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Indonesia: Steady Growth Ahead

Indonesia's economy grew at the highest rate in a decade in 2007, despite slower growth in the third quarter, due to rising investments and commodity exports. However, targets for 2008 could be revised slightly downward in the face of increased global instability, showing more modest figures than had been anticipated.

Indonesia's gross domestic product (GDP) grew by 6.32% over 2007, rising from 5.5% in 2006, the Central Statistics Agency reported last week. Growth between October and December was 6.3%, a decrease from 6.5% for the same period in 2006. A combination of floods and global financial instability caused growth to slow towards the end of the year, the government said.

"The 6.3% annual growth in 2007 continued the steady expansion of recent years, supported by a combination of exports and domestic demand," said David Cohen, director of Asian Economic Forecasting at Action Economics.

Economists predict that the momentum will be maintained this year, but have said a growth rate of 8% would be necessary to improve unemployment rates, which at around 9% as of August, are among the worst in the region.

"Quality wise, the GDP growth is not that good, as it can't really address the problem of unemployment and poverty," said Anton Gunawan, chief economist at Citigroup Indonesia.

A large increase is not likely to be attained this year, and officials have said the economic growth forecast for 2008 could be revised slightly downward from the original 6.8%. President Susilo Bambang Yudhoyono has warned that the country will have to contend with higher inflation and greater instability over the coming year as a result of the global economic slowdown and uncertainty in the US economy and other key export markets such as Japan. The budget deficit for this year is higher than official targets, at 2% of GDP rather than the anticipated 1.7%; while inflation could reach 6.5%, overshooting the original 6% goal set by the government. The revised budget for 2008 is expected to be presented to parliament this month.

Inflation has emerged as a key concern for 2008, with prices of certain basic goods such as soybeans and flour rising, and local press reporting that inflation had reached a 16-month high in January. Finance Minister Sri Mulyani Indrawati said the purchasing power of Indonesians would be hurt as a result of global price increases.

The World Bank has said the effects of the US subprime crisis and the rise in oil prices would have an impact on the Indonesian economy, though it said it expected growth to remain solid at about 6.4%.

On the one hand Indonesia is endowed with high priced commodities that have been translating into trade and growth advantages. On the other, these same high prices, compounded by a slowdown in the US economy, risk feeding into slower world growth and higher inflation," said William Wallace, the World Bank's lead economist for Indonesia.

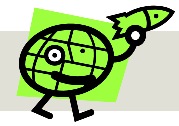
Analysts have however predicted that increased foreign direct investment (FDI) and continued growth in the commodities sector should avert a major downturn in 2008. The government is working to improve the country's potential as a destination for FDI, proposing a revision of the corporate income tax law that will impose a set rate of 25% for all companies (previously 15% to 30%, depending on a series of income benchmarks). A streamlined tax and regulatory environment should give a boost to private sector involvement.

Despite concerns for 2008, President Yudhoyono recently said Indonesia should achieve a full recovery from the effects of the 1998 Asian financial crisis within the next few years.

Source: OBG, Online Economic & Political Briefing, January 2008

INSIDE THIS ISSUE:

Philippines: A Good Call



The business process outsourcing (BPO) industry, the fastest growing sector in the Philippines, expects to rake in more outsourcing and offshoring (O&O) accounts this year despite the economic drag caused by a weakening global economy. The industry's players share the same optimistic outlook for 2008, evidenced by news of expansion programmes by BPO companies.

IBM Daksh Business Process Services Philippines opened its third and largest call centre in the Philippines in September 2007. It plans to fully operate the 1300-seat facility in the third quarter of this year, targeting to hire people from the cities of Navotas, Caloocan, Malabon and Bulacan as well as provinces in the north.

Outsourcing in the Philippines is driven by the growth of the contact centre sector. But aside from customer care, other services are beginning to make a solid mark in the world market.

This year, the strong demand for back office, engineering and financial services is expected to boost the industry's revenue by another 40%, to $7bn. Headstrong, a US-based firm providing consulting, application and business process outsourcing and product development, is planning to expand its Manila operations, citing clients' growing interest in the Philippines as the major factor for its decision.

Based on initial data sent by local BPO companies to the Business Process Association-Philippines (BPAP), the industry's revenue for 2007 is projected to reach $5bn, a 47% increase on revenue in 2006, and $13bn by 2010. At present, the industry is reported to be employing 320,000 workers, a number analysts anticipate will rise to 1m by 2010.

