MALAYSIA INVESTMENT PERFORMANCE 2015: DRIVING SUSTAINABLE GROWTH

A moderate global growth was recorded in 2015, which declined to 2.4 per cent from 2.6 per cent in 2014, due to post-crisis lows in commodity prices, restrained capital flows and subdued global trade. Malaysia, however, managed to retain its position as one of the top investment destinations despite the slow growth affecting many economies. Malaysia was recognised as one of the top host economies for Foreign Direct Investment (FDI) over 2014-2016 in the United Nations Conference on Trade and Development’s (UNCTAD) World Investment Prospects Survey. According to the Global Competitiveness Report 2015/2016 released by the World Economic Forum (WEF), Malaysia consolidated its position among the world’s top 20 most competitive economies when it advanced two spots to 18th place out of 140 countries. For its business-friendly climate, Malaysia was ranked 18th on the World Bank’s Ease of Doing Business Report for 2016. Although this was a slight drop from 17th place in the preceding year, Malaysia still came out ahead of the Netherlands, Japan and Thailand.

Malaysia is now focusing on becoming a high income nation and therefore, is prioritising high value added and high tech investments. Adopting a targeted ecosystems approach instead of looking at the number of investors and the amount of investments, Malaysia seeks investments that can accelerate the country’s efforts in achieving national goals and investments that can generate high income and quality jobs for Malaysians. MIDA in particular continues to enhance the ecosystems approach for both the manufacturing and services sectors. A comprehensive and strong ecosystem supports job creation and improves the environment for innovation as well as facilitates the needs of businesses.
Investment Performance

In 2015, Malaysia attracted RM186.7 billion in private investments. Realised private investments measured in terms of Gross Fixed Capital Formation (GFCF) totalled RM198,747 million. Despite the tough economic challenges over the final leg of the Tenth Malaysia Plan (10MP), Malaysia’s investment performance surpassed the average annual investment target of RM148 billion set under the 10MP. Of the total investments approved, RM150.6 billion or 80.7 per cent was contributed by Domestic Direct Investment (DDI) while RM36.1 billion or 19.3 per cent came from FDI. Over the course of 2015, investments in the National Key Economic Areas (NKEAs) under the ETP amounted to an impressive RM113.8 billion or 60.9 per cent of total investments. There were also significant investments in approved Non-NKEA projects amounting to RM72.9 billion.

Malaysia’s services sector remains the main contributor last year. The sector attracted a total of 4,150 approved projects with investments amounting to RM108.2 billion or 57.9 per cent of the total. Of these, DDI amounted to RM95.8 billion while FDI totalled RM12.4 billion.

In the same period, the manufacturing sector attracted investments worth RM74.7 billion or 40 per cent of total approved investments. A total of RM21.9 billion or 29.3 per cent of the overall manufacturing investments were from foreign sources while the balance of RM52.8 billion or 70.7 per cent stemmed from domestic sources. Investments in new projects amounted to RM60.2 billion (80.6 per cent) from 384 projects. Of these, foreign sources contributed RM11.6 billion or 19.3 per cent, while RM48.6 billion or 80.7 per cent hailed from domestic investments.

The developed economies continued to be a vital component of the investment landscape in Malaysia in 2015. The leading sources of foreign investments in the manufacturing sector for 2015 were US, Japan, Hong Kong, the People’s Republic of China (PRC) and Singapore. US was the manufacturing sector’s biggest foreign investor with total approved investments of RM4.2 billion in 19 projects, followed by Japan with RM4.0 billion in 60 projects, Hong Kong with RM3.2 billion in 9 projects, the PRC with RM1.9 billion in 17 projects, and Singapore with RM1.4 billion in 87 projects. These five countries together accounted for 66.6 per cent of total foreign investments approved in 2015.

The primary sector accounted for RM3.8 billion of approved investments in 2015. Domestic investments made up RM2 billion or 52.6 per cent while foreign investments amounted to RM1.8 billion or 47.4 per cent.
**Investment Outlook**

The outlook for Malaysia’s economy has remained bullish in recent years, allowing many Millennium Development Goals (MDG) to be achieved ahead of target. However, as an open economy relying on international trade, Malaysia is also vulnerable to external economic shocks. However, the impacts of these shocks are minimized thanks to the diversified economy of Malaysia.

