MEDIA STATEMENT

Malaysian Industrial Development Authority
Block 4, Plaza Sentral
Jalan Stesen Sentral 5
50470 Kuala Lumpur
Malaysia
Tel: (603) 2267 3633
Fax: (603) 2274 7970
Email: investmalaysia@mida.gov.my
Website: www.mida.gov.my

MIDA ANNUAL MEDIA CONFERENCE ON THE PERFORMANCE OF THE MANUFACTURING AND SERVICES SECTORS IN 2009

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STATEMENT BY:

YB DATO' SRI MUSTAPA BIN MOHAMED
MINISTER OF INTERNATIONAL TRADE AND INDUSTRY

The global economic environment in 2009 was very challenging, as a result of the financial crisis which commenced in the US in 2008. This volatility had its contagion effects on major economies throughout the world. The instability created in the global financial system was exemplified through the collapse of some prominent financial institutions, while others took a severe battering.

The adverse effects impacted upon the inflows and outflows of investments, with world trade also shrinking, and many developed and developing economies mired in a recession. Policy makers globally reacted by embracing unconventional measures to counter this negative scenario.

Malaysia's economy also succumbed to these unfavourable global developments when the country's gross domestic product (GDP) contracted by 3.8 per cent for the first nine months of 2009. The country's economy is expected to turn around in the fourth quarter of 2009, and the GDP for the whole of 2009 is expected to contract by around 3 per cent. As a measure to mitigate the severe effects of the crisis, the government implemented two stimulus packages amounting to RM67 billion.

Manufacturing continued to be an important contributor to the economy, accounting for 26.8 per cent of the country's GDP for the first nine months of 2009. Employment in the manufacturing sector in 2009 was estimated at 3.3 million people or 28.4 per cent of the country's total employment.

The services sector accounted for the largest share of the country's GDP. For the first nine months, it contributed 57.3 per cent of GDP and expanded at 1.6 per cent.

APPROVALS IN THE MANUFACTURING SECTOR

Despite the acute deterioration in the global economic and financial environment, MIDA approved investments amounting to RM32.6 billion in 766 projects in 2009. The figure surpassed by RM5.1 billion or 18.5 per cent of the annual target of RM27.5 billion set under the IMP3.

Foreign investments accounted for the bulk of the approvals totalling RM22.1 billion or 67.8 per cent of the approved investments. Of this figure, foreign investments in projects with investments of RM1 billion and above totalled RM12.2 billion or 37.3 per cent of the total investments approved, indicating FDI inflows into the country were mainly for quality investments.

In 2009, foreign investments were mainly in chemicals and chemical products, non-metallic mineral products and electronics and electrical products. Approved investments in these three sub-sectors amounted to RM16.3 billion or 73.8 per cent of the total foreign investments approved.

For a country with a population of 28 million people, Malaysia today is host to more than 5,000 companies from over 40 countries. Foreign investors continue to establish their offshore operations in Malaysia due to it's:

- continued competitiveness as an investment location;
- liberal and transparent business policies;
- developed infrastructure;
- productive workforce;
- strong supporting industries; and
- amenities, including good logistics and a strong financial services sector.

Malaysia's banks and insurance companies remained unscathed despite this crisis-a testimony to the country's prudent banking policies.

Equally important to attracting FDI is the government's continued drive to actively promote domestic investments. In 2009, approved investments amounted to RM10.5 billion or 32.2 per cent of the total investments approved.

Domestic investments were mainly in the basic metal products, chemicals and chemical products and non-metallic mineral products industries. These three sub-sectors accounted for RM4.6 billion or 43.8 per cent of the total domestic investments approved in the manufacturing sector.

The trend in projects approved over the last five years was capital intensive in nature. The average capital investment per employee or CIPE ratio from 2005-2009 was RM505,744 compared with RM320,166 from 2000-2004. This significant increase in the CIPE ratio is a clear indicator that the manufacturing sector is moving towards the establishment in high-technology, high value-added, capital intensive, skills and knowledge-based industries, incorporating activities such as design and development and research and development.

