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MIDA

MIDA ANNUAL MEDIA CONFERENCE ON THE PERFORMANCE OF THE MANUFACTURING AND SERVICES SECTORS IN 2006
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STATEMENT BY:

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The manufacturing sector expanded by 8% in the first three quarters of 2006, contributing to 32.0% of the country's gross domestic product (GDP). The non-government services sector grew by 5.9% and accounted for 50.7% of the country's GDP.

The manufacturing sector's Industrial Production Index (IPI) increased by 7.3 per cent to 138.8 in 2006 (January-November), with growth resulting from increases in the production indices of 25 out of the 38 industries such as:

- Semiconductor and other electronic components (10.4%);
- Chemicals and petroleum products (7.6%);
- Food manufacturing (7.5%);
- Textiles and apparels (7.3%);

  and
- Rubber products (6.4%).

The productivity growth in the manufacturing sector increased by 3.8% in 2006 to RM436,940 and was supported by high growth in productivity of selected industries such as:

- telecommunication cables and wires (152%);
- domestic appliances (69.2%);
- professional and scientific equipment (67.5%);
- other electronic components (61.2%); and
- electric power cables and wires (29.1%).

APPROVALS OF MANUFACTURING PROJECTS

In 2006, a total of 1,077 projects involving investments of RM46.0 billion were approved, compared with RM31 billion in 1,027 projects in 2005. Approved investments for the manufacturing sector were the highest recorded to-date. This amount has exceeded by RM18.5 billion the annual target of RM27.5 billion set under IMP3.

Despite the increasing global competition, Malaysia continues to attract global foreign investment outflows, reflecting the country's cost-competitiveness as a manufacturing and export base.

Foreign investments in approved projects in 2006 amounted to RM20.2 billion, the highest level recorded to-date, compared with RM17.9 billion in 2005 and RM13.1 billion in 2004.

Domestic investments in 2006 amounted to RM25.8 billion or 56.1% of the total approved investments, compared with RM13.1 billion or 42.2% in 2005.

The level of domestic investments approved was also the highest level recorded to-date, reflecting the increased participation by domestic investors in the manufacturing sector.

The investments approved, were both for new projects, as well as expansion/diversification projects. In 2006, a total of 653 new projects were approved with investments of RM29.4 billion or 64.0% of the total investments.

Of the 653 new projects, approved in 2006 a total of 47 projects, involved investments of RM100 million and above each, and investments in these projects totalled RM20.4 billion.

It is also encouraging to note that existing companies, both foreign and domestic, continue to expand and diversify their operations in Malaysia. This is reflected in the approval of 424 expansion/diversification projects with investments of RM16.6 billion, accounting for 36% of total investments. These re-investments by existing companies are a testimony of their continued confidence in the investment climate in Malaysia.

Export-oriented projects also attracted considerable investments, reflecting the country's cost-competitiveness to host such global operations. 429 projects (39.8%) with investments amounting to RM35.8 billion, proposed to export 80% of their output.

The Capital Investment Per Employee Ratio (CIPE) ratio), increased from RM270,000 in 2005 to RM517,000 in 2006, reflecting the industry's move towards high value added, high technology and capital intensive investments.

The projects approved in 2006 will create 88,952 jobs, of which 66 per cent will be in the managerial, technical, supervisory and skilled manpower categories.

<u>PROJECTS APPROVED BY INDUSTRY</u>

In 2006, the petroleum products industry recorded the highest level of investments with RM11.4 billion. This was largely due to the approval of a petroleum refinery project with total investments of RM7.7 billion and a methanol project with investments totaling RM2.0 billion. The growing demand for petroleum products in the Asia-Pacific region, particularly China, is attracting substantial interest among domestic and foreign investors, in the oil and gas sub-sector in Malaysia.

Over the last three decades, Malaysia has developed into a major global manufacturing base, for the electronics industry. The electrical and electronics industry continued to attract large investments in 2006, amounting to RM10.0 billion. Out of the 170 projects approved, 111 projects (RM8 billion) were for expansion/diversification activities.

Investments approved were mainly in:

- electronic components : RM7.6 billion; and
- industrial electronics : RM1.4 billion.

Investments approved in the chemicals and chemical products industry also increased significantly, to RM9.1 billion, due to increasing interest in the production of bio-diesel. In 2006, 83 projects with total investments of RM7.6 billion were approved, and this accounted for 83.5% of the total investments in this sector.

