INVESTMENT PROMOTION, STRATEGIES, POLICIES AND PRACTICES – MALAYSIA’S EXPERIENCE

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By
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Director, Planning & Research Division
Malaysian Industrial Development Authority (MIDA)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Area</strong></td>
<td><strong>329,735 sq km</strong></td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td><strong>22.7 million</strong></td>
</tr>
<tr>
<td><strong>Malaysian Citizen</strong></td>
<td><strong>21.1 million</strong></td>
</tr>
<tr>
<td>Racial Composition:</td>
<td></td>
</tr>
<tr>
<td>- Malays</td>
<td><strong>13.2 million</strong></td>
</tr>
<tr>
<td>- Chinese</td>
<td><strong>5.6 million</strong></td>
</tr>
<tr>
<td>- Indian</td>
<td><strong>1.6 million</strong></td>
</tr>
<tr>
<td>- Others</td>
<td><strong>0.7 million</strong></td>
</tr>
<tr>
<td><strong>Non-Malaysian Citizen</strong></td>
<td><strong>1.6 million</strong></td>
</tr>
<tr>
<td><strong>Labour Force</strong></td>
<td><strong>9.0 million</strong></td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Malaysia.
## Social Indicators (1999)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unemployment Rate</strong></td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Overall poverty</strong></td>
<td>7.5%</td>
</tr>
<tr>
<td><strong>Life Expectancy</strong></td>
<td></td>
</tr>
<tr>
<td>(Male)</td>
<td>69.9 years</td>
</tr>
<tr>
<td>(Female)</td>
<td>74.9 years</td>
</tr>
<tr>
<td><strong>Literacy Rate</strong></td>
<td>89.7%</td>
</tr>
</tbody>
</table>

Source: Economic Planning Unit, Malaysia.
## Economic Indicators (1999)

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>US$ 50.7 billion</td>
</tr>
<tr>
<td>Real GDP Growth</td>
<td>5.6%</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>2.8%</td>
</tr>
<tr>
<td>Merchandise Exports</td>
<td>US$ 84.6 billion</td>
</tr>
<tr>
<td>Merchandise Imports</td>
<td>US$ 61.1 billion</td>
</tr>
</tbody>
</table>

Source: Economic Planning Unit, Malaysia.
## Trading Partners (1999)

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>23.6</td>
</tr>
<tr>
<td>EU</td>
<td>13.6</td>
</tr>
<tr>
<td>USA</td>
<td>19.9</td>
</tr>
<tr>
<td>Japan</td>
<td>15.6</td>
</tr>
<tr>
<td>NIEs</td>
<td>12.4</td>
</tr>
<tr>
<td>Others</td>
<td>14.4</td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Malaysia.
# Exports by Sectors (1999)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>US$ billion</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufactured goods</td>
<td>69.9</td>
<td>82.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7.9</td>
<td>9.3</td>
</tr>
<tr>
<td>Mining</td>
<td>6.0</td>
<td>7.1</td>
</tr>
<tr>
<td>Others</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84.6</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Malaysia.
## Exports of Manufactured Goods 1995/1999

<table>
<thead>
<tr>
<th>Sectors</th>
<th>1995 US$ bil.</th>
<th>% share</th>
<th>1999 US$ bil.</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Based</td>
<td>6.0</td>
<td>15.5</td>
<td>8.5</td>
<td>12.1</td>
</tr>
<tr>
<td>Electrical &amp; Electronics</td>
<td>25.4</td>
<td>65.6</td>
<td>48.8</td>
<td>69.8</td>
</tr>
<tr>
<td>Other Non-Resource Based</td>
<td>4.3</td>
<td>11.1</td>
<td>10.2</td>
<td>14.6</td>
</tr>
<tr>
<td>Other Manufactures</td>
<td>2.9</td>
<td>7.8</td>
<td>2.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Total</td>
<td>38.7</td>
<td>-</td>
<td>69.9</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Malaysia.
## FDI Inflows into ASEAN

