that two foreign countries are willing to buy our hydrogen. We haven't even produced it commercially already we have interested buyers. So it becomes an encouragement for us to produce hydrogen.

"So if there is this demand then I think the world is now going towards this clean energy, and we therefore have to go to this uncharted waters, but proven, that will give us additional revenue to the state as well as to SEDC," said Abang Johari.

## Cross-border trade offices

Sarawak is also making plenty of effort to reach out and form ties with other neighbouring countries with the potential for trade benefits.

The first of this is the Sarawak Trade and Tourism Office Singapore (Statos) officially launched in June last year.

The office, located at Robinson Road, serves as a one-stop centre for investors and businesses as well as tourism players in Singapore to learn more about Sarawak.

Abang Johari Tun Openg said the setting up is one of the strategies undertaken by the Sarawak government to explore the global market, bring in more investments, promote trade, and attract more tourists to Sarawak.

"Statos will facilitate Sarawak's trade in creating a comprehensive and up to date database on the list of importers from Singapore and exporters from Sarawak; and to undertake analysis on trade which includes information on market trends, market alert, trade statistics, trade leads from various sources," he told a press conference after officiating at the soft opening of Statos.

Apart from that, Statos will also facilitate tourism promotion by creating a complete database on Sarawak tourism products and activities, as well as undertaking analysis on tourism trends, tourist preferences, and expenditure pattern in Singapore and globally.

Meanwhile, Abang Johari said the Sarawak government will also be setting up similar trade and tourism offices in Pontianak, West Kalimantan and Brunei.

"We are currently identifying the locations there," he said.

On Oct 26 last year, he said the Pontianak office would be similar to that in Singapore.

"This (Pontianak office) is going to be our tourism and trade office. Its functions the same as the office in Singapore – to spur growth in terms of business, entrepreneurship, and tourism.

"We want to work together with the Indonesian government, the provincial governments and the business community in Sarawak and Indonesia," he told reporters after a meeting with delegates from Sambas and Singkawang.

The Chief Minister also brought up the possibility of setting up a trade office in Bangkok.

However, Abang Johari said this proposal would very much depend on the trade volume between Sarawak and Thailand over the next couple of years.



Abang Johari (third left) and SEDC chairman Tan Sri Datuk Amar Abdul Aziz Husain (third right) jointly cut SEDC's 47th anniversary cake together with (from left) Assistant Minister of Transport Datuk Dr Jerip Susil, Minister of Housing and Local Government Dato Sri Dr Sim Kui Hian, Assistant Minister of Corporate Affairs and Ukas Abdullah Saidol, and Assistant Minister of Native Laws and Customs Datuk John Sikie Tayai.