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Sabah Economic Model: An Overview

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Abstract

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 1962 (R. Idris, 2015) while in 2011 the trade value was reported to worth approximately US\$27.3 billion (R. Idris, 2015). 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. This study proposes a general economic model that should be looked into when discussing the factors that influence Sabah's economy. In addition, a business model is being proposed for the economy of Sabah. It hopes to guide stakeholders to look at the economy from a broader perspective. Here are some recommendations for various stakeholders to consider.

Keyword: Sabah, Economy, Economic Model

Introduction

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 1962 (Idris, 2015) while in 2011 the trade value was reported to worth approximately US\$27.3 billion (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. Certain indicator shows that Sabah has been overtaken by certain states on certain areas such as household gross income. Up to 1980s, household gross income in Sabah is reported to be higher than the country's level and to some other states.

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-favorable food self-sufficiency level or deficit food trade balance position (R. Idris, 2016), regulation and institution transformation issues in areas such as labor 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-conducive policies.

The question now, what is the best comprehensive 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? After all, it is a common knowledge that a change in one variable will definitely affect other economic variables or sectors. That said, this study proposes a general economic model that should be looked into when discussing the factors that influence Sabah's economy. In addition, a business model is being proposed for the economy of Sabah. It hopes to guide stakeholders to look at the economy from a broader perspective. Here are some recommendations for various stakeholders to consider.

Literature Review

Many studies have been conducted with regard to Sabah's economy, either directly or indirectly. This can be seen for example in the work of Kitingan and Ongkili (1988); Omar et al(2010); Idris (2015); Sundaram and Hui (2014); Idris (2018); Idris and Mansur (2018); Idris et al (2018) and Idris and Mansur (2020). Having said that, there is a big research gap especially on specific sectors and infrastructure development for example. Most of the studies highlighted issues, economic development, economic interaction of Sabah with neighboring state or country or recommendations for Sabah's economy. Limited studies are found to discuss specifically on economic model or business model for Sabah's economy.

Methodology

Interviews and or focused group discussions were conducted in Kota Kinabalu, Tawau, Sandakan, Lahad Datu, Kunak, Kalabakan, Keningau, Tenom, Pensiangan, Beaufort, Kota Marudu, Paitan and Ranau involving various stakeholders such as businesses and individuals in certain district office to understand the economic activities and issues from the ground randomly. About 100 individuals are interviewed or involved in the focused group discussion. More stakeholders will be consulted to validate the input obtained so far.

Proposed Model & Recommendations

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 1: Gross Domestic Product (GDP)

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 46.1% to Sabah’s GDP. Mining, agriculture, manufacturing and construction sector represent 26.4%, 16.1%, 7.6% and 3.6% of Sabah’s economy respectively.



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

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, labor 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, labor 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.

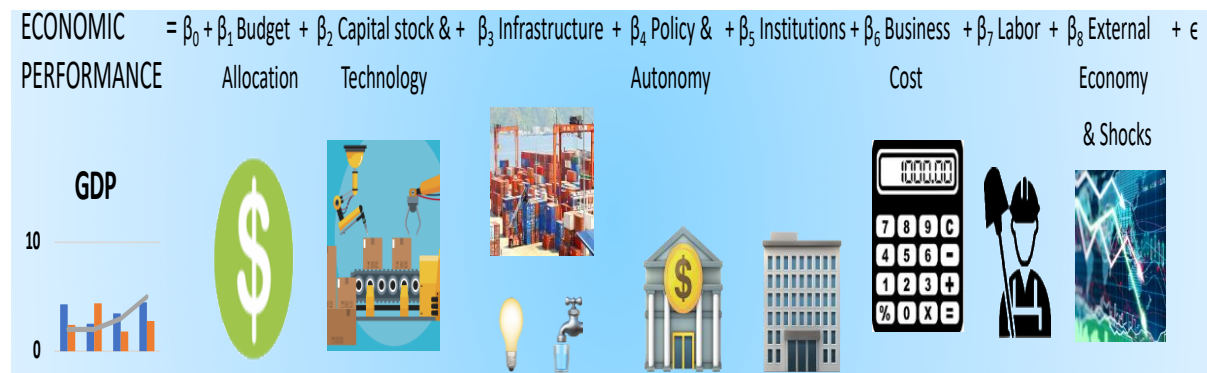


Figure 3: Sabah Economic Model

Besides, as depicted in many economics text book, capital stock, labor 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 labor force and businesses in the economy determine the performance. Supply of labors, labor type and capital do influence economic outcome.

Furthermore, non-conducive or less business friendly policies also have a major influence on Sabah's economy. For example, maritime policy, labor 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, centralization 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. It is unfortunate that electricity tariff for industry in Sabah is one of the highest in the country. Expensive land or property price, higher electricity tariff and higher logistic cost, among others, make business cost to be higher, hence reducing competitiveness. These certainly have effects on the economy.