(US$ billion)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>0.006</td>
<td>0.013</td>
<td>0.011</td>
<td>0.005</td>
<td>0.004</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.069</td>
<td>0.151</td>
<td>0.294</td>
<td>0.204</td>
<td>0.140</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.1</td>
<td>4.3</td>
<td>6.2</td>
<td>4.7</td>
<td>-0.356</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>0.059</td>
<td>0.088</td>
<td>0.128</td>
<td>0.086</td>
<td>0.045</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.3</td>
<td>4.2</td>
<td>5.1</td>
<td>5.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Myanmar</td>
<td>0.091</td>
<td>0.115</td>
<td>0.038</td>
<td>0.124</td>
<td>0.040</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.6</td>
<td>1.5</td>
<td>1.5</td>
<td>1.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>8.5</td>
<td>7.2</td>
<td>7.8</td>
<td>9.7</td>
<td>7.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.4</td>
<td>2.1</td>
<td>2.3</td>
<td>3.7</td>
<td>6.9</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1.5</td>
<td>2.0</td>
<td>2.5</td>
<td>2.9</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19.68</strong></td>
<td><strong>21.65</strong></td>
<td><strong>25.98</strong></td>
<td><strong>27.81</strong></td>
<td><strong>21.4</strong></td>
</tr>
</tbody>
</table>

* Estimates  
### Inward FDI Stocks in ASEAN

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>30</td>
<td>88</td>
</tr>
<tr>
<td>Cambodia</td>
<td>498</td>
<td>1,065</td>
</tr>
<tr>
<td>Indonesia</td>
<td>38,883</td>
<td>61,116</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>14</td>
<td>471</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10,318</td>
<td>41,005</td>
</tr>
<tr>
<td>Myanmar</td>
<td>173</td>
<td>1,139</td>
</tr>
<tr>
<td>Philippines</td>
<td>3,268</td>
<td>10,133</td>
</tr>
<tr>
<td>Singapore</td>
<td>28,564</td>
<td>85,855</td>
</tr>
<tr>
<td>Thailand</td>
<td>8,209</td>
<td>19,978</td>
</tr>
<tr>
<td>Vietnam</td>
<td>294</td>
<td>12,919</td>
</tr>
</tbody>
</table>

Approved Manufacturing Projects (1996-2000)

Source: Malaysian Industrial Development Authority (MIDA).
Development Objectives

• Eradicate poverty.
• Restructuring of society.
• Establish a more united and just society.
• To be a fully developed nation in all aspects by year 2020.
Development Approaches

• A system of free enterprise in almost all sectors of the economy.
• Government provides the broad thrusts and directions for the whole economy through the various National Plans.
• Public and private sector activities are coordinated and monitored in a systematic manner.
• Transparent policies, rules and regulation.
• Restriction on entry and market access imposed on limited domestic-oriented sectors to ensure the achievements of socio-economic goals.
Investment Promotion Strategies

• Radical investment promotion drive started in late 60s when the Government decided to promote industrial development as a means of
  – accelerating growth and development.
  – diversifying the economy.
  – generating new employment opportunities.
  – creating other business activities.
Industrialisation

1960s - Import substitution.

1970s - Export orientation.
- Investment in heavy industries.

1980s - Resource-based industrialisation.

1990 onwards
- Value-added manufacturing.
- Widening/broadening industrial base.
- Manufacturing plus-plus.
Investment Promotion

- Aggressive promotion of FDI in the manufacturing sector.
- Adopted an open and liberal policy on FDI
  - Up to 100% ownership in projects which are export-oriented, capital and technology intensive.
  - Free repatriation of profits and dividends.
  - Liberal exchange policy.
  - Liberal employment of key expatriates.
  - Allow ownership of industrial and residential properties.
Domestic Oriented Industries/Activities

• Maximum 30% foreign ownership limited to the following:
  – paper and plastic packaging.
  – plastic components.
  – metal stamping, fabrication and electroplating.
  – wire harness.
  – printing.
  – steel service centre.

continues
Domestic Oriented Industries/ Activities (cont’d)

Foreign Ownership Allowed

- Services Sector:
  - Finance
    - Stockbroking : 49%
    - Insurance : 51%
  - Telecommunication : 61%
    (within 5 years reduced to 49%).
  - Transportation
    - Shipping : 70%
    - Forwarding : 49%
  - Wholesale and retail : 30%
- Multimedia Super Corridor (MSC) : 100%
- Mergers and take-overs : on the average 30%
Strategies: Investment Promotion

- Attractive package of incentives, both fiscal and non-fiscal.
- Privatisation of some public enterprises to reduce Government’s financial burden and to stimulate domestic enterprises.
Privatisation Programme

• Introduced in 1983.
• Guided by the Privatisation Masterplan.
• As at 1999 – a total of 457 projects have been privatised with a total cost of US$ 36.8 billion.
• Major projects privatised:
  – Construction/infrastructure.
  – Government services.
  – Finance.
  – Electricity, gas & water.