Other industries which attracted significant levels of investments included:

- basic metal products (RM2.7 billion);
- food manufacturing (RM1.6 billion);
- transport equipment (RM1.4 billion);
- fabricated metal products (RM1.3 billion); and
- machinery manufacturing (RM1.3 billion).

DOMESTIC SOURCES OF INVESTMENTS

The encouraging level of investments from domestic sources indicates the growing capacity, and capabilities, of Malaysian companies, to compete in the regional and global markets. Malaysian companies are taking advantage of the growing market opportunities created in the ASEAN, and Asia-Pacific regions.

Malaysian companies which are supporting the MNCs have also been able to integrate into the MNCs' regional and global supply chains. This is particularly evident in the electronics industry. This trend is expected to continue as MNCs in Malaysia expand and diversify their operations.

Domestic investments were concentrated mainly in:

- petroleum products (RM10.8 billion);
- chemicals and chemical products (RM 6.1 billion);
- electrical and electronics products (RM 1.4 billion);
- transport equipment (RM 1.2 billion);
- food manufacturing (RM725 million); and
- fabricated metal products (RM709.4 million).

FOREIGN INVESTMENTS

The Government has been encouraging both foreign and domestic investors, to move up the value chain, into technology intensive industries and to undertake research and development, design and development, distribution and marketing activities. Foreign investors have responded to these initiatives/strategies, and many of them have restructured, and upgraded, their operations in Malaysia.

Major sources of foreign investments in 2006 were:

	2006	2005
• Japan	RM4.4 billion	RM3.7 billion
• Netherlands	RM3.3 billion	RM1.7 billion
• Australia	RM2.6 billion	RM155.9 million
• USA	RM2.5 billion	RM5.2 billion
• Singapore	RM1.9 billion	RM2.9 billion

The electrical and electronics sector continued to attract the largest share of foreign investments, amounting to RM8.6 billion, or 42.6%, of the total approved investments. Investments were mainly in high technology industries involving Research & Development, Design & Development, and human capital development.

Foreign investments were mainly in:

• electrical and electronics	RM8.6 billion
• chemical and chemical products	RM3.0 billion
• basic metal products	RM2.3 billion
• non-metallic mineral products	RM962.2 million
• food manufacturing	RM895.4 million

IMPLEMENTATION OF
APPROVED MANUFACTURING PROJECTS

The Government has introduced various measures to expedite the implementation of manufacturing projects. These measures include the:

- establishment of a Project Implementation and Coordination Unit in MIDA;
- appointment of Special Project Officers in MIDA;
- establishment of Special Task Forces for quality investments;

  and

- setting-up of One-Stop Centres at State and local authority level.

These initiatives have assisted companies in the implementation of their projects in Malaysia.

For the period 2001-2005, a total of 4,812 projects were approved. Out of this, 80% or 3,880 projects with initial investments of RM74.7 billion are already in operation. Another 215 projects with investments amounting to RM25.2 billion are in various stages of implementation, such as machinery installation, factory construction and acquisition of site. For projects approved since January 2005, a total of 1,144 projects are already in operation.

Regional Establishments

In 2006, a total of 184 regional establishments were approved, compared with 169 in 2005.

- Operational Headquarters : 27;
- International Procurement Centres : 14;
- Regional Distribution Centres : 7;

- Regional Offices : 41;

  and

- Representative Offices : 95.

Business spending is expected to be RM950.2 million, annually.

Malaysia was able to attract several prominent international companies to set-up their regional headquarters in 2006, including:

- General Electric (USA)
- Eppendorf AG (Germany)
- Aker Kvaerner Group (Norway)
- Nippon Electric Glass and Bridgestone Group (Japan)
- IBA Health Ltd. (Australia)

  and

- Volvo Cars Malaysia (Sweden)

Malaysia is also fast becoming a regional headquarters for oil and gas companies. To-date, 17 oil and gas companies have set-up their Operational Headquarters in Malaysia, including Baker Hughes, Hess Oil & Gas, Paradigm Geophysical, Technip, SBM Group and GE O&G Pipeline Solutions.

The setting-up of these regional establishments will generate spin-off benefits to the economy, in terms of employment, demand for Malaysian products and services, and business opportunities for the insurance, banking and logistics sectors.

The establishment of International Procurement Centres and Regional Distribution Centres would benefit Malaysia through the increased usage of local airports and seaports. The value of goods to be exported by International Procurement Centres and Regional Distribution Centres approved in 2006 is estimated to be about RM4.4 billion.

These operations would provide employment opportunities for Malaysians in the managerial and technical fields, and also enhance the country's connectivity to and linkages with, the global economy.

