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UNCTAD HIGHLIGHTS MALAYSIA'S SOPHISTICATED STRATEGY TO POSITION ITSELF AS A GLOBAL OUTSOURCING HUB FOR HIGH TECHNOLOGY MANUFACTURING VALUE CHAIN

Malaysia is ranked the 16th Top Prospective Host Economy, up from number 19, for the period 2013 until 2015.

Kuala Lumpur, 26 June 2013 –UNCTAD highlighted that Malaysia through the Malaysian Investment Development Authority (MIDA) has developed a sophisticated strategy that aims to leverage its existing locational strengths in pursuing its strategy of encouraging the establishment of high technology manufacturing value chain segments. Malaysia is ranked the 16th Top Prospective Host Economy, up from number 19 for the period 2013 until 2015. In 2011, Malaysia is ranked 11th among the top 20 economies with the highest Foreign Direct Investment (FDI) rates of returns (17%), or FDI profitability, testifying Malaysia as a profitable location to do business.

According to the Department of Statistics, Malaysia, in 2012, private investment (Gross Fixed Capital Formation (GFCF)) totalled RM140,180 million (current price), an increase of 24.3% compared to RM112,786 million recorded in 2011. This is following an annual growth of 14.4% in 2011 from year 2010. The continuous double digit growth in investments in the first two years of the 10th Malaysia Plan reflects the success of the implementation of the various programmes under the New Economic Model (NEM). In the first three months of 2013, investments are on-track whereby

RM38,516 million or 24% of the target of RM160.3 billion private investments for 2013 had already been achieved.

Subtitled “Global Value Chains: Investment and Trade for Development”, the report which was launched by YB Dato’ Sri Mustapa bin Mohamed, Minister of International Trade and Industry at MIDA’s headquarters provides an in-depth analysis, strategic development options and practical advice for policymakers and others on how to maximize the benefits and minimize the risks associated with global value chains. Dr Masataka Fujita, Head of Investment Trends and Issues Branch, Division on Investment and Enterprise, UNCTAD made a presentation on the report at the Launch. The event was also graced by YBhg. Tan Sri Amirsham A. Aziz, Chairman of MIDA and Ms. Wivina Belmonte, Resident Coordinator ad interim of United Nations in Malaysia.

The report indicated that the global FDI inflows declined by 18% to US$1.35 trillion in 2012 from US$1.6 trillion in 2011. The global rankings of the largest recipients of FDI reflect that developing countries took lead in attracting FDI in 2012, accounting for 52% of global FDI flows, notwithstanding FDI inflows to developing countries fell by 4% compared to 2011.

The annual report reflects FDI inflows to East and South-East Asia fell from $343 billion in 2011 to $326 billion in 2012. Among the key reasons cited were the sluggish global economy, fiscal constraints in Europe, a significant shrinkage in global M&A activities and cautious sentiment in investing by Transnational corporations (TNCs).

As Malaysia transits from labour intensive investments to high technology investments, the country’s net FDI inflows last year saw a decrease of 17.4% in investments to US$10.1 billion compared to US$12.2 billion in 2011. Despite the decrease, Malaysia maintained its ranking as the third largest recipient of FDI in ASEAN. Unlike other ASEAN countries where investments were in the infrastructure, services and primary sectors, the bulk of Malaysia’s FDI inflows were in the manufacturing sector. The decline of FDI inflows into Malaysia is in line with the global drop in manufacturing, where UNCTAD attributes it mainly to the decline in the value of greenfield projects.

The manufacturing sector in Malaysia is going through a period of transformation and restructuring. Industry players are expected to reduce their investments into low value sectors and increase their activities in research and development, high knowledge, high value-added and high technology industries. UNCTAD has indicated that due to a considerable wave of relocation in manufacturing within the sub-regions during the past few years, particularly for labour-intensive industries, some ASEAN countries have gained ground as attractive FDI locations for labour-intensive manufacturing.

According to Dato' Sri Mustapa Mohamed, "Malaysia's strategic policy measures are in line with UNCTAD's recommendations. The Government has undertaken various measures to promote value added activities, which include adopting an ecosystem approach to promote private investments, encourage outsourcing activities to enhance efficiency and gain competitive edge as well as the introduction of domestic investment initiatives such as the Domestic Investment Strategic Fund (DISF) to encourage local Malaysian companies to participate in the global value chains."

"Many large corporations and prominent multinational companies (MNCs) have chosen Malaysia to establish their regional and global operations. Many of these MNCs have established structured training programmes to transfer their key competencies to Malaysian employees. In the long run, it will create high income employment opportunities for Malaysians in sectors such as business, accounting, finance, IT, engineering, technical and other new services sectors such as designing, and analytical sciences. Besides this, these global and regional operations will also increase the usage of local infrastructure, banking services, information technology, telecommunications, utilities and logistics services," he added.

UN Resident Coordinator ad interim Ms. Wivina Belmonte said that, "Malaysian transnational corporations operating in sectors such as Energy, Construction, Information & Telecommunications, Plantations, Manufacturing and others that have expanded their operations and activities in a host of countries including South-South member states in Asia and Africa - create opportunities for technology and knowledge dissemination which can positively impact development in the South".

She also added that “development practitioners and policy makers also recognize Small and Medium Enterprises (SME) as significant economic drivers. SME driven programmes aimed at increasing the competitiveness, productive capacities, technology and skills of SMEs to leverage Global Value Chains in an increasingly fragmentized global production system/process, would have high development contributions and outcomes”.

UNCTAD projected that the global FDI inflows in 2013 are expected to remain close to the 2012 level, with an upper range of US$1.45 trillion. For the year 2014 and 2015, UNCTAD predicts the FDI inflows to rise moderately to US$1.6 trillion and US$1.8 trillion, respectively. The report also indicated that significant risks will remain in this growth scenario. Factors such as structural weaknesses in the global financial system, the possible deterioration of the macroeconomic environment, and significant policy uncertainty in areas crucial for investors’ confidence might lead to a further decline in global FDI inflows.

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