The structural reforms and institutional developments implemented by the government have led to the creation of new growth areas. It has also changed the economic landscape from being export-led and reliant on specific sectors to one that is driven by domestic demand. This is anchored by strong private sector activities that now accounts for 70 per cent of GDP with a more diversified economic structure and whose manufacturing and services sectors are now transitioning to higher value-added activities.

Underpinning this robust domestic demand is sustained consumption spending and the revival of investment activity by the private sector. On the external balance front, diversified exports and markets have led to a sound balance of payment position. As such, despite the falling commodity prices, Malaysia’s trade and current account is expected to remain positive, sustained by manufactured exports while the financial account is expected to adjust in an orderly manner.

Based on the above, it is important for investors to understand that Malaysia’s strength does not stem from recent policies or new measures to address external challenges. The economic restructuring, financial reforms and development activities undertaken over the last two decades have reinforced its position as an attractive and steadfast investment proposition. In addition, the long-term activities have helped form effective layers of buffers and Malaysia is in a strong position to weather the current challenging operating environment.

As Malaysia looks to implement mid-term initiatives such as the Eleventh Malaysia Plan (11MP) to strengthen its capabilities to achieve sustainable growth, it is also taking cognizance of the many opportunities that existing and potential free trade agreements (FTAs) such as the ASEAN Economic Community (AEC), Trans Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) bring with them. Malaysia today is fully committed to regional engagements such as the TPP and the RCEP as these engagements will increase its trade opportunities, open its market to foreign investors and create jobs for Malaysians. Malaysia has now become a signatory to the TPP and is currently actively negotiating the RCEP which the country is confident will soon become a reality. The ASEAN-Hong Kong FTA too is expected to materialise soon.
Way Forward

As the “single window” for investment into Malaysia, MIDA will continue to assume a key role in driving investment promotion and bring about a significant leap in investment activities for Malaysia. The agency will strengthen its central coordination functions and increase the visibility of cross-agency functions, roles and incentives.

To energise investments in the manufacturing and services sectors to bring about sustainable growth, MIDA will leverage on new sources of competitive advantages and undertake a strong role in bridging the human capital needs of potential investors. The Government will continue to introduce various measures to bolster Malaysia’s ability to face domestic and external challenges and opportunities, including those on the AEC, TPPA and RCEP fronts. It will work on fine-tuning investment policies, enablers, fiscal and non-fiscal incentives as well as continue to collaborate and engage with a variety of stakeholders to attract investors across all economic sectors. The focus will also be on attracting quality investment projects, without discounting the importance of investment volume. MIDA will continue to intensify its efforts in attracting capital, design and R&D-intensive projects with a high Gross National Income (GNI) impact plus strong linkages to domestic industries. The agency is also leveraging on the strategies under the 11MP to drive growth momentum.

Now with the establishment of the AEC, the conclusion of TPPA and upcoming FTAs such as the RCEP nearing completion, investors can enjoy broad market access opportunities with zero or lower duties for Malaysian products that are coming into play. MIDA stands ready to facilitate investments into the country by ensuring that the business environment is conducive for investments. The strong pro-business policy supported by the Malaysian Government too will ensure the smooth implementation of these projects.
INDUSTRY

MALAYSIA’S STRENGTHENING AEROSPACE ECOSYSTEM

Malaysia’s involvement in the aerospace industry started way back in the 70’s with the establishment of Maintenance, Repair and Overhaul (MRO) operations. Since then, Malaysia’s aerospace industry has progressed into the manufacturing of aerospace parts & components and assembly of light aircrafts. This strategic and high-technology industry has developed a strong local supply chain consisting of both global and local industry players. Today, the country is home to more than 150 active companies including 8 aircraft assembly companies, 28 manufacturers of aircraft parts and components and more than 50 MRO companies. The growing aerospace ecosystem has dramatically improved the landscape of the Malaysian aerospace industry.

