MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY

MEDIA RELEASE

EMBARGOED UNTIL 2 MARCH 2017, 3.00 PM

MALAYSIA SUSTAINS INVESTMENT GROWTH MOMENTUM
Approved Investments Worth RM207.9 billion in 2016

"The global economic landscape is undoubtedly more challenging. Headlines continue to highlight on the slowdown in world economies which led to weak aggregate demand, volatile international financial markets, subdued commodity prices, uncertain economic policies and more intense regional competition, among others. Despite these challenges, Malaysia continued to sustain its investment growth momentum in 2016," said Dato' Sri Mustapa Mohamed, YB Minister of the International Trade & Industry (MITI).

Malaysia has been more selective in its investment agenda, preferring quality projects in targeted ecosystems that will have significant knock-on effects throughout the domestic economy. In 2016, the country attracted RM207.9 billion in total approved investments that will fund 4,972 projects in the manufacturing, services and primary sectors. These are expected to create 153,060 job opportunities for the country.

The ratio of foreign and domestic investments is also in line with the Government's aspiration for domestic investments to assume the pivotal role of driving Malaysia's investment agenda, with 71.6% (RM148.9 billion) being contributed by domestic sources and 28.4% (RM59.0 billion) coming from foreign sources. Foreign investors continue to capitalise on uniquely Malaysian ecosystems and its regional synergies as foreign direct investments (FDI) increased by 63.4% from RM36.1 billion in 2015.

Developed economies continued to be an important source of investments into Malaysia. The leading sources of foreign investments in 2016 were the USA, the Netherlands, China, Japan, Singapore, Republic of Korea and the UK. These seven countries jointly accounted for 55.8% of total foreign investments approved in the manufacturing, services and primary sectors.

<u>Manufacturing Sector</u>

Malaysia continued to attract healthy levels of investments in the manufacturing sector amid the uncertainties of the global economic environment. A total of 733 manufacturing projects with investments of RM58.5 billion were approved by MIDA in 2016, compared with 680 projects with investments of RM74.7 billion in 2015.

Despite the decline, it must be noted that the higher amount of investments recorded last year was primarily attributed to two major projects approved then namely the PETRONAS

Refinery and Petrochemical Corporation (PRPC)'s project in Johor and LNG9's project in Sarawak which totalled RM35.3 billion.

In terms of value of investments approved, Johor received the largest amount, followed by Selangor, Sarawak, Penang and Perak. MIDA's efforts since the early years, in collaboration with the relevant agencies, contributed to the increased investments in these states. Each state has its own unique comparative and competitive advantages. In deciding a specific location of a project, investors will choose a location that best fit the needs and suitability of their overall business strategies. This includes the availability of a comprehensive investment ecosystem and strong supporting industries in the area.

A significant portion of approved investments by MIDA was in capital intensive projects. In 2016, there were 85 projects which recorded investments of RM100 million or more, bringing in a combined total of RM47.6 billion or 81.4% of the total investments approved in the manufacturing sector. Of these, 10 projects were investments of at least RM1 billion and above. These projects were mainly in petroleum products including petrochemicals, basic metal products, natural gas, electronic and electrical (E&E) products, food manufacturing and transport equipment.

"All these projects will have substantial multiplier effects on the manufacturing sector and the economy, including forward-and-backward linkages, the development of supporting industries, the transfer of new technologies and R&D, the creation of employment opportunities, local sourcing, skills development, and the generation of foreign exchange earnings," said YB Dato' Sri Mustapa.

The manufacturing projects approved in 2016 are expected to create employment opportunities for 64,120 people. Major industries which require the most skilled manpower are transport equipment, E&E products, fabricated metals products, machinery & equipment, plastic products and non-metallic mineral products. This includes job opportunities for plant maintenance supervisors, tools and die makers, machinists, IT personnel, quality controllers, electricians and welders.

"In progressing towards an advanced nation, highly skilled manpower is a vital asset. Efforts are being undertaken to enhance the quality of human capital. Under the 11th Malaysia Plan, more students will be pursuing technical and vocational education and training (TVET). MITI through MIDA collaborates and forms smart partnerships with relevant stakeholders and leverages on existing talent development programmes to assist based on their needs," said YB Dato' Sri Mustapa.

While the value of approved domestic investments in the manufacturing sector dropped by 41.1% to RM31.1 billion, foreign investments in the manufacturing sector registered an increase of 25.1% to RM27.4 billion in 2016. China was the manufacturing sector's biggest investor last year, followed by the Netherlands, Germany, UK and the Republic of Korea. These five economies jointly accounted for 56.1% of the total foreign investments approved within the sector. Significant projects from China include those within the steel, non-metallic mineral and solar industries. The investments from the Netherlands, Germany, UK and the Republic of Korea include several high value chemical and petrochemical projects as well as projects to manufacture advanced electronic products.