EMPLOYMENT OPPORTUNITIES

When implemented, the 766 approved projects in 2009 will create 64,330 jobs, of which 64.9 per cent are in the managerial, technical and supervisory level and skilled workers categories. Some of the skilled employment to be created will be for engineers, biotechnologists, IT personnel, moulds, tools and die makers and machinists.

The jobs created through the implementation of these projects will contribute to the overall human capital development and enhancement of skills in Malaysia.

Malaysian-owned projects approved in 2009 are expected to generate 34,975 employment opportunities. Of this figure, 21,414 jobs or 61.2 per cent are for the managerial, technical & supervisory and skilled jobs.

MAJOR SOURCES OF FOREIGN INVESTMENTS

i. Japan

Japan was the largest foreign investor in 2009, with investments totalling RM7.0 billion, compared with RM5.6 billion in 2008. A single project in the chemical and chemicals products industry with investments of RM5.6 billion had accounted for the bulk of the investments.

ii. Hong Kong

In 2009, Hong Kong was the second largest investor in the manufacturing sector. Investment approvals surged to RM5.3 billion, compared with RM83.6 million in 2008. Hong Kong's investments were mainly in chemical and chemical products and rubber products industry.

iii. USA

There was a sharp fall in US investments in 2009, which amounted to RM2.3 billion, compared with RM8.7 billion in 2008, which was attributed to the adverse effects of the recent financial crisis. Nevertheless, the US was the third largest foreign investor in 2009. Major US investments were in electronics and electrical products and food manufacturing.

iv. Singapore

Singapore continued to be a significant investor in 2009 with approved investments totalling RM2.0 billion, which was about the same as in 2008. Singapore's investments were mainly in electronics and electrical products and petroleum products including petrochemicals.

Despite the downturn in global economies, Japan, the Rep. of Korea and China recorded significant increases in investments approved in 2009 compared with 2008.

Other major sources of FDI in 2009 were from Taiwan, Netherlands and Germany.

NEW PROJECTS

Malaysia's strong pull factors and cost-competitiveness continue to attract greenfield investments. Of the 766 projects approved, 471 were for new projects, involving investments of RM22.1 billion or 67.8 per cent of the total investments. Foreign investments in these projects amounted to RM16.4 billion or 74.2 per cent of total foreign investment approved.

EXPANSIONS AND DIVERSIFICATIONS

Existing companies operating in the country have also continued to show their confidence in Malaysia's investment environment by undertaking expansion and diversification activities, mainly into high value-added investments. Expansion and diversification activities in 2009 amounted to RM10.5 billion or 32.2 per cent in 295 projects.

Foreign investments in these activities amounted to RM5.7 billion, while domestic investments totalled 4.8 billion. Major areas of domestic investments were in the basic metal products and chemicals and chemical products industries, which attracted investments amounting to RM2.4 billion.

__MAJOR SUB-SECTORS__

i. *__Chemicals and Chemical products__*

In 2009, the chemical and chemicals products industry recorded the highest level of investments, with approvals totalling RM8.4 billion. A single project involving an investment of RM5.5 billion was approved to produce polycrystalline silicon.

ii. *__Non-metallic mineral products__*

The non-metallic mineral products industry attracted investments of RM6.4 billion. The major approval was for a solar glass and solar mirror project which amounted to RM5.2 billion.

There was also increased interest in the aerospace industry. Investments approved in 2009 amounted to RM551.9 million.

The renewable energy and energy conservation sub-sector also attracted significant interest in 2009, with approved investments amounting to RM752 million.

Other industries that attracted considerable investments in 2009 were in the electronics and electrical products, food manufacturing and transport equipment.

IMPLEMENTATION STATUS OF APPROVED MANUFACTURING PROJECTS

The Government continues with its initiatives and measures to further improve the country's delivery system. Handholding activities are carried out by MIDA's Special Projects Officers (SPOs) at Federal and State levels through direct consultations with various state agencies.

