

Rethinking and Moving Beyond GDP: A New Measure of Sarawak Economy Panorama

Shirly Siew-Ling Wong¹, Toh-Hao Tan¹, Shazali Abu Mansor¹ & Venus Khim-Sen Liew¹

¹Faculty of Economics and Business, Universiti Malaysia Sarawak, Malaysia

Correspondence: Shirly Siew-Ling Wong, Faculty of Economics and Business, Universiti Malaysia Sarawak, 94300 Kota Samarahan, Sarawak Malaysia.

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Abstract

Despite the relatively strong adjustment in the global economy outlook, the Malaysian economy remains uncertain as the ringgit movement lies ambiguously ahead while volatile capital flows, inflationary pressure, and the vulnerable external sector and global trade remain intense. The Sarawak economy, which relies heavily on primary commodities and export earnings from oil-based industries, will soon face a noxious mixture of economic risks following the decrease in commodity prices. Thus, it is essential to develop a well-timed signaling mechanism to estimate the unpredictable economic forces that develop from the complex and multidimensional issues of domestic and global economies. The ideology of indicator construction from the Conference Board will be applied in this study to build a composite leading indicator, called the Sarawak Business Cycle Indicator (SBCI), to trace the cyclical movement of the aggregate economic activity in Sarawak. In this respect, the SBCI, which has demonstrated statistical significance with an average leading power of 3.5 months, is expected to be important in reflecting a notable economic outlook for the State. More importantly, the SBCI will serve as a valuable reference to act as a short-term forecasting tool to provide insight at both the national and state levels.

Keywords: forecasting, business cycle, indicator, turning point analysis

1. Introduction

According to the Department of Statistics Malaysia (2017), the economic growth in Malaysia expanded to 5.9 percent in 2017, driven mainly by private sector demand, with support from the external sector. Among the 13 states in Malaysia, Sarawak has the strongest economic foundation (Regional Economic Development Authority, 2014). Sarawak's most abundant natural resource is the key strength to enhance economic growth, wise fiscal management, and a strong position of liquidity relative to its debt level. The export of primary commodities, such as liquefied natural gas (LNG) and crude petroleum, is the main contributor to the Sarawak economy (Furuoka, 2014). However, the commodity market is likely to extend losses in the face of plunging crude oil prices, threatening the position of the state to remain as the third largest Gross Domestic Product (GDP) contributor in the country.

Because the domestic and global markets are full of uncertainty and are highly dynamic and the comprehensiveness of the Sarawak's GDP as a measure of the economic outlook remains a long-running debate in the business cycle analysis, it is important for Sarawak to keep abreast not only on the latest external development but also predict the possible outcomes that could affect the development of different sectors of the economy. Therefore, the SBCI must be constructed in this scenario in order to provide a clear picture of the outlook of a market for policymakers, the business community, business players, and investors. On the other hand, there is a significant time lag in the reporting and publication of the Sarawak GDP. This lag of the Sarawak GDP series causes delays in policy actions, which in turns prevents the full impact of a policy measure if the degree of foresight is not sufficient to overcome the economic downturn in a timely manner. Hence, in this study, the Auto-Regressive Integrated Moving Average (ARIMA) model will be used to forecast the unavailable data of the Sarawak GDP series in recent years, and this series will act as a means to establish the reference chronology of the Sarawak economy.

Above all, this study moves beyond the GDP as a leading measure of aggregate economic activity as an approach to sustainable economic development in the State. In addition, a reliable forecasting tool that can suit the context of