Energised by the implementation of the National Aerospace Blueprint in 1997, Malaysia’s aerospace industry is one of the rapidly growing industries in the country. The second Blueprint, launched in 2015, continues to chart the direction of the aerospace sector in Malaysia towards becoming the leading aerospace player in the South East Asia. This National Aerospace Blueprint projects that the aerospace industry in Malaysia will contribute revenue up to RM 20.4 billion for MRO, RM21.2 billion for aero-manufacturing and RM13.6 billion for engineering and design services by 2030. The significance of the aerospace industry is further reinforced under the 11th Malaysia Plan (11MP), our final lap towards becoming an advanced nation. Due to its strong inter-linkages to other sub-sectors as well as numerous multiplier effects, this industry has been identified as one of the 3+2 subsectors to drive growth in the manufacturing sector of the country.

According to Boeing’s annual Current Market Outlook published in June last year, aircraft demand is estimated to exceed 38,000 units valued at USD5.6 trillion over the next 20 years. By 2034, Airbus expects to increase its supply sourcing base in the region to 37%. With these developments, demand for MRO and manufacture of aerospace parts and components in the region are also expected to soar. To meet the growing needs of the global aviation industry and in line with the government’s aspiration of becoming an aerospace hub, MIDA is committed in developing the aerospace ecosystem.

Malaysia is proud to host many global aerospace players such as GE Engine, Spirit AeroSystems, Aerospace Composite, Honeywell, Hamilton Sundstrand, Airbus Helicopters and Messier- Bugatti Dowty. In addition to assisting these major players, MIDA also facilitates investments from Malaysia’s own indigenous small and medium enterprises (SME) to establish capabilities at Tier 3 and 4 of the supply chain. Our local players like SME Aerospace, CTRM Aero Composite, Sepang Aircraft Engineering, Airod and Malaysian Aerospace Engineering have demonstrated their capabilities in meeting stringent demands of the OEMs and thus, are successfully involved in the global supply chain.
A good example of this would be UMW Aerospace, a home-grown Malaysian company that became the first company in Asia to manufacture fan cases for Rolls Royce. UMW Aerospace is now the single-source supplier for Rolls Royce, specifically for its Trent 1000 and Trent 7000 engines. Both Trent engines are the most advanced in aero engine technology, with increased fuel efficiency and noise reduction.

This catalytic and strategic project is expected to bring along many spill-over effects. The local workforce will be able to migrate to higher value manufacturing in precision machining and assembly of aerospace parts as this project generates more than 190 high income employment opportunities for Malaysians. This is in line with efforts undertaken by the Government to transform Malaysia into a high income nation, namely the Economic Transformation Programme (ETP), National Aerospace Blueprint and 11MP. With this collaboration, Rolls Royce becomes a new anchor original equipment manufacturer (OEM) in Malaysia under the ETP’s 7th Entry Point Project.

Malaysia certainly welcomes more high technology and high value added projects such as this as it will create opportunities for other OEMs to complete their supply chains. MIDA continues to intensify its efforts to progressively establish and develop the aerospace ecosystem in Malaysia.

Recently MIDA together with Spirit AeroSystems, one of the world’s largest independent producers of large aerostructures, organised the Spirit Aerospace Suppliers Symposium. The event saw a gathering of 40 international participants together with 65 potential suppliers from Malaysia to explore mutually profitable business opportunities and collaborations in the aerospace supply chain. As one of the top investors in Malaysia’s aerospace segment, Spirit AeroSystems has contributed to the development of the local supporting industries by providing diverse business opportunities and 2,700 job opportunities for more than 80 local suppliers in the areas of composites fabrication, metal fabrication, tooling and jigs, machining, logistics and consumables.

Various efforts have also been undertaken to provide direct support for the industry particularly in meeting the industry’s human capital needs. Training centres such as the Advanced Composite Training Centre (ACTC) at UniKL-Malaysia Institute of Aviation Technology, Advanced Aeronautics Technology Centre and Aero Precision Resources provide direct support for the industry by supplying trained and skilled workers. Public universities such as University Putra Malaysia, University Science Malaysia, UniKL, International Islamic University and University of Technology Malaysia also conduct related courses at diploma and degree levels. With these measures in place, Malaysia is on track towards strengthening the aerospace ecosystem.
NEW INCENTIVE FOR INDEPENDENT CONFORMITY ASSESSMENT BODY (ICAB) TO BROADEN MANUFACTURING ECOSYSTEM

In the 2016 Budget, Prime Minister Dato’ Sri Najib Tun Razak introduced a new incentive for the establishment of Independent Conformity Assessment Bodies (ICABs) to foster establishment of independent conformity assessment services in Malaysia. This new incentive is in line with the 11th Malaysia Plan that is committed to re-energising the manufacturing ecosystem and broadening the ICAB cluster activities to cater to the needs of various manufacturing industries. The incentive aims to complement Government’s effort to transform manufacturing sector towards producing more high-value, diverse and complex products.