With the addition of the projects approved in 2016, the total number of manufacturing projects approved during the five-year period of 2012 to 2016 now stands at 3,815, of which 3,132 have been implemented. These implemented projects have created 292,745 job opportunities for the country.

As at 31 December 2016, 3,010 of the total implemented projects are in production with the rest still under construction or final machinery installation. Total capital investment in these implemented projects amounted to RM207.7 billion. A further 41 projects with investments of RM7.9 billion have acquired sites for factories, while 430 projects (RM44.9 billion) are in the active planning stage. When these 471 projects are realised, total investments in these manufacturing projects will amount to RM52.8 billion.

<u>Services Sector</u>

Malaysia's services sector continues to expand in 2016 and attracted 4,199 projects with approved investments of RM141.2 billion. These approved projects are expected to create 88,110 job opportunities. On a year-on-year basis, approved investments in the services sector last year increased by 23.3%. Domestic investments led with RM112.9 billion, while foreign investments totalled RM28.3 billion.

The major sources of foreign investments in the services sector in 2016 were the USA (RM6.8 billion), Hong Kong (RM1.9 billion), Japan (RM1.8 billion), Singapore (RM1.2 billion) and the Netherlands (RM0.9 billion).

Although the real-estate subsector continued to lead with RM64.1 billion worth of investments approved, key sub-sectors with relatively high value added activities such as the global establishments, financial services, information technology and telecommunications, and support services also recorded good growth.

As one of the well-connected economies, Malaysia is well positioned to become the regional or global operations base for multinational companies (MNCs). Recognising this, more MNCs have adopted Malaysia's Principal Hub (PH) model which allows faster decision making and supports evolving supply chain trends. In 2016, MIDA approved 13 new PH projects with investments of RM13.8 billion which will involve the creation of 1,980 high value jobs. The approvals include Ansell Global Trading Centre, IMI Engineering, Nestrade, IOI Corporate Service and McDermott Asia Pacific.

The banking segment remained the largest contributor to the financial services sub-sector, led by conventional banking activities. In relation to investments in the information technology and telecommunications sub-sector, 756 projects with investments of RM12.4 billion were approved last year. These projects, particularly in 336 approved MSC status companies, will require 18,170 highly skilled and knowledge based workers.

In 2016, support services projects with tax incentives approved rose by 156.3% to RM9.4 billion. The significant increase was due to the many large investments that were approved for green technology activities and integrated logistics services (ILS). One of the notable green technology projects that was approved is Hong Kong-based Xinyi Energy Smart that will undertake a solar energy project in Melaka. The company targets to generate energy capacity of 12.0MW for its glass manufacturing operations.

For ILS approved projects, most companies are moving towards integrated operations, ICT-driven innovation (e-commerce), and providing specialised logistics services to support various industrial sectors such as oil & gas and the petrochemical industry. A total of 6 ILS projects was approved in 2016. These projects will incur RM672.6 million in investment and create 765 job opportunities. ILS projects approved last year include Steinweg Malaysia, Infinity Logistics & Transport and YCH Logistics Malaysia.

“The services sector helps optimise the efficiency of other sectors in the country. Global establishments and end-to-end supply chain management services, for example, are fast becoming important components in the nation’s economy. These services will increase trade efficiency and the competitive advantage for Malaysian industries,” said Dato’ Sri Mustapa.

Primary Sector

The approved investments in the primary sector increased by 116.7% from RM3.8 billion in 2015 to RM8.2 billion in 2016. The mining sub-sector led with approved investments of RM7.6 billion in 19 projects, mainly from the oil and gas exploration activities. This is followed by the plantation and commodities sub-sector with investments of RM542.7 million, and the agriculture sub-sector making up the rest of approved investments. Investments from domestic sources totalled RM4.9 billion or 59.7% while foreign investments contributed RM3.3 billion or 40.3%.

Going Forward

“This year will continue to be a challenging year for Malaysia. Despite the rising protectionist sentiments from several countries, Malaysia still remain positively open for high quality FDI that meet our aspirations of becoming a developed economy. FDI has been critical in creating jobs, developing a skilled workforce, and nurturing the growth of local companies. The diffusion of knowledge across the value chain from foreign MNCs creates spillover benefits and synergies for additional new products and services for local companies,” said YB MITI Minister.

Dato’ Sri Mustapa also highlighted that Malaysia is enhancing the investment ecosystem within the manufacturing and services sectors to facilitate future growth. This means that local companies must either move up the value chain or diversify into other lines of businesses. Therefore, companies especially local players are urged to invest in automation technologies or R&D to avoid the consequences of shrinking margins and labour issues.

“As small and medium enterprises (SMEs) make up about 97% of the total establishments in Malaysia, the Government will continue to support domestic companies including SMEs by providing platforms to encourage business collaborations with foreign companies and MNCs operating in the country. This is one of MITI’s major focus areas for this year,” concluded the Minister.

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