

# MIDA SPEARHEADS DOMESTIC INVESTMENT IN MALAYSIA

In Q1 2021, Malaysia saw RM80.6bil worth of approved investments in the manufacturing, services and primary sectors



THE Malaysian Investment Development Authority (MIDA) continues to intensify efforts to secure sustainable investments from both domestic and foreign sources to strengthen the nation's economic growth.

The establishment of MIDA in 1967 was hailed by the World Bank as "the necessary impetus for purposeful, positive and coordinated promotional action" for Malaysia's industrial development.

In line with the Government's aspiration, MIDA being the Government's principal investment promotion agency under the International Trade and Industry Ministry has put in place a comprehensive and competitive facilitation and investment incentive schemes to attract more high quality investments – both foreign direct investment (FDI) and domestic direct investment (DDI) – into the country.

The role of domestic investments in the growth of the industrial development of Malaysia is not to be underplayed as outlined in the five-year Malaysia Plans and the Industrial Master Plans.

Strategic measures to strengthen domestic investments in these economic transformation plans include:

- > Identifying potential companies as Malaysian conglomerates.

- > Motivating multinational corporations (MNCs) operating in Malaysia to harness outsourcing opportunities for Malaysian companies.

- > Intensifying technology acquisition support for Malaysian-owned companies.

- > Scaling-up local companies to achieve international standards/certifications compliance.

In the past few years, efforts to channel DDI-led investments into the economy have yielded positive results.

## Uprising DDI

Last year, Malaysia approved RM167.4bil worth of investments in the manufacturing, services and primary sectors for 4,756 projects to create 114,676 jobs.

DDI accounted for the majority share of 61.6%, or RM103.2bil, while FDI made up the remaining RM64.2bil.

In the services sector, DDI capped 90.6% of total approved investments, contributing RM63.5bil.

As for the manufacturing sector, DDI saw a leap of 22.6% to RM34.7bil, compared with the corresponding period in 2019.

In the first quarter of 2021, Malaysia saw RM80.6bil worth of approved investments in the manufacturing, services and primary sectors – a surge of 95.6% from the same period last year.

These involved 993 projects which are expected to generate 32,557 jobs. DDI was RM25.7bil, contributing 31.9% of the total approved investments in all three sectors.

## DISF the growth spark

The Domestic Investment Strategic Fund (DISF), established in July 2012, formed the main catalyst for Malaysian-owned companies to venture into high technology and innovation-based products and activities.

As of June 30, 2021, MIDA has approved DISF grants up to RM2.2bil for 435 projects with an investment value of RM19.1bil.

Local companies are exploring higher quality projects and progressively transforming the domestic investment landscape.

The DISF has helped domestic companies in the transfer of technology, increase in exports, crea-



MIDA facilitates business matching sessions.



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tion of high value jobs and access to new markets – as proven by local companies such as Ceedtec Technology, Nashmir Holdings, TT Vision Technologies, JCY Engineering, Dominant Opto Technologies and VisDynamics.

## Joining the global value chains

Domestic small and medium-size enterprises (SMEs) in the manufacturing and manufacturing-related services sectors play major roles in building the nation's industry ecosystem – geared to support large companies and MNCs.

MIDA constantly engages local service providers and SMEs in business-linkage programmes with MNCs and large local companies. In 2020, it organised 15 programmes with MNCs/anchor companies and 96 local vendors through five supply chains, seven vendor developments and three lighthouse facilitation programmes. These collaborations resulted in close to a total of RM2bil worth of local sourcing tie-ups.

These continuous engagements are part of the support platforms organised by MIDA, apart from quarterly domestic investment seminars to update industry players on the government's latest incentives and facilitation in promoting DDIs.

This year, MIDA continues its initiatives through domestic investment virtual seminars, engagement with national associations and chambers of commerce, industry linkage/supply chain programmes and domestic investment coordination platform commitments.

It also coordinates various business-matching sessions between anchor companies and potential local suppliers/providers within specific industries, apart from networking arrangements for compa-

nies and potential funders, and technology providers.

The successes of these initiatives are reflected on the MNCs that have successfully established vendor development and supply chain management framework with local companies and suppliers.

The large corporations are also building up the local supply chain capability to ensure smooth operation set-ups and stable business contracts.

