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MEDIA STATEMENT

MIDA ANNUAL MEDIA CONFERENCE ON THE PERFORMANCE OF THE MANUFACTURING AND SERVICES SECTORS IN 2008

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STATEMENT BY:

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It is my pleasure to be here this morning to announce the performance of the manufacturing and services sectors in 2008.

This media conference is significant in a number of respects. It reflects, first of all how Malaysia fared as an investment destination for FDI in 2008. It is also significant as it is taking place during a time of extraordinary global economic challenges and uncertainties. The conference provides an important opportunity to enhance our understanding of developments in Malaysia, particularly in terms of FDI and its prospects, the issues encountered and the measures that have been undertaken by the government to address the economic slowdown in the country.

The Malaysian economy registered a gross domestic product (GDP) growth rate of 6.3 per cent for the first nine months of 2008. Growth in the economy was supported by domestic demand, following continued expansion in private and public consumption.

The services sector recorded the highest growth with a value-added expansion of 7.9 per cent from January-September 2008, followed by the manufacturing sector which grew by 4.8 per cent. The manufacturing sector accounted for 29.9 per cent of the country's GDP during this period, while the services sector's contribution to the GDP was 54.2 per cent.

INVESTMENTS IN THE MANUFACTURING SECTOR

Malaysia continued to remain a competitive destination for FDI inflows in the manufacturing sector in 2008. Approvals in the manufacturing sector amounted to RM62.8 billion in 2008, compared with RM59.9 billion in 2007. Investments in 2008 were the highest recorded to-date and were more than double the target of RM27.5 billion per annum, set in the IMP3.

For 2008, the significant increase in investments was due to the approvals of several capital intensive projects, particularly in the basic metal products, electrical and electronics, petrochemicals and transport equipment industries. A total of 12 projects with total investments of RM1 billion and above were approved, with investments of RM38.3 billion or 61.0 per cent of the total approved investments in 2008.

Projects involving foreign investments formed the lion's share of the total investments in 2008. Foreign investments amounted to RM46.1 billion or 73.4 per cent of total investments approved. FDI inflows into the manufacturing sector in 2008 were also the highest recorded to-date. 2008 marked the fifth consecutive year of increase in foreign investments, compared with RM33.4 billion in 2007, RM20.2 billion in 2006, RM17.9 billion in 2005 and RM13.1 billion in 2004.

According to the latest UNCTAD preliminary report released on 19 January 2009, Malaysia recorded a strong growth of 53.4 per cent in foreign direct investments (FDI), in 2008, the highest increase in the region and one of the few developing countries to achieve positive growth in FDI. Total FDI inflows into Malaysia increased from USD8.4 billion in 2007 to USD12.9 billion in 2008, ahead of other countries like Singapore, Thailand and Indonesia, which all recorded negative FDI growths. China had a growth of 10.6 per cent.

This growth is encouraging considering that global FDI inflows are forecasted to fall by more than 20 per cent in 2008.

Malaysia's ability to continue to attract substantial amounts of FDI is due to:

- liberal investment policies;
- cost-competitiveness as an investment location;
- well developed infrastructure;
- strong supporting industries;
- productive workforce;
  and
- amenities available such as a strong, efficient and resilient banking and insurance sectors.

Proactive measures implemented by the government such as the continuous improvement in the country's delivery system are among the other positive factors that have made Malaysia a favourable investment location.

Equally important to attracting FDI is the government's continued drive to actively promote domestic investments. From 2002-2006, domestic investments in the manufacturing sector averaged about RM14.9 billion per annum. In 2007, a record level in domestic investments amounting to RM26.5 billion was achieved due to the approval of several capital intensive projects, particularly in the petroleum products and basic metal products industry. In 2008, approved investments amounted to RM16.7 billion, returning to the average level recorded in the previous years.

An encouraging trend in the projects approved indicated that foreign and domestic investors continue to respond positively to the government's initiatives to invest in capital intensive, skills and knowledge-based, high value-added and high technology industries. This is indicated in the increase in the capital investment per employee (CIPE) ratio from RM613,600 in 2007 to RM620,571 in 2008.

MAJOR SOURCES OF FOREIGN INVESTMENTS

i. Australia

In 2008, investments from Australia increased to RM13.1 billion, representing the highest level of investments recorded over the last five years. A single project in the basic metals industry with investments of RM12.5 billion had accounted for the bulk of the investments.

ii. USA

Even with the financial crisis prevailing, the US was the second largest investor in the manufacturing sector in 2008.