As a result of these measures undertaken by MIDA and the Federal and State Governments, the implementation rate of projects has increased over the years. For the period 2004-2009, a total of 5,839 manufacturing projects were approved. Of this figure, 4,201 projects or 72.0 per cent have commenced production as at 31 December 2009, while 218 or 3.7 per cent were at the stage of factory construction and machinery installation. In 2009 alone, 520 projects had commenced production.

MIDA will continue to be the main coordinating agency to ensure the speedy implementation of projects approved in the manufacturing and services sectors.

INVESTMENTS IN THE SERVICES SECTOR

In many developed countries, the services sector forms a major structural component of the economy. Malaysia is also continuing to place increasing importance on the services sector as a measure to enhance economic growth and to further diversify the country's economy.

In 2009, a total of 2,720 projects with investments of RM36.3 billion were approved in the services sector. Domestic investments were RM32.9 billion or 90.6 per cent, while foreign investments totalled RM3.4 billion or 9.4 per cent. These projects are expected to provide 37,357 employment opportunities.

Major approvals in the services sector were in transport (RM7.9 billion), energy (RM6.8 billion), financial services (RM4.3 billion), real estate (RM4.2 billion) and telecommunications (RM3.8 billion).

A total of 740 projects with investments of RM5.4 billion were approved for regional establishments, support services and MSC Status Companies in 2009.

Regional Operations

In recent years, a key component in the services sector in Malaysia has been the expansion of the manufacturing related services sub-sector. In line with this emphasis, the Government is encouraging the setting-up of regional establishments such as Operational Headquarters (OHQs), International Procurement Centres (IPCs), Regional Distribution Centres (RDCs), Regional and Representative Offices (REs and ROs).

Malaysia's distinct advantages such as its multi-lingual workforce, strategic location, attractive incentives, liberal equity and expatriate employment policies continue to encourage foreign companies to establish their regional operations in the country.

In 2009, a total of 161 new regional establishments with investments of RM325.9 million were approved, with a proposed annual sales turnover of RM758.3 million. Of these approvals, 3 were for IPCs, 3 were for RDCs, 18 were for OHQs and 137 were for REs and ROs. These operations will provide job opportunities for about 825 Malaysians in the managerial, professional and technical levels.

The benefits of attracting regional establishments into the country are that they enhance Malaysia's global trade, create linkages to other sectors of the economy, particularly the services sector, and generate skilled employment opportunities. Regional establishments also provide business opportunities for local wholesalers and retailers, local companies, including SMEs, which will benefit through the integration into the MNCs global supply chain network.

MEASURES TO SUSTAIN COMPETITIVENESS

In light of the unfavourable global economic environment prevailing in 2009, the government undertook pro-active measures to sustain the competitiveness of the country's economy. The main objective of these measures was to cushion the economy against adverse effects of the financial crisis and to ensure sustained economic growth for the country.

Some of these measures include:

- a second stimulus package amounting to RM60 billion in March 2009 was announced to complement the first package amounting to RM7 billion announced in November 2008;

- liberalisation of twenty seven sub-sectors in the services sector to further enhance the country's competitiveness in this area. Some of the sub-sectors in which foreigners can now hold 100 per cent equity include computer and related services, health and social services, tourism services and transport services; and

- liberalisation measures for the financial services sector by the Government. These bold measures are the deregulation of Foreign Investments Committee guidelines and fund management and stock brokering liberalisation;

Some of the specific measures taken to address the issues in the manufacturing and services sectors include:

- the new measures under the National Automotive Policy Review will give emphasis in attracting investments in high value-added manufacturing activities using the latest technology, particularly in the opening-up of manufacturing license for luxury cars and hybrid/electric vehicles and granting of better incentive for electric/hybrid vehicles and critical automotive components;

- to further promote the aerospace industry in Malaysia and attract FDI, a comprehensive tax incentive package has been formulated for design, manufacturing and assembly group, operator group and support group and regulatory group;

- manufacturing licenses for iron and steel will be granted without restriction;

- one to five star hotels undertaking investments for refurbishment/renovation/expansion are given third round Investment Tax Allowance of 60% (100% for promoted areas) for eligible expenditure incurred within five years. This allowance is allowed to be deducted up to 70% (100% for promoted areas) of the statutory income; and

- to promote medical tourism, the Government is offering an investment tax allowance of 100 per cent on qualifying expenditure incurred on the construction of new private hospitals and expansion/refurbishment of existing private hospitals.