At present, there are about 600 laboratories in Malaysia. More than 80% of these are small scale laboratories that cater for low end testing needs. Most companies currently opt for testing facilities in countries such as Singapore, UK, Taiwan and US, which can be costly and time consuming. Therefore, there is definitely much room for high end testing establishments in the country.

The incentives are to be given to ICABs servicing the machinery & equipment electrical and electronics, chemicals, aerospace, medical devices, automotive, oil & gas and pharmaceutical industries. With the incentive, the approved ICABs will be able to enjoy income tax exemption to undertake any of the qualifying activities, namely testing, calibration, certification, inspection and ‘Good Laboratory Practice’ compliance testing. This incentive is effective for applications received by the Malaysian Investment Development Authority (MIDA) from 1 January 2016 to 31 December 2018.

Highlight of Selected ICABs

Before the introduction of the ICAB incentive, MIDA had already approved five Independent Conformity Assessment companies, among which are WSA Research & Testing Centre and Exova.

WSA Research & Testing Centre is a Malaysian Tier-1 automotive manufacturing company that has embarked on the development of its own Polyurethane (PU) Foam material for the production of car headliners. To support this development, the company has integrated their R&D and testing facility to become a key player in the automotive industry in Malaysia.

Exova Group, a global testing, calibration and advisory services provider, made the strategic decision to expand its presence in the Southeast Asia region through the establishment of its testing facility in Johor. This Malaysian facility is one of the only two laboratories in the region, with its other facility in Singapore. Its testing activity will focus on the development of oil and gas pipelines, welding procedures, coating systems, carbon, stainless steel fasteners and bolts. The company will also carry out testing services on metallurgical pipes which includes design and development (D&D), calibration and validation of products that are utilised in various industries, particularly oil and gas, aerospace and health sciences.
SERVICES

Going Forward

With this new incentive, Malaysia aims to position itself to become a hub for ICABs in the region. Local and foreign companies intending to explore potential business opportunities and undertake ICAB projects in Malaysia are welcome to contact the R&D and Business Services Division, MIDA or e-mail their interest to sudiana@mida.gov.my or mohdizham@mida.gov.my.

EVENTS


Schmidt + Clemens Group of Companies (S+C), a leading producer of special steel components and a supplier of services for plant operators and mechanical equipment manufacturers recently organised an international technical symposium at the Grand Hyatt Hotel, Kuala Lumpur. During the event, S+C also took the opportunity to introduce its new state-of-the-art facility located at Sendayan Tech Valley, Seremban.

According to Mr. Jan Schmidt-Krayer, CEO of S+C, “The collaboration with MIDA in the course of the past months has been highly professional and has played a crucial role in enabling us to inaugurate our new plant after a planning and building time of only round 12 months. The Schmidt + Clemens Group has already been producing highly innovative spun casting components in Malaysia since 2001 and the new facility in Sendayan has expanded its capacity in the country still further. In addition of the good infrastructure in the country, the German family enterprise particularly values the stable political situation in Malaysia. We also find well-education and skilled personnel in Malaysia, who not only have the requisite technical know-how but also language skill in English or German”.

On congratulating the company, Dato’ Azman Mahmud, CEO of MIDA said that the production of new spun cast tubes for the oil & gas industry would be a new activity for the Schmidt + Clemens Group in Malaysia. This activity will involve a transfer of a new technology into the country, whereby 90% of this production will be undertaken in Malaysia. This activity is also expected to transform Malaysia into their global hub for the oil & gas industry.
UDPS, First Malaysian Oil and Gas Company to Obtain MS 1900:2014 Shariah-based Quality Management System

Upstream Downstream Process & Services Sdn Bhd (UDPS) was recognised as the “First Malaysian Oil and Gas Company to obtain MS 1900:2014 Shariah-based Quality Management System” by the Malaysia Book of Records (MBR). The certificate presentation ceremony between MBR and UDPS was held in MIDA Headquarters recently. The certificate presentation was witnessed by Datuk N. Rajendran, Deputy CEO of MIDA and Puan Khalidah Mustafa, Managing Director of SIRIM QAS International.