Multimedia Super Corridor Companies

In 2006, a total of 307 companies were granted the Multimedia Super Corridor Status with investments amounting to RM2.9 billion. Domestic investments amounted to RM2.0 billion or 69% of the total investments, while foreign investments were RM937 million or 31% of the total investments.

Of the 307 companies, a total of 228 were Malaysian-owned companies, 38 were wholly-foreign owned and the remaining 41 were joint-ventures.

As at 31 December 2006, a total of 1,728 companies were granted Multimedia Super Corridor-Status. Of these, 1,358 or 78.6% are already in operation.

INVESTMENTS IN OTHER AREAS OF THE SERVICES SECTOR

Beginning January 2006, MIDA has begun to collate information in other areas in the services sector. The service activities are regulated by the various Ministries and Government agencies and the statistics are based on projects approved by these agencies.

Between January - September 2006, a total of 1,385 projects with investments of RM33.1 billion were approved. Domestic investments were RM29.9 billion or 90.3%, while foreign investments totalled RM3.2 billion or 9.7%.

INVESTMENT OUTLOOK

The sustained inflows of both domestic and foreign investments into the manufacturing, and services sectors, are attributed to the Government's efforts in creating a conducive business environment in Malaysia.

Malaysia's political, economic and social stability have been important considerations for the decision of investors to invest in the country. In addition, the necessary business and investor-friendly policy measures and initiatives, were introduced by the Government to improve the business environment in the country, including:

- implementation of new strategies and fine-tuning of the existing policies based on the feedback from the private sector, both foreign and local;
- improvement in the Government's delivery system;
- intensive marketing of Malaysia as an investment destination in capital exporting countries;
- targeting potential companies in Malaysia and globally;
- reduction in corporate tax from 28% to 27% effective 2007, and to a further 26% in 2008;

  and

- the provision of customised incentives for quality investments proposed by both domestic and foreign investors.

However, the global competition for foreign investments is intense, particularly from countries which offer large markets and an abundant supply of labour. Some of these countries have liberalised their investment regimes and are offering competitive incentive packages. In order for Malaysia to sustain its competitiveness, the Government will ensure that the business environment remains attractive.

A survey carried out by the Malaysian American Electronics Industry in 2006, indicated that many of their member companies plan to continue investing in the country, in the coming years. Some of the reasons cited were:

- existence of modern infrastructure and good international air, sea and cyber linkages;
- excellent external trade ties with most countries;
- relatively low operating costs;
- English speaking workforce and highly skilled workers;
- indirect labour costs being lower than some competing countries;

  and

- the Malaysian workforce has higher operational competencies to enable companies to increase their production quickly and to make adjustments to respond to market demands.

More Malaysian American Electronics Industry companies have chosen to shift their Design & Development operations to Malaysia, because of the incentives offered and the ability to move their operations up the value chain. The Research & Development expenditure by member companies of the Association is estimated at RM1.2 billion for 2006.

The Prime Minister's recent decision to establish the 23-member task force is an indication of the Government's seriousness to expedite reforms in the public delivery system.

The Government's decision to establish an Immigration branch in MIDA would facilitate the issuance of work permits to expatriates working in Malaysia. The establishment of the Cabinet Committee on Investments, chaired by the Honourable Deputy Prime Minister, is another initiative of the Government to ensure that high-impact projects, which require consideration by several ministries and agencies, are approved quickly and without any bureaucratic delays.

Aggressive efforts will be undertaken by the Government to attract foreign investors, and the Trade and Investment Missions planned for 2007 will again cover the US, Europe, East Asia and Australia. In addition, MIDA through its global network of offices, and with the cooperation of other relevant agencies, will target potential companies to persuade them to invest in Malaysia.

The IMP3 has outlined the strategies and targets for the development of the manufacturing and services sectors. The investment target for the manufacturing sector is RM412 billion or RM27.5 billion per annum for the IMP3 period, while the investment target for the services sector, is RM688 billion or RM45.9 billion per annum.

In this context, the Government has approved the creation of three divisions in MIDA covering the Logistics Industry, Regional Establishments and Business and Professional Services, to enable MIDA to undertake the promotion of these service activities.

As recommended by the IMP3, the Government has also established the Malaysian Services Development Council, and the Malaysian Logistics Industry Council to coordinate the development of these sectors. MIDA is the Secretariat for both these Councils.