Examples of MNCs' achievements in advancing local companies' DDIs include:

### > Medical devices industry:

More than 30 MNCs producing high value-added medical devices in Malaysia have benefitted about 200 local SMEs in the medical device supply chain and ecosystem. Companies such as B.Braun Medical Industries have established a strong presence in the local market through its supply chain. Major homegrown players including Abio Orthopaedics Sdn Bhd, Straits Orthopaedics (Mfg) Sdn Bhd, Vigilenz Medical Devices Sdn Bhd, Granulab (M) Sdn Bhd, Hospitech Manufacturing Services Sdn Bhd and OSA Technology Sdn Bhd have also established viable sourcing from other local suppliers in the overall advancement of the industry in Malaysia.

> **Dyson Ltd:** This British-based producer of high-tech home appliances in Johor has injected billions of ringgit into the local economy by outsourcing its production to local contract manufacturers such as VS Industry, SKP Resources and ATA. In doing so, Dyson shared knowledge, skills and technology with its local suppliers to meet its high quality standards. Over 15 million Malaysian-made bagless vacuum cleaners produced have been exported to more than 75 countries worldwide. Some of its initial local suppliers have even expanded and



Arham Abdul Rahman, MIDA CEO

transformed into large, public-listed companies.

> **Lotte Chemical Titan:** As the largest integrated producer of olefins and polyolefins in Malaysia, the company spends more than RM200mil annually for outsourcing activities within Malaysia. It engages more than 500 local vendors and business partners in its globally growing production.

On the other hand, large Malaysian companies such as Petronas, YTL, Sime Darby, UEM, TF-AMD and Proton are increasing their support for local companies through business outsourcing in the services, manufacturing and construction sectors for the domestic and foreign markets.

Examples of some Malaysian companies that have attained high level manufacturing status and ramping up domestic chain capacity are:

> **Pentamaster Corp:** This home-grown automated equipment manufacturer involved in the Penang Automation Cluster project has groomed SMEs to produce high-quality precision machine

parts. The company also joint ventured with two local companies – Walta Group and ViTrox Corp – in this automation cluster initiative to strengthen the domestic supply chain.

> **Salutica Allied Solutions Sdn Bhd:** Started its primary business of manufacturing precision plastic parts in 1980. The company was transformed into a full-fledged vertically integrated electronics manufacturer offering products ranging from Bluetooth car kits, headsets, smart watch, touch pads, and light guides. In 2021, MIDA provided support for Salutica to enable the miniaturisation of hearables and encapsulation of micro-electronics on a whole new level. Salutica is further enhancing its core technology to deliver cutting edge products and hopes to be a catalyst for local talent growth, helping young aspiring graduates gain experience in the field of technology and high precision manufacturing.

### > ViTrox Technologies Sdn

**Bhd:** Invested more than 12% of its revenue in research and development (R&D) activities over the last 10 years. It is one of the top global players in automated advanced vision inspection solutions serving back-end semiconductor and electronics assemblies industries.

Having embarked on technological innovation and digital transformation, ViTrox stresses on the growing demand for talents for jobs of the future related to science, technology, engineering and mathematics (STEM).

### > Globetronics Technology

**Bhd:** An integrated contract manufacturer of semiconductor-based products and services. Started operations in 1990 in a rented factory in Penang under the name Globetronics Sdn Bhd with two Malaysian founders as the only employees to service manufacturing contracts from Penang-based MNCs. The company has since grown by 30% each year and today, it is listed on the Main Board of the Kuala Lumpur Stock Exchange.

One of the most important impacts within the development of domestic supply chain businesses is the quality job opportunities for local graduates. The electrical and electronics (E&E) sector took the lead to boost DDIs, contributing 6.3% to the country's GDP and employing more than 800,000 employees out of the 2.3 million manufacturing workforce in 2019.

## MIDA ramps up the DICP

MIDA's efforts in stimulating domestic investments translated into the formation of a dedicated unit called the Domestic Investment Coordination Platform (DICP) which aims to bridge businesses and funding, technologies and research capability.

The DICP team works closely with local regulators, technology providers and financial institutions (including equity and corporate advisory firms) to facilitate SMEs and mid-tier local companies to grow their businesses, driving higher value-add and quality DDIs in the country.