According to the Roadmap 2010, a comprehensive report on the local O&O industry, prepared by BPAP and published in October 2007, the Philippines aims to capture 10% of the $450bn BPO world market by 2010. In addition to creating new jobs, this targeted growth is expected to encourage the real estate sector and be of particular benefit to the telecommunications sector, which is projected to experience a 283% jump in revenues by 2010.

However, there is still the challenge of recruiting qualified people. Because of this, the majority of contact centre companies provide free short-term training in English, so applicants will have the required level of professionalism and communications and problem-solving skills. Companies are asking for government support to help minimise the burden of polishing graduates to fit the labour requirements, especially since the state is also reaping the rewards of the industry's growth. The Institute for Development and Econometric Analysis reported that the Philippine government is earning PhP3bn ($81.1m) annually from the O&O industry.

Apart from internal difficulties, another growing concern by BPO companies is a possible US recession, which will have a negative impact on global economies. It is feared that overall weaker economies might result in company cutbacks, starting with their outsourcing services. In addition to this, the continuing rise of the peso has affected the industry as most contact centre and BPO contracts are fixed in dollars at the beginning of a project, pegged against the existing exchange rate at the time of the contract signing.

So far, industry players have reported that profits for 2007 decreased by 15%. To cushion the appreciation of the peso, companies are now hedging in dollars with banks, pegging the rates at PhP38 ($0.93) to PhP40 ($0.97) against the greenback.

The industry geared up for the 8th e-Services Global Sourcing Conference and Exhibition, the biggest gathering of local and international industry stakeholders, held on February 11 and 12, 2008 in Manila. More opportunities for emerging players and locations were discussed during this event, with special focus on the emerging collaboration between Philippine BPO firms and their counterparts in other countries.

India, for instance, is one of the country's major competitors in the global outsourcing market, but the influx of BPO clients to India have caused it to establish its own facilities in the Philippines. At least 12 Indian BPO firms are currently operating in the country.

Despite the expected external bumps ahead, the Philippine BPO industry is confident it will still grow by 40% to 50%, both in terms of revenue and employment, this year. This will be achieved as BPO companies focus on educating and hiring more qualified employees as well as marketing the Philippines as a leading outsource and offshore services location.

Source: Oxford Business Group, Online Economic & Political Briefing, January 2008

Malaysia: Potential in Medical Devices

In an effort to attract high-value investment to the manufacturing sector, Malaysia has identified medical devices as a segment with significant potential. With a steady increase in investments and targeted incentives, the government's efforts to boost the country's profile as a manufacturing and research base look set for success.

In 2007, Malaysia's medical devices industry registered over RM5bn ($1.5bn) in revenue and year-on-year growth of 8%, a rate which is expected to continue for the next five years, according to the Association of Malaysia Medical Industries.

While medical gloves might seem on the low end of the value spectrum, Malaysia's leadership position in the sub-sector is none the less demonstrative of the country's moving downstream and adding value to raw commodities.

Malaysia is world's third largest producer of natural rubber, behind Thailand and Indonesia, but has cornered 70% of the world's surgical gloves market. The country is home to the three largest rubber and medical glove manufacturers and exporters in the world, namely Top Glove, Supermax and Kossan Rubber Industries. In 2006, the US imported 18.4bn pairs of surgical gloves worth $1.2bn, with 9.2bn pairs coming from Malaysia.

Overall, global demand for surgical gloves is estimated at 135bn pairs per annum, and is forecast to grow 10% to 12% each year due to higher healthcare and hygiene standards in emerging countries in Eastern Europe, the Middle East, Latin America and East Asia. Surgical gloves are seen as a stable industry, as they are considered a necessity & not subject to cyclical market conditions.

Domestically, there are some 180 companies involved in medical device manufacturing in Malaysia. The majority develop examination and surgical gloves, while the rest produce catheters, hospital support equipment and other devices such as procedural kits, medical tubes, needles, syringes, condoms & contact lenses.

Malaysia's Third Industrial Master Plan (2006-2020) is focused on moving the entire manufacturing sector up the value chain as a pre-requisite to attaining developed nation status by 2020. Malaysia is now seeking international investment in non-rubber based medical device research and manufacturing such as electro-medical, cardiovascular, orthopaedic and in vitro devices.