In addition, weak institutions and administration also play a part in affecting the economic performance of any countries. Less efficient services especially in the past, though gradually improves, has as well affected Sabah's 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.

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 relaxed 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.
Huge allocation on 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 and electricity supply throughout Sabah or at least at strategic areas, the state may not be very attractive. In addition, road connectivity within Sabah and with neighboring country/state is not an option. The issue of unstable supply of water and electricity in certain areas must be addressed. Moreover, the effort to develop world class infrastructure must be supported such as in logistic, health and education sector.
New growth area	The plan to build road from Serudong-Simanggaris should be continued and supported by the development of a border town in Kalabakan. Some other activities may also

	<p>be introduced to diversify the source of growth for Sabah's economy.</p>
<p>Special Policy/ Program/ Incentives to stimulate economic activities in strategic sectors such as in agriculture, manufacturing and services sectors, involving micro, small, medium and large enterprises and to attract investment in specific sectors such as in agriculture, manufacturing and services.</p>	<p>It is important to have a continuous dynamic policy/program/incentive to stimulate economic activities for micro, small, medium and large enterprises in various sectors such as agriculture, manufacturing and services in Sabah.</p> <p>Moreover, to complement existing projects/activities and whatever carried out by the government, there is a need to attract both domestic and foreign investment. Relaxation on certain policies/regulations related to labor, company/property ownership, licensing and tax among others are crucial to attract foreign investment or investment from Peninsula 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 people with money to stay and invest money in Sabah.</p> <p>Incentives for investors to do business in industrial parks must be given to attract big players to operate in that industrial park.</p>
<p>Diversify attraction for Sabah</p>	<p>The idea to make Kinabalu Geopark as National and UNESCO Geopark can be pushed faster. This has the potential to create a new traffic of tourist to Sabah if being positioned at least in the long run.</p> <p>Besides natural beauty, diversification to attract different segment of tourists can be considered such as by creating concentrated branded outlet stores in a specific area and by developing an international standard theme park among others.</p>
<p>Assist and support sectors or products where Sabah has comparative advantage and products where Sabah experiencing trade deficit</p>	<p>The work of R. Idris (2015) highlighted some product categories where Sabah has comparative advantages. Those product categories are among many products that should be given attention and be supported whenever necessary.</p> <p>In addition, Sabah experiencing trade deficit on certain product categories such as food. It is recommended that if Sabah can substitute the import of certain foreign food products by domestically produced product, that would be a gain to the domestic economy.</p>
<p>Education</p>	<p>Establishment of world's renown university branch campus in Sabah. This will create an alternative for</p>

	parents in Sabah or in Borneo islands to send their son/daughter to this university instead of 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	<p>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?</p> <p>There is a need to relook 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 Sapangar Port as the Port Transshipment Hub for east Malaysia, or the busiest port in East Malaysia/Borneo.</p>
Economic Goal	<p>There is a need to have a clear economic goal.</p> <p>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? (by sectors, 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? In the end, the state should steer toward achieving the status of developed and high-income status.</p>

All in all, the things discussed in this 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 Kota Kinabalu, Tawau, Sandakan, Lahad Datu, Kunak, Kalabakan, Keningau, Tenom, Pensiangan, Beaufort, Kota Marudu, Paitan and Ranau. In order to improve Sabah's economic performance, the policies or regulations or incentives should be targeted

at related variables mentioned above. Moreover, recommendations mentioned in table 1 can be considered and there are still many rooms available for improvement.

Concluding Remarks

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 rather have not been implemented. Budget allocation, infrastructure, policy and autonomy, institutions, business cost, capital stocks and technology, labor types and supply, and external economic situation are among the key factors which influence the economy. It is recommended that future economic plan, policies or regulations must consider the aforementioned related variables. Apart from that, there is a need to set a clear economic goal and to relook and improve existing economic planning where ever necessary. It is crucial to have game changer projects in Sabah, bigger annual allocation, improve existing basic infrastructure, enhance education and health services, diversify attraction for Sabah, support down streaming activities and introduce policies/programs to attract investment and create conducive environment in Sabah that supports economic activities. The things discussed might not be easy to implement and are subject to many constraints. The model indeed can be further improved. Having said that, the authors 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.

The preliminary model being proposed is basically the same where it includes variables that have been widely discussed in the literature. The proposed model would be significant for further discussion, refinement and development of economic model for Sabah. From another perspective, it proposes an economic modelling which attempts to explain variables that can influence an economy, hence, steering the discussion on Sabah's economy towards introducing policy, programs, intervention that can be done to further improve Sabah's economy and realizing that certain variables are not within the control of the stakeholders in Sabah. The idea of proposing this model is to further stimulate discussion and add value in it. At the end, the author hopes that more comprehensive inputs can be furnished to policy makers towards developing the best business model for Sabah's economy.

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