The team engages R&D institutions for investors and manufacturers to commercialise R&D findings. Business-to-business facilita-





The Government's support through the Industry4WRD Readiness Assessment initiative and its subsequent Intervention Fund enable domestic companies to embrace early adoption of Industry 4.0.

tion is teamed up further in organised forums to promote alternative financing, with financial institutions, equity and venture capital firms.

Despite the challenges of 2020, the DICP achieved some successful collaboration such as:

- > The signing of an MoU between BiON Sdn Bhd – an environmental engineering and renewable energy solutions provider – and SIRIM Tech Venture (STV). STV and BiON established a technical cooperation in the production of compressed biogas and related systems, and potential projects related to waste-to-energy.

- > Acquisition of a 30% stake or 1.929 million ordinary shares of Malaysian home-grown fintech start-up Neurogine Sdn Bhd that specialises in digitalisation of banks, providing mobile banking, mobile payment and digital asset solutions, by Hadigy Limited, an investment holding company based in Britain.

- > Development of a solar project by a local engineering, procurement, and construction (EPC) company through a joint venture with a foreign company.

- > Adoption of digital technology and e-commerce platform by a local SME through collaboration with a local fintech/digital technology provider. The collaboration has enabled the SME that specialises in beauty and home improvement products to easily keep track of its product inventory, sales performance and delivery orders.

Virtual meetings and online discussion are ongoing to connect partnerships to increase achievements such as:

- > **Financing and equity funding:** New projects (six companies), expansion (six companies)

- > **Road to IPO:** ACE Market (one company), Leap Market (one company)

- > **Business acquisition/liquidation:** Acquisition (two companies), liquidation (six companies)

- > **JV partnership:** Three companies

- > **Technical collaboration:** Two companies

- > **Development of business ecosystem:** Two companies

### Embracing Industry 4.0 tech

Domestic companies should keep stride with global manufacturing practices, given the rapid technological advancements in every field. Malaysia's Industry4WRD policy remains an excellent guide as the Government's support through the Industry4WRD Readiness Assessment initiative and its subsequent Intervention Fund enable domestic companies to:

- > Assess their capabilities and readiness to adopt Industry 4.0 processes.

- > Understand their present capabilities and gaps.

- > Prepare feasible plans for

effective adoption of Industry 4.0.

These moves represent the first step for companies in Malaysia to prepare for the rapidly changing technological landscape while developing new growth areas.

The Automation Capital Allowance (Automation CA) has become a sought-after incentive programme by domestic companies motivated to undertake automation and machine upgrading.

As at July 1, 2021, 414 companies have been approved for Automation CA in the fabricated metal products, textiles and textile products plastic products, wood and wood products and food manufacturing industries.

Among the attractive incentives introduced by the Government under Penjana is the Smart Automation Grant (SAG) to support local players in adopting new processes.

The Government has allocated RM100mil to assist SMEs and mid-tier companies (MTCs) to automate or digitalise operations.

Under the scheme, eligible companies will be given a grant on a 1:1 basis based on eligible expenditure, up to a maximum of RM1mil per company.

As at June 30, 2021, the SAG approval committee has approved 77 companies with matching grants amounting to RM48.5mil, whereby 86% of the recipients were SMEs mainly from labour-intensive industries such as plastics, wood, furniture and textiles industries, while the rest were from services-related industries.

### Lighthouse Project

Another interesting concept is the Lighthouse Project whereby MNCs and local corporations which have successfully gained from IR4.0 transformation will guide, facilitate and support local manufacturing industries to also venture into Industry 4.0 processes.

Both foreign and local companies are provided with Government support to customise facilities in establishing linkages and encourage local vendors to advance into Industry 4.0.

For this ongoing effort, MIDA is initiating discussion and webinar sessions with industry players, potential investors, international chambers of commerce and industry, and associations such as the National Chamber of Commerce of Industry of Malaysia (NCCIM), British Malaysia Chamber of Commerce, and European Union Chamber of Commerce in China.

Initial interest has been conveyed by nine MNCs and 10 local companies to explore the Lighthouse initiative.