R Karunakaran, director general of the MIDA, told OBG, "We cannot compete with labour-abundant, low-cost countries and need to target manufacturing industries that are of both high growth and high value. Medical devices is a growing industry and it is at the high end of the value chain, so it is an industry where we see strong potential for FDI moving forward."

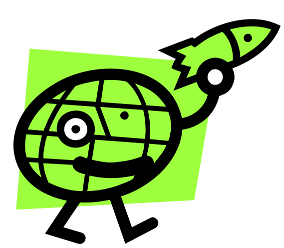
While labour cost is an important consideration for investors, the medical devices industry, more than other manufactured products, requires advanced human capital and sound infrastructure; two areas where Malaysian officials say the country has a competitive advantage over less developed nations in the region.

Intellectual property (IP) protection is also of high importance as investors will want to ensure that their patents can be protected through a solid and transparent IP regime. In May 2007, the government launched a $1.4bn fund dedicated to the enforcement and protection of IP and later established a special court to strengthen the legal framework for IP as well as hear and resolve cases of infringement.

Medical devices has been labelled by the government as a 'quality' investment, and as such, investors into the sector can apply to the recently established cabinet committee on investment for high impact projects, which offers instant approval.

In another effort to increase Malaysia's profile on the international market, the ministry of health is currently drafting regulations on the medical devices industry that will see full mandatory registration and enforcement for related companies by the end of 2008.

Source: Oxford Business Group, Online Economic & Political Briefing, February 2008



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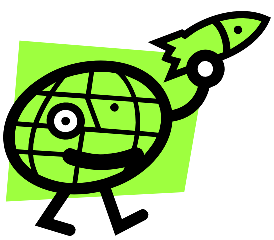

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Philippines: Exports Holding Steady

Despite worries of a slowing US economy and an increasingly strong peso, the Philippine National Economic and Development Authority (NEDA) recently reported that exports jumped 21.4% for the month of December. These numbers have served as counterbalance to reports of weak exports in 2007 and worries about 2008, causing many economists to forecast a brighter outlook for the economy.

While many segments of the export market witnessed record growth last year, exports as a whole managed to grow only 6.1%, reaching $50.3bn, according to local press. This fell short of the government's original growth target of 11.0%, NEDA said in a statement on February 12. It was also significantly lower than the 15% growth seen in 2006.

Analysts blame this underperformance on the dramatic appreciation of the Philippine peso, which rose nearly 19% in 2007. While this trend has stabilised inflation and the cost of key imports such as fuel, it has hurt Filipino manufacturers by increasing the cost of their goods on the international market.

Due to these worries, as well as concerns over a slowdown in the US economy, many analysts had expected December's export numbers to follow the 2.1% drop seen in November. Instead, the end-of-year rebound, which was driven by a 12.3% increase in exports of electronics and strong performances across the mining, agricultural and manufacturing sectors, has caused many analysts to rethink the importance they had previously placed on the US export market.

With wages increasing across Southeast Asia and growing demand from China, Chinese-Filipino trade has consistently grown over the past several decades. Among the products that should benefit most from improved Chinese-Filipino trade relations are electronics, which currently make up 80% of Filipino exports to China. These goods could see growing demand from China's emerging middle class. Tourism, itself an "export industry", is also set to benefit from ever closer links with China.

Mining exports could pose the greatest opportunity however. The mining sector exported $2.1bn worth of gold, nickel, copper and silver last year, up 61% from $1.3bn in 2006. According to the Chamber of Mines, $1bn in foreign investments is expected this year alone, a trend that many analysts believe will gain pace in the coming years. The Department of Environment and Natural Resources estimates that around 30% of the Philippines total land surface - or 9m ha - has high potential for rich mineral deposits, of which only 2% has been explored.

Other promising areas include industrial goods, agricultural products and energy supplies, all of which have been buoyed by high global prices and increasing demand. This diversity is exactly the reason why many analysts, as well as the government, which has targeted 8% growth in exports, are optimistic for 2008.

The growing consensus is that while some industries may slow due to decreasing demand from the US, the nation's diverse export markets and varied basket of goods will ensure growth and ultimately maintain domestic consumption. For the Philippines, and the region as a whole, this will be the test of 2008.

Source: Oxford Business Group, Online Economic & Political Briefing, February 2008