The Government will continue with its efforts to promote investments in the targeted sectors and services activities. The task ahead is challenging, and therefore the coordinated effort of all the Ministries and departments, and State Governments is necessary, if Malaysia is to maintain its competitiveness and continue to receive high levels of foreign and domestic investments.

The proactive efforts of the private sector in providing feedback to the government, will also assist in improving the public sector's delivery system, and in formulating effective policies and measures for the benefit of the business community.

APPENDIX

<u>BREAKDOWN OF INVESTMENTS APPROVED BY MAJOR SECTORS</u>

Projects approved were mainly in the following industries:

Industry	2006	2005
	(RM billion)	
• Petroleum products (incl. Petrochemicals)	11.4	0.7
• Electronic and electrical Products	10.0	13.8
• Chemical and chemical products	9.1	1.7
• Basic metal products	2.7	3.2
• Food manufacturing	1.6	1.5
• Transport equipment	1.4	1.4
Total	36.2	22.3

DOMESTIC INVESTMENTS

Projects approved were mainly in the following industries:

Industry	2006 (RM billion)	2005 (RM billion)
• Petroleum Products (incl. petrochemicals)	10.8	0.6
• Chemical & chemical products	6.1	0.9
• E&E products	1.4	2.5
• Transport equipment	1.2	0.9
• Food manufacturing	0.7	0.9
• Fabricated metal products	0.7	0.5
Total	20.9	6.3

APPROVED INVESTMENTS BY
<u>SUB-SECTOR IN THE SERVICES SECTOR</u>

Sub-Sector	Jan-Sept. 2006 (RM billion)	Jan-Sept. 2005 (RM billion)
• Real Estate(Housing)	13.8	21.8
• Transport	4.8	11.0
• Financial Services	3.3	3.3
• Energy	3.6	9.3
• Telecommunications	3.0	4.8
• Distributive Trade	2.5	1.7
• Hotels & Tourism	2.1	2.2
• Health Services	0.1	0.02
• Education Services	0.06	0.02
Total	33.1	54.2

LIST OF SELECTED MANUFACTURING AND RELATED SERVICE PROJECTS APPROVED IN 2006

Petroleum products (incl. Petrochemicals)

Major projects approved included:

- SKS Development Sdn. Bhd. which is building a new crude petroleum refinery with a capacity of 200,000 barrels per day. Total investment for this project is RM7.68 billion.

- Petronas Methanol (Labuan) Sdn. Bhd., with investments of RM2.04 billion, is expanding its production capacity of methanol.

- Toray Plastics of Japan with an additional investment of RM450 million to expand their production of acrylonitrile-butadiene-styrene (ABS) resin with the introduction of speciality grades of this engineering plastic.

Electronic and electrical products

Significant projects approved were:

- A new Malaysian and Singaporean joint venture project by DSEM Systems Technology Sdn. Bhd., with investments of RM482.5 million to manufacture thermal substrate for semiconductors. The project would also involve substrates R&D.

- A new project with investments amounting to RM125 million by Laird Technologies (M) Sdn. Bhd. for design, development and production of wireless transmission and communications equipment.

- A new project with investments totalling RM121.6 million by Christel Technologies (M) Sdn. Bhd. to undertake design, development and production of global system mobile (GSM) system equipment and voice over internet protocol (VoIP) system equipment.

- An expansion project by STMicroelectronics Sdn. Bhd. with investments of RM1.5 billion to produce advanced packaged ICs. The company started its operations in 1976 and to date the total investment has reached RM4.1 billion.

- An expansion project by Fuji Electric (Malaysia) Sdn. Bhd. with investments of RM1.3 billion to produce thin-film magnetic disks and polished substrates for hard disk drives.

- An expansion project by Penang Seagate Industries (M) Sdn. Bhd. with investments totalling RM790 million to manufacture advanced magnetic recording devices, perpendicular magnetic recording (PMR) heads.

- An expansion project by Dyson Manufacturing Sdn. Bhd., a UK-based company, with investments amounting to RM489.7 million. The company outsources its manufacturing operations to local manufacturers and will expand its virtual manufacturing capability to include design, development and manufacture of cyclonic vacuum cleaners.

- An expansion project by Smart Modular Technologies Sdn. Bhd. with investments totalling RM249.9 million to produce memory and communication devices. A subsidiary of Smart Modular Technologies Inc., USA, the company undertakes designing, manufacturing, testing and delivering both standard and custom modular technologies in memory and communication product solutions.

- An expansion project by Plexus Manufacturing Sdn. Bhd. with investments of RM245 million to produce PCB assemblies, and manufacture of telecommunication including networking equipment and medical devices.