As an operation and maintenance services provider, UDPS has been highly active in Malaysia’s oil and gas industry through its various projects in Kemaman, Tok Bali and Pengerang. Besides Kemaman, UDPS is also providing waste management services, particularly on vessel cleaning, and training in Tok Bali with total investment worth RM10 million. The company has acquired 7 hectares of land in Pengerang. With such acquisition, the company is poised to benefit from Pengerang’s robust business development. UDPS is continuously up-scaling its capabilities to cater to the increasing demands of its clients.

“UDPS has been targeting very high potential O&G development areas. By providing their services to big oil and gas giants like PETRONAS, Talisman, ExxonMobil and Sapura Kencana, the company has managed to create its own identity and soon will contribute towards making Malaysia a strong O&G hub in the region. MIDA is indeed encouraged and proud of the progress of UDPS, and we believe that its involvement in the O&G supporting industries value chain will attract more multinational companies to operate in Malaysia,” said Datuk N. Rajendran in his welcome remarks during the event.
PVCellTech 2016 Reaffirms Malaysia’s Position as Leader for New Cell Fabrications in ASEAN

In recognising the importance of the solar cell manufacturing value-chain, MIDA jointly hosted the first global solar cell technology conference, PVCellTech 2016 with Solar Media Ltd., an international firm based in UK dedicated to providing marketing opportunities to companies in the solar supply chain worldwide, at its Headquarters on 16 and 17 March 2016.

“This engagement signifies MIDA’s continuous dedication and commitment towards enhancing the solar industry ecosystem, particularly in crystalline silicon (c-Si) solar cell manufacturing in the country. We are proud that this not only demonstrates Malaysia’s capabilities in meeting the requirements of high value-added and advanced technology industries, but also reaffirms Malaysia’s position as the leader for new cell fabrications in the region,” said Datuk Phang Ah Tong, Deputy CEO of MIDA, who represented the CEO of MIDA during the opening ceremony of the conference.

Mr. Finlay Colville, Head of Market Intelligence of PV-Tech said that, “The choice to hold PVCellTech in Malaysia reflects the growing importance of Southeast Asia for solar cell manufacturing and the need for leading solar cell producers to have volume manufacturing outside China and Taiwan. Malaysia has evolved in the past few years into one of the most important countries in Southeast Asia for new solar manufacturing facilities and already boasts some of the most important companies that are active in the solar PV industry today.”

The conference attracted a strong participation from industry experts all over the world. Almost 80% of the participants were from Europe, US, Australia, China, Taiwan, India and Southeast Asia. It featured presentations by senior technologists from prominent solar companies such as First Solar, DuPont, SCHMID, Hanwha, SERIS and Panasonic.
As one of the Principal Sponsors of the OTC Asia 2016, MIDA views the conference as an important platform to connect more than 3,000 Oil & Gas companies with potential partners to strengthen their technical capabilities, enabling them to emerge as robust and competitive when the good times are back.

In conjunction of the conference, MIDA organised a Country Session, themed “Malaysia: Navigating the New Oil and Gas Landscape” that featured leading experts in the industry namely Schlumberger, FMC and Wood Mackenzie, as well as Malaysia’s very own O&G giant, PETRONAS. During the session which received an overwhelming response from almost 500 delegates, Datuk N. Rajendran, Deputy CEO of MIDA said that, “In spite of global uncertainties, MIDA is optimistic on the outlook of the oil and gas (O&G) industry, especially in the downstream segment. In fact, we have received positive feedback from many companies, which continue to find Malaysia the best place to invest. The long term success and resilience of an industry is dependent on new and advance technology and competitive supporting services. Local players may also need to consolidate to enable them to urgently move up the value chain to become more robust players both at home and at the international level where there are tremendous opportunities. Existing manufacturers are also encouraged to increase their product portfolio in Malaysia through activities such as research and development (R&D) as well as diversifying into green petrochemical products such as eco-friendly drilling fluid, bio-lubricants and ethoxylates”.