Investments totalling RM8.7 billion were approved in 2008, compared with RM3.0 billion in 2007. US investments were mainly in renewable energy, electronics and chemical industries.

iii. Japan

Japan continued to be a significant investor in the manufacturing sector in 2008 with investments of RM5.6 billion. Japanese investments were mainly in basic metal, electronics, wood products and liquefied natural gas industries.

iv. Germany

In 2008, Germany was the largest investor from Europe with investments valued at RM4.4 billion. German investments were concentrated mainly in renewable energy and in the electronics industries.

Other major sources of FDI were Spain, Singapore and the Netherlands.

NEW PROJECTS

In spite of the intense global competition for foreign investments, Malaysia continues to be a cost-competitive location for greenfield investments. Of the 919 projects approved, 548 were new projects involving investments of RM42.0 billion or 70.0 per cent of the total investments. Foreign investments in these projects amounted to RM34.2 billion or 54.5 per cent of total investments approved.

EXPANSIONS AND DIVERSIFICATIONS

In addition, existing foreign companies have also continued to show their confidence in Malaysia as an offshore location for their investments by undertaking reinvestments through expansion and diversification activities. Foreign investments in these activities amounted to RM11.9 billion. Domestic companies had also undertaken considerable expansion and diversification activities, particularly in the basic metal products industry which attracted investments amounting to RM4.0 billion.

EMPLOYMENT OPPORTUNITIES

Full implementation of these projects approved in 2008 will generate employment opportunities for 101,173 in skilled professions such as electronics engineers, chemical engineers, mechanical engineers, biotechnologists, microbiologists, pharmacists and software engineers. The impact of these projects will not only facilitate the overall growth and development of Malaysia's human resources, but will also create greater economic spin-off benefits in the country.

MAJOR SUB-SECTORS

i. Basic metals

In 2008, the basic metal products industry recorded the highest level of investments, with approvals totalling RM25.8 billion. Two new projects, one for the production of unwrought aluminium amounting to RM12.5 billion and the other for hot rolled stainless steel sheets totalling RM6.9 billion, accounted for the bulk of the approvals.

ii. Electronics and electrical

The electronics and electrical industry attracted investments of RM17.8 billion. The major projects approved were for design, development and manufacture of silicon photovoltaic wafers, cells and ingots, hard disk drives and components, solar cells and modules, printed circuit boards and fabricated wafers for light emitting diodes.

Sustained interest for investments in the renewable energy sector continued in 2008. The government has identified this sector as one of the growth areas for promotion in Malaysia, particularly for the manufacture of solar cells and modules.

Other industries that attracted considerable investments in 2008 were in the transport equipment, food products, chemicals and chemical products and petroleum products industries.

IMPLEMENTATION STATUS OF APPROVED MANUFACTURING PROJECTS

Various measures continue to be undertaken by the Government to accelerate the implementation of approved projects. Among the measures taken to expedite the implementation of projects include the introduction of the Certificate of Completion and Compliance which replaced the Certificate of Fitness of Occupation. The certification responsibilities are now transferred from local authorities to authorised professionals such as engineers and architects, based on self-regulating practices.

Other measures include:

- establishment of the One Stop Centres at local authorities;
- setting-up of the District Industry Implementation Units at the district level; and
- the appointment of Special Project Officers in MIDA.

These measures undertaken by MIDA and the Federal and State Governments have contributed to a high rate of implementation in approved projects. For the period 2003-2008, a total of 6,038 projects were approved.

Of this figure, 4,667 projects or 77.3 per cent have been implemented, with;

- 4,401 projects or 72.9 per cent having commenced their operations; and
- 266 projects or 4.4 per cent at different stages of implementation, such as land acquisition, factory building and installation of plant and machinery.

MITI and MIDA will continue to work closely with the Federal and State governments to expedite the implementation of the approved projects.

INVESTMENTS IN THE SERVICES SECTOR

The services sector continues to be an important engine of growth in the Malaysian economy. In 2008, a total of 2,755 projects with investments totalling RM47.8 billion were approved compared with RM66.4 billion for the whole of 2007. Approvals in the services sector, however, surpassed the IMP 3 target of RM45.9 billion per annum.

In 2008, domestic investments amounted to RM42.3 billion or 88.5 per cent of the total approved investments. Foreign investments in the services sector totalled RM5.5 billion or 11.5 per cent.

Major approvals in the services sector were in real estate, (RM25.9 billion), financial services, (RM4.8 billion), energy, (RM4.4 billion), telecommunications (RM2.8 billion) and support services, (RM2.2 billion). Projects approved in 2008 are expected to generate 35,691 employment opportunities.