Chemicals and chemical products

Among the significant projects approved were:

- CCM Agriculture Sdn. Bhd., a Malaysian-owned company with investments of RM77 million to produce compound fertilisers.

- 83 bio-diesel projects were approved with investments amounting to RM7.6 billion.

Basic metal products

Major projects approved were:

- A new wholly foreign-owned project by Grange Developments Sdn. Bhd. with investments amounting to RM2.1 billion to produce iron ore pellets. This is the first project of its kind in Malaysia.

- A new majority foreign-owned project by Metalysis Malaysia Sdn. Bhd. with investment totalling RM60 million to manufacture super capacitor grade tantalum powder.

Machinery manufacturing

- Euromould Sdn Bhd, a subsidiary of Simoldes Group of Portugal, one of the automotive mould makers, with investments of RM352.5 million will produce large plastic injection moulds of 10-100 tonnes in weight.

- Entegris (Malaysia) Sdn Bhd, an expansion/ diversification project, with investments of RM150 million, was approved to manufacture filters and purifiers to prevent liquid and gas micro contamination used for wafer fabrication processes.

- Muehlbauer Technologies Sdn Bhd, a German company which is the world market leader in providing complete turnkey solutions in the smart identification industry will invest RM63.4 million to manufacture machinery and equipment for the semiconductor industry, smart card identification and document industry and smart label (RFID) industry.

- Pentamaster Instrumentation Sdn. Bhd., an expansion/diversification project, with investments of RM43.5 million, to develop and produce test and measurement system for the E&E industry.

Specialised M&E for oil and gas industry

- Cameron International Systems Sdn Bhd, wholly owned by Cooper Cameron Holding (Cayman) Limited from USA, with investments of RM70.5 million, to manufacture, install and commission subsea wellheads, christmas trees, connection systems, manifolds and toolings. The Malaysian manufacturing facility will be the regional production hub for subsea systems for the Cameron Group in Asia.

- AJ Petroleum Sdn. Bhd, a Malaysian-owned project, with investments of RM36.1 million to manufacture valves, surface wellheads and christmas tree, down hole toolings and equipment for oil and gas industry.

Regional establishments

Operational headquarters (OHQs)

- Eppendorf AG from Germany in the life science industry and a global leader in the manufacture and supply of specialised research tools and devices has selected Malaysia as the preferred location for the coordination of its Asian activities.

- The SBM Group from Switzerland has established an OHQ in Malaysia to support its oil and gas operations in America, Netherlands and Switzerland. SBM is a pioneer for Single Point Mooring (SPM) systems, dynamically positioned drilling vessels, jack-up drilling rigs and heavy offshore cranes.

- The Aker Kvaerner Group, which is a Norway-based global provider of engineering and construction services, technology products and integrated solutions, to set up a coordination centre and a "one-stop source of solution" to provide a wide range of common services to its related entities in Singapore, Thailand, Indonesia, Australia and Malaysia.

- Nippon Electric Glass, a world leader in the production of high technology specialised glass products, has relocated its OHQ from Japan to Malaysia to provide value-added services to its related entities in UK, Indonesia and PRC.

- IBA Health (Asia) Sdn. Bhd., a subsidiary of IBA Health Ltd. from Australia is the largest health information technology company in Asia, Middle East and Australasia.

- Volvo Car Malaysia Sdn. Bhd. has upgraded its Regional Office in Malaysia to an Operational Headquarters.

International procurement centres (IPCs)

- Titan Trading Corp. Sdn. Bhd., a subsidiary of Titan Chemical Corp. Bhd., a manufacturing entity in Malaysia, involved in the production of polymer products has established an IPC to consolidate its procurement and distribution activities in the region.

- MC Palm IPC (Malaysia) Sdn. Bhd., a new establishment set up by the largest sogo shosha in Japan i.e. Mitsubishi Corporation, to takeover the IPC functions from its related entities in Singapore and Japan for the procurement and distribution of palm oil and palm kernel oil.

Regional distribution centres (RDCs)

- EPCOS AG from Germany, which is a market leader in Europe and number two in the world for passive electronic components, has relocated its distribution centre from Singapore to Malaysia. This RDC will coordinate distribution activities for it operations in Germany, Austria, Singapore, Hong Kong, PRC and the USA.

- The Acerinox Group, which is the third largest steel producer in the world, will consolidate and distribute its Group's stainless steel products to the Asia Pacific Region.