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MALAYSIA CONTINUES TO BE THE INVESTMENT DESTINATION FOR HIGH-VALUE MANUFACTURING AND GLOBAL SERVICES IN ASIA

Kuala Lumpur, 8 February 2021 - The recent report by The Straits Times of Singapore on 5 February 2021 regarding foreign investors fleeing Malaysia is incorrect. The piece falsely indicates that the United Nations Commission on Trade and Development (UNCTAD) report confirmed what has been spoken of anecdotally.

The UNCTAD report estimated that Global Foreign Direct Investment (FDI) flow fell by 42 per cent to an estimated USD859 billion in 2020 compared to USD1.5 trillion recorded in 2019. Almost all regions reported lower FDI in 2020 which were mainly due to the impact of lockdowns and a drastic decrease in the economic activities during the COVID-19 pandemic. The FDI flows to developing economies decreased by 12 per cent. FDI into South East Asia contracted by 31 per cent due to a decline in investments to the largest recipients in the sub-region; inflows in Singapore fell by 37 per cent, Thailand by 50 per cent, Indonesia by 24 per cent, Vietnam by 10 per cent, and followed by Malaysia by 68 per cent. Notably, the computation of FDI flows by UNCTAD is based on Balance of Payment (BOP) statistics, published by respective countries in the context of net FDI flows.

<u>Lower net FDI inflow is not an unfavorable signal. Malaysia continues to attract high levels of gross FDI</u>

According to the data by the Department of Statistics Malaysia (DOSM) for the period of January-September 2020, the total Gross FDI inflow into Malaysia was valued at RM108.2 billion compared to RM102.3 billion in the same period in 2019, an increase of 5.8 per cent. This is a considerable achievement given the Movement Control Order (MCO) and Recovery Movement Control Order (RMCO) in Q2 and Q3 of last year, respectively. The Gross FDI inflow is also reflective of the high levels of FDI projects approved and implemented in the economy (manufacturing, services and primary sectors) over the last few years. It is noted that the total FDI approved throughout 2018 to September 2020 was valued at RM206.02 billion.

The UNCTAD report estimated the net FDI flow into Malaysia for the whole year of 2020 totalled USD2.5 billion (approximately RM10.1 billion), a decrease of 68 per cent from the previous year's performance. Based on the data from DOSM, Malaysia registered net FDI outflows in Q3, driven by the outflows from debt instruments amounting to RM9.35 billion in the stipulated period. This was reflected in inter-company loan extensions and scheduled loan repayments, which are typical for multinational corporations' (MNCs) operations; as well as the trade credits granted to manufacturing firms, in line with substantial exports, especially in the electrical and electronics (E&E) sector. Notably, Q3 2020 is an exceptional period for the first time since Q4 2009. Meanwhile, equities moderated to RM13.40 billion from RM17.33 billion in January to September 2019, a decrease of 23 per cent compared to the estimated global FDI drop of 42 per cent in 2020.

The net FDI flows are determined by many factors including abnormal disruptions in the global economy which could result in larger repatriations due to loan repayments and borrowings from their HQ and affiliates overseas for the particular year. The decline in 2020 mirrors the situation Malaysia experienced in 2009 after the subprime crisis in the US. MNCs in Malaysia were repatriating higher amounts of their profits for loans repayments and retaining earnings to help their HQ and affiliates faced with financial difficulties. The same can be said for 2020 when the world was hit by the pandemic.

Net FDI flows also indicates the maturity of Malaysia's monetary policy which allows for the repatriation of capital, interest, dividends and profits, which is a prerequisite for a trading nation such as Malaysia. This business-friendly investment policy has also strengthened Malaysia's position as a regional and global supply chain hub. A lower net FDI is not necessarily an unfavourable sign. For example, the E&E Industry which is one of the largest FDI recipients in Malaysia recorded a trade surplus of RM134 billion or 74 per cent of Malaysia's total trade surplus of RM185 billion in 2020. It is the backbone of the manufacturing sector in Malaysia, contributing 39 per cent to total exports and 48 per cent to total manufacturing exports, not to mention the diverse ecosystem and supply chain the industry has created. The FDI stock in Malaysia is prominently high, totalled to RM689.1 billion as at end of September 2020.