In 2015, MIDA approved a total of 69 O&G related projects worth RM27.9 billion, of which more than 90% was contributed by the petrochemical sector. One of the projects approved, the Pengerang Integrated Petroleum Complex (PIPC) in Johor is expected to be the catalytic project that will bring more investments into the country.
World Halal Conference (WHC) 2016 - Malaysia, Evidently at the Forefront of the Halal Industry

“Malaysia is evidently at the forefront of the Halal industry. Based on the State of Global Islamic and Economic Report 2015/2016, Malaysia was ranked as the best developed Islamic economy out of 73 core countries. This includes ranking 1st for Halal Food, Islamic Finance and Halal Travel as well as being within the top 5 countries for Halal Pharmaceuticals & Cosmetics,” said Datuk Azman Mahmud, CEO of MIDA during the agency’s Plenary Session in conjunction with the WHC 2016.

According to Dato’ Azman, foreign companies such as Charoen Pokphand (CP) Holdings, Nestle, Kerry Ingredients, PureCircle, Cargill, Adeka Foods, Rikevita, Kewpie, IFFCO, Kellogg’s and Ajinomoto have been leveraging on the country’s comprehensive Halal ecosystem that have been built over the years. In fact, BRF S.A. a leading Brazil food company and one of the top producers of poultry under its flagship brand ‘Sadia’, a well-known Halal brand in the Middle East, just announced the opening of its Investment & Development Office in Malaysia. Not lagging behind are domestic players such as Ramly Food Processing, Mamee Double Decker, Dewina Food Industries, Felda Global Ventures (FGV) and Chemical Company of Malaysia (CCM) that have carved a name for themselves in Malaysia and the global markets.

Building on past success, Dato’ Azman is confident that Malaysia will continue to pave the way to accelerate growth in new, emerging and higher value added areas in the Halal industry. MIDA’s engagement in WHC 2016 is part of its promotional efforts to provide first-hand information and insights of Malaysia as the Halal Gateway to global markets. The plenary session attracted more than 50 participants from both local and foreign companies.
ECONOMY NEWS
TPP to help Malaysia source best suppliers in global value chain
Economic boost with RM8b CREC regional hub
Malaysia’s economic prospects intact
“Malaysia sucessfully converted to diversified modern economy”
Zeti : Malaysia on target to meet 4 – 4.5 pc growth

INDUSTRY NEWS
Furniture sector to contribute RM16b to export earnings by 2020
‘Business operators still prefer Malaysia’
HeveaBoard allots RM20m capex to expand capacity
PetChem to spend RM16bil on refinery
Panasonic allots RM60m capex for manufacturing plant
SAM Malaysia to boost Penang ops
Hup Seng plans factory expansion
MIDA still upbeat on outlook for O&G sector
CCM to build new plant, warehouse
MIDA positive on O&G sector
Malaysia crucial to Evyap’s expansion plans
MSM set to taste sweeter success with Johor sugar plant
Plan to be top aerospace hub
“Local halal industry to see up to RM5b annual growth”
Lay Hong in JV with NH Foods

SERVICES NEWS
Data centre revenue set to hit RM1b
Kempinski Hotel KL recognised as NKEA Entry Point Project
TMC investing RM1.5b in 2 hospital projects
ABOUT MIDA

The Malaysian Investment Development Authority (MIDA) is the Government’s principal promotion agency under the Ministry of International Trade and Industry (MITI) to oversee and drive investments into the manufacturing and services sectors in Malaysia. Starting operations in 1967, MIDA is the first point of contact for investors that want to take advantage of Malaysia’s vibrant economy, world-class infrastructure and business-friendly environment to set up their profit centre in Asia. For more information, visit www.mida.gov.my or e-mail us at investmalaysia@mida.gov.my.

MIDA, your first point of contact for investments in Malaysia.

Malaysian Investment Development Authority
MIDA Sentral
No.5, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur
Tel: 603 2267 3633 / 2263 2555 / 2263 2549
Fax: 603 2274 7970
E-mail: investmalaysia@mida.gov.my
Website: www.mida.gov.my

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