Regional Operations

Malaysia's attractive incentives, liberal equity and expatriate employment policies continue to encourage foreign companies to establish their regional operations in the country.

In 2008, a total of 158 new regional establishments with investments of RM209.7 million were approved, with a proposed annual sales turnover of RM1.0 billion. These operations will provide job opportunities to about 1,000 Malaysians in the managerial, professional and technical levels. Of these approvals, 141 were for regional and representative offices, 10 were for operational headquarters, 6 were for international procurement centres and one was for a regional distribution centre.

The establishment of regional operations in the country promotes significant linkages to other sectors of the economy, particularly in the services sector. Besides enhancing Malaysia's global trade and providing business opportunities for local wholesalers and retailers, local companies, including SMEs, will also benefit through the integration into the MNCs global supply chain network.

MEASURES TO ADDRESS ECONOMIC SLOWDOWN

The government has acted in an active and responsible way during this crisis. To counter this crisis, we need to expand domestic demand, private investments and exports to boost growth. The government has made adjustments to our macro economic policy, adopted a pro-active fiscal policy and a moderately easy monetary policy and introduced measures to strengthen the manufacturing and services sector. Together they make up a systematic and comprehensive package plan aimed at addressing the economic slowdown in the country.

Some of these measures include:

- a RM7 billion economic stimulus package;
- the reduction by Bank Negara of the Overnight Policy Rate (OPR) by 75 basis points to 2.5 per cent;

- a reduction in the statutory requirement rate (SRR) from 3.5 per cent to 2.0 per cent to increase the liquidity in the banking system; and

- ensuring deposits by commercial, Islamic and investment banks are fully guaranteed by the government;

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

- automatic issuance of manufacturing licences effective 1 December 2008, except for activities related to security, health, environment and religious considerations;

- full duty exemption on raw materials on intermediate goods for domestic manufacturing activities. This will help to reduce the cost of doing business in the manufacturing sector;

- establishment of a RM200 million Micro Enterprise Fund to increase access to micro financing to micro enterprises;
- the establishment of a RM2 billion SME Assistance Guarantee Scheme to ensure that viable SMEs adversely impacted by the current economic slowdown continue to have access to adequate financing. With the guarantee cover, it is envisaged that access to financing to viable SMEs will be enhanced and at a lower cost;

- issuing of work permits directly to knowledge workers in critical fields as compared with the present practise of issuing work permits directly to the company; and

- effective February 1, 2009, employers in the textile and electronics & electrical (E&E) industries, will be exempted from contributing to the Human Resources Development Fund (HRDF) for six months.

As a measure to further attract FDI, MIDA will intensify its promotional activities through investment missions to attract investments from targeted countries. In 2009, a total of ten such missions will be organised to Asia, Europe, the USA and Australia. In addition, MIDA will also be organising 25 specialised project missions to target specific industries and services 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 domestic investments through domestic investment seminars. A total of 5 domestic investment seminars will be organised throughout the country aimed at updating domestic investors on business opportunities in the manufacturing and services sectors. In this challenging time, domestic investors must now look at all avenues to increase their capabilities to further expand output.

The government is in the midst of considering a second economic stimulus package to further boost the economy, in addition to looking at the reduction of power tariffs. The details of the second stimulus package are still being worked out and will be announced soon. The government is also considering to further liberalise the non-financial services sectors. These measures, when implemented, will assist to boost economic growth, increase FDI and reduce the costs of doing business in the country.

OUTLOOK FOR 2009

Developments in the global economy will continue to influence investment inflows into the manufacturing and services sector in Malaysia. The financial crisis and recession in the US, which had its contagion effects in many economies in Europe and Asia, will pose additional challenges for Malaysia to sustain the inflows of foreign investments.

The World Bank estimates that FDI flows into developing countries will shrink to USD400 billion this year from an estimated USD580 billion in 2008, a drop of 31 per cent, as leading companies cut costs and investments because of the poor economic outlook. The corporate world's ability to invest will be reduced due to a scarcity in finance, declining company profits and a sharp fall in global demand.

Given the above and the importance of FDI to the Malaysian economy, the government's priority is to work closely with the private sector to create an operating environment which is conducive and competitive for businesses. The government will step up its efforts to secure jobs through re-training and offer support to industries.

It is committed to expanding investment and trade, while continuing to strengthen the government machinery to be more efficient and effective. This strategy will continue to evolve and be fine-tuned, whenever necessary, as we adapt to new developments that are taking place in the world economy.

With this, I look forward to your constructive views, inputs and feedback to further improve the business environment in the country.