Various factors affect business decisions of foreign investors

The Straits Times article highlighted news of Korean automaker Hyundai relocating its Asia-Pacific headquarters from Malaysia to Indonesia and the closure of Panasonic solar panel plants in Malaysia, hence insinuating that Malaysia is no longer an attractive investment location for MNCs. Taking a closer look at the reasons behind these business decisions will illustrate a different truth.

The ASEAN market has been targeted by Hyundai as an alternative market to China. As such, the roles of Hyundai's Asia Pacific regional headquarters (HQ) in Malaysia have expanded and are classified as an incomplete form of HQ due to the absence of a production plant in Malaysia. However, with Hyundai's new manufacturing plant in Indonesia, the new Hyundai HQ is expected to be a fully-formed space with increased production and sales. The lower demand for Hyundai cars in Malaysia also contributed strongly to their relocation decision.

As for Panasonic, the Group has been established in Malaysia for more than 30 years with 22 subsidiaries operating in the country. They are engaged in various activities ranging from manufacturing, research and development (R&D), sales and marketing. The recent announcement is on the closure of one of its subsidiaries in Malaysia producing photovoltaic (PV) or solar panels. This is due to Panasonic Corporation, Japan's decision to discontinue the production of wafers, solar cells and solar modules at its factory, both in Japan and Malaysia. This corporate decision was driven by the declining price of global solar cell market and the increase of raw material costs arising from global expansion by Chinese companies, which would require higher capital investment for Panasonic to remain resilient in the solar business. Malaysia remains the third largest manufacturer of PV-cells and modules in the world, after China and Taiwan. Malaysia currently hosts a comprehensive photovoltaic ecosystem consisting over 250 companies in upstream (wafers and cells) and downstream (inverters and system integrators) activities. Among notable companies in Malaysia include First Solar and SunPower (USA), Hanwha Q Cells

(Korea), Longi, Jinko Solar and JA Solar (China). MIDA has also recently approved a major integrated solar project that will further solidify Malaysia's role in the global PV industry. An announcement on this project will be made soon.

For the whole of 2020, nine existing foreign-owned manufacturing companies with total investments of RM394.3 million in Malaysia had implemented business rationalisation measures. These companies have either closed their business operations in Malaysia or relocated to other countries due to technology disruption that transformed their business landscape and reduction in demand for their products. This investment is a fraction of the total approved investment in the economy for the period January-September 2020.

Growth through complementarity among ASEAN countries

In addition, the recent announcement of tech companies moving into competing countries in the region does not deter Malaysia. There are various factors underlying business decisions to choose an investment destination. This includes low labour costs, large size of the domestic market as well as the availability of mineral resources. While potential investors in the automotive industry are considering setting up their assembly plants in neighbouring countries, Malaysia remains a major producer of semiconductors and sensors for cars. In fact, Malaysia is still at the forefront of the new ICE age (Internal Computed Engine - ICE) that requires semiconductors as the driver of the Electric Vehicle (EV) Industry.

Malaysia being a major supply chain hub in the region would further encourage Malaysian companies and industries to undertake investments to supply technology, products and services to this MNCs investing in ASEAN countries. The FDI inflows into neighbouring countries should not be viewed negatively as Malaysia stand to benefits from the spillover effects of these investments. Malaysia has one of the most comprehensive ecosystem in the region in the electric and electronics (E&E), Machinery and Equipment (M&E), aerospace, automotive, and medical devices industries, to name a few.

Foreign Investors Confidence in Malaysia remains high

The Straits Times also quoted the viewpoint of the head of the EU-Malaysia Chamber of Commerce and Industry (EUROCHAM) on investors' confidence in Malaysia. It is pertinent to note that the views of the CEO of EUROCHAM may not necessarily reflect the views of all its members. The Chamber also does not represent all foreign MNCs operating in Malaysia. As part of our on-going engagements, MIDA has been working very closely with all the International Chambers in Malaysia to assist and facilitate the concerns of their members.