MIDA will continue with its efforts to promote FDI into the manufacturing and services sectors through investment missions. In 2010, a total of 8 such missions will be organised to Asia, Europe, the USA and Australia. In addition, MIDA will also be organising 18 specialised project missions to target specific industries and services sub-sectors. The private sector is invited to participate in these missions to explore business collaborations.

On the domestic front, MIDA will continue with its efforts to increase the inflows of domestic investments into the manufacturing and services sectors, and some of the initiatives lined-up for this year include:

- domestic workshops and roundtable meetings focussing on the services sector;
- various workshops relating to specific industry sub-sectors;
- outsourcing programmes;
- dialogues/roundtable meetings with captains of industry; and
- enhancing linkages through networking sessions between small and medium scale enterprises (SMEs) and multinational corporations (MNCs), both foreign and local.

OUTLOOK FOR 2010

As a result of the financial crisis affecting major economies of the world, global FDI flows declined in 2009. In UNCTAD's latest quarterly publication released on 19 January 2010, global FDI inflows declined by about 40 per cent to US$1 trillion in 2009 from US$1.7 trillion in 2008. Consequently, FDI inflows to developing and transition economies decreased by 35.4 per cent in 2009. As a result of these developments, Malaysia was also not spared from the severe effects of this global trend.

Based on UNCTAD's World Investment Report 2009, global FDI inflows are expected to recover moderately in 2010, before gaining momentum in 2011. Given the improving global economic and investment environment, Malaysia's economy is expected to grow between grow 4.0 - 5.0 per cent in 2010. Foreign investments inflows in Malaysia are expected to be sustained in 2010.

According to a World Bank statement released recently, while highlighting risks to a “fragile recovery”, the global economy is nevertheless expected to grow by 2.7 per cent in 2010. The International Monetary Fund (IMF) has raised its growth forecast for the global economy from 3.1 to 3.9 per cent in 2010. The Institute has stated that global economic growth for 2011 is expected to rise to 4.3 per cent as economies recover further. With improved global sentiments, FDI inflows into Malaysia are expected to increase again as the global economy stabilizes.

Recognising the importance of the services sector as a pillar of economic growth and the potentials for increased investment inflows into the country, the Government will undertake measures to progressively liberalise the other services sub-sectors. This measure is to ensure that the services sector remains a competitive component in the country’s economy.

The Government will launch the New Economic Model in the first quarter of this year. Under this model, strategies will be outlined to propel Malaysia from a middle income to a high-income economy based on innovation, creativity and high value sources of growth. Malaysia’s new economic model is intended to push the country towards a knowledge-driven and high technology industrial base.

Efforts will also be intensified to target and attract industries in which Malaysia has strong foundations, as well as new growth areas such as automotive, aerospace, electronics, petrochemical, biotechnology, machinery and equipment, pharmaceuticals and medical equipment.

Green technology, including renewable energy, has been identified as a new growth area by the Government. This technology will not only assist in protecting the environment but will also provide business opportunities and a competitive edge for the country.

Besides green technology, the Government will also encourage the setting-up of energy efficient and conservation projects in the country for sustainable development.

MIDA will work together with its 19 overseas offices to intensify its promotional efforts in the services sector by promoting investments for supply chain management, research and development (R&D), design and development (D&D), total solution providers, logistics, IT based and back office operations and treasury centres.

MIDA, as the government's principal investment promotion agency, will continue to assume a pivotal role in coordinating and facilitating the inflows of investments into the manufacturing and services sectors into Malaysia. The channels of communication are always open for discussions on ways in which we could further improve the competitiveness of the country for the increased inflows of investments into the manufacturing and services sectors.