### Promoting digital investment

The Malaysia Digital Economic Blueprint (MyDigital) is expected to create 500,000 jobs and contribute a share of 22.6% to Malaysia's GDP

## NIA WILL SERVE AS THE FOUNDATION FOR POLICY COHERENCE AND ENSURE INSTITUTIONAL SYNERGIES



Under the Lighthouse Project, MNCs and local corporations which have successfully gained from IR4.0 transformation will guide, facilitate and support local manufacturing industries to also venture into Industry 4.0 processes.

by 2030, among others through higher digital literacy, high income jobs, improved banking and finance, better digital access to education and medical services.

The initiative is set to draw in RM70bil in international and domestic digital investments by 2025, supported by a five-year national digital infrastructure plan (jendela) to strengthen existing connectivity, including international submarine cable network and the implementation of the 5G network.

Striving towards the Fourth Industrial Revolution (4IR), the Blueprint covers manufacturing, services, construction and agriculture, blending in green and circular economies, while placing importance on professional services and information and communication technology (ICT).

In April this year, a Digital Investment Office (DIO) started operations to facilitate digital investment in Malaysia. The Government has entrusted MIDA and the Malaysian Digital Economy Corporation (MDEC) to coordinate and facilitate all digital investments through a fully digital collaborative platform, Malaysia Heart of Digital ASEAN (MHODA).

The platform will streamline and expedite investment applications with respective stakeholders and align decision on tax incentive packages and facilitate the approved projects. Domestic players, including SMEs, are encouraged to embrace digitalisation to stay competitive.

### FDI elevates DDI

FDI has a paramount role in Malaysia's emergence as a dynamic industrialising nation. The substantial inflows of FDI have positively impacted the economy in terms of contribution to GDP growth, trade and balance of payments, capital formation, employment, creation of high-income jobs, productivity and efficiency.

More importantly, there will be spill-over effects such as transfer of technology, establishment of new local companies supplying to MNCs, expansion of supporting industries, collaboration programmes with local companies and institutions of higher learning, development of the services and e-commerce sector, and benefits to utilities providers.

The positive investment growth for Q1 2021 was driven by the robust performance of the manufacturing sector, with approved investments of RM58.8bil from 246 manufacturing projects.

It is important to note that amid the pandemic, FDI accounted for 88.9% or RM52.3bil of the total approved investments in the manufacturing sector.

MIDA continues to target FDI's which relate strongly to sectors such as aerospace, machinery and equipment, IC design, advanced electronics; advanced materials; fine chemicals; renewable energy such as photovoltaic; optics and photonics; display technology; petrochemical; pharmaceutical, medical devices and food security.

### Keeping track

On March 26, 2021, MIDA launched a new structured online application submission via the InvestMalaysia portal. This is an e-TRANS system initiative by MIDA to digitalise application submissions and evaluation processes to facilitate current and future investors.

Efforts to assist investors was further heightened by the establishment of the Project Acceleration and Coordination Unit (PACU) in MIDA to facilitate various approval processes by stakeholders, utility agencies and authorities, including at State levels to ease the implementation of approved manufacturing projects.

PACU strengthens the links among domestic companies, as MIDA is familiar with the business requirements across post project-implementation issues which involve talent needs, sourcing of local components and engineering supporting industries.

### The way forward for DDI

Since March 2020, the Government has implemented decisive measures revolving around the 6R Strategy (Resolve, Resilient, Restart, Recovery, Revitalise and Reform) to support the people and businesses in facing the Covid-19 pandemic.

Stimulus packages such as Prihatin, Prihatin SME+, Penjana, Kita Prihatin, Permai, Pemerkasa and Pemulihan are being rolled out for economic recovery.

After decades of investment promotion and facilitation track record, MIDA will assume a more prominent role in the National Investment Aspiration (NIA) institutional reforms and policy coherence (see graphic).

This is to attract quality investments, increase productivity, innovation and R&D targets; extend domestic linkage, create high value jobs and improve inclusivity in socio-economic diversity.

MIDA strives to engage both foreign and domestic industries toward a sustainable business environment in the firm belief that the ecosystem approach is the best way to retain investors and encourage companies to grow in Malaysia.

**Companies can reach out to MIDA's offices in all states and major cities globally. For more details, go to [www.mida.gov.my](http://www.mida.gov.my).**