The total approved investment for January to September 2020 and the announcement of major projects in the year signifies the foreign and domestic investors' confidence in Malaysia. Despite the challenging global investment environment due to COVID-19, Malaysia recorded a total of RM109.8 billion worth of approved investments in the economy (manufacturing, services and primary sectors) for the first nine months of 2020. These investments involved 2,935 projects and will create 64,701 jobs opportunities. FDIs accounted for almost 40 per cent (RM42.6 billion). The manufacturing sector attracted the largest portion of approved investments for this period, contributing more than half (59.5 per cent) or RM65.3 billion, followed by the services sector (39 per cent/RM42.8 billion), and the primary sector (1.5 per cent/RM1.7 billion). Investments approved in the manufacturing sector for the period of January to September 2020 saw an increase of 16.6 per cent compared to the corresponding period in 2019. FDI in the manufacturing sector particularly saw an increase of 3.2 per cent to RM39.4 billion. The realisation of these investments over the immediate to medium-term will provide support to economic growth in 2021 and beyond.

In 2020, Malaysia attracted a fair share of multinational corporations including Fortune 500 companies in the high-end and high-technology industries. This includes **LAM Research**, a US global Fortune 500 supplier of innovative wafer fabrication equipment and services to the semiconductor industry that has chosen Malaysia to expand its global footprint by establishing its advanced technology production facility; a new project by **Dexcom**, a US company and leader in continuous glucose monitoring system will be producing their niche offerings in Malaysia; **UCT (Ultra Clean Holdings Inc)**, a US-based Fortune 500 company, a leading developer and supplier of critical subsystems, ultra-high purity cleaning and analytical services, will be setting up their operations primarily for the semiconductor industry; **Smith+Nephew** from the United Kingdom that produces high-tech medical device products including knee and hip implants; **LEM,** a Switzerland-based electrical measurement company that will set up its new production plant in Malaysia to meet the growing demand of its customers in the industrial and automotive sectors; **MusicTribe**, a US-based multinational leader for professional audio products and musical instruments, on the other hand, is leveraging Malaysia to set up an Industry 4.0-driven, fully robotised manufacturing facility in addition to their Principal Hub activities; and the most recent announcement by **SK Nexilis**, a Korean copper foil manufacturer producing electric vehicle batteries.

Existing MNCs also continue to undertake major reinvestments into high-end products and activities in Malaysia, illustrating Malaysia's on-going value proposition to investors. These include **Western Digital**, a US Fortune 500 company and the third largest computer Hard Disk Drive (HDD), Solid State Drive (SSD) and flash memory devices manufacturer in the world, announced their additional investments in Malaysia to design, develop and manufacture media and substrates for HDD; **Intel**, a US Fortune 500 company will bring the latest Advanced Assembly and Test technology to Malaysia, marking a new milestone in the company's 48-year history of investing and partnering in Malaysia; **Wistron**, the Taiwan-based Fortune 500 company engaged in the R&D, design, manufacture of E&E products has acquired Western Digital's Petaling Jaya factory to undertake new business activities; **Bosch**, an existing German Fortune 500 company is setting up a manufacturing facility park for testing of semiconductor components and sensors; **B.Braun**, a German based company, expanded its global test centre for medical devices due to strong talent capability in Malaysia; **Nippon Electric Glass (NEG)**, a leading Japanese manufacturer of specialty glass has also expanded their production capacity of glass tubing for pharmaceutical use in Malaysia given the demand for its products following the vaccine roll-out; **Eppendorf**, a leading German life science company that established an integrated centre for their shared services hub, covering functions such as IT, HR as well as Finance and Controlling, for the Group's operations in the Asia Pacific, Middle East and Africa; **TF AMD**, a joint venture between Advanced Micro Devices (AMD USA) and Nantong Fujitsu Microelectronics Co Ltd (Nantong Fujitsu) is expanding and offers Outsource Semiconductor Assembly and Test (OSAT) services and servicing front-end semiconductor manufacturing, namely Wafer Level Chip Scale Packaging; and **NTT**, a Japanese Fortune 500 and world's 4th largest Telekom Company recently announced the launch of its fifth data centre in Malaysia. These reinvestments by existing companies are testaments of Malaysia's continued success to retain and encourage high-value operations by MNCs in Malaysia.

MIDA adopts a cautiously optimistic outlook

Being located in the Asia Pacific rim and the centre of ASEAN, Malaysia remains an attractive investment destination, particularly with a favourable investment environment, including the availability of excellent infrastructure, telecommunication services, financial and banking services, supporting industries, skills and trainable workforce, as well market opportunities offered through the 16 Free Trade Agreements that Malaysia has signed. Malaysia maintained its strong position globally, ranking the second-highest in Southeast Asia and twelve (12th) out of 169 countries for trade connectivity in the DHL Global Connectedness Index (GCI) report in 2019. According to a recent joint study by KPMG and The Manufacturing Institute in the US entitled “Cost of Manufacturing Operations around the Globe”, Malaysia is ranked fourth among 17 economies in an assessment comparing the economy’s competitiveness as a manufacturing hub, which is ahead of countries in Asia such as China, Japan, Vietnam and India. Malaysia is also ranked high at 12th in the World Bank's Doing Business 2020 and 27th in the IMD World Competitiveness 2020. The above rankings by various agencies further reinforce Malaysia’s position as a competitive and an attractive investment location.

Looking ahead, MIDA has identified 240 high-profile foreign investment projects including Fortune 500 companies in the manufacturing and services sectors, with a combined potential investment value of RM81.9 billion. These include on-going negotiations with a number of world-renowned companies from various sectors such as automotive, chemical, and advanced electronics and deep-tech to make Malaysia as high-value manufacturing and Global Supply Chain Hub as well as Services and Regional Operations hub. Supported by the rapid growth of adoption of digitisation, there are enormous opportunities for investors to explore emerging technologies such as Big Data Analytics, Cloud Computing, Artificial Intelligence and Internet of Things (IoT) to embrace new ways of doing business and create more technology collaborations. In this regard, MIDA is in negotiation with multinational companies for the establishment of Data Services. The investment on Data Services will accelerate Malaysia into the digital space that will move the country up the value chain in key economic segments, including the services sectors such as ICT, data analytics, design and development. Most of these projects are subject to Non-Disclosure Agreements (NDA), hence announcements will be made once negotiations are concluded.

Presently, MIDA has also received RM47.7 billion worth of potential investments into the country. These projects, once approved, are expected to be implemented within the year 2021 to 2022.

Despite the on-going international border closures and strict standard operating procedures (SOPs) in many countries to contain the spread of COVID-19, MIDA continues to be responsive in undertaking innovative and aggressive investment promotion initiatives to entice FDI through its established footprint of 20 overseas and 12 regional offices. MIDA actively organises various digital investment promotion programmes such as virtual webinars on local and international platforms.

The establishment of a One Stop Centre (OSC) in MIDA effective 2nd October 2020 to ease the movement of business travellers by expediting the approval of their entry into Malaysia, is a major initiative by the Malaysian Government. This Centre assumes a critical role in ensuring that Malaysia remains steady on the path of economic recovery and growth by enabling business travellers' movement to do their business in Malaysia during the pandemic. As at 5 February 2021, a total of 5,861 Long Term and Short Term Business Travellers have been recommended for approval by the OSC. These business travellers include businessmen and technical experts who provide technical advisory services and installation commissioning of the machinery and equipment.

While inflows of FDI are crucial for the continued development of the economy, the role of domestic direct investments (DDI) is not to be underplayed, as outlined in the 11th Malaysia Plan. Domestic investments will continue to assume a leading role in the growth of the economy. Among the major strategies include creating Malaysian conglomerates by identifying potential companies to provide the necessary support; harnessing on outsourcing opportunities created by MNCs operating in Malaysia; enhancing the current incentive schemes to assist Malaysian companies to scale-up; and intensifying technology acquisition by Malaysian-owned companies. Notably, in the total investments approved for the period Jan-September 2020, DDI accounted for 61.2 per cent, or RM67.2 billion, while foreign direct investments (FDI) made up the rest.

Over the last five decades, MIDA has assumed the critical and pivotal roles in contributing significantly to Malaysia's rapid industrial development particularly in the manufacturing and services sectors by promoting investments, both FDI and DDI. MIDA's strategies have gone through various transformations, in-line with the changing dynamics of the global and domestic economic landscapes. Moving forward, the Government will continue to be at the forefront to entice more high-value investments in the areas of technology and innovation to position Malaysia as an alternative supply chain hub in Asia. The latest international ranking by KPMG has cemented Malaysia's position as a competitive investment location for investors. Through policy reviews and targeted approaches, the Government will ensure that Malaysia remains as the preferred investment location with a favourable environment for quality investments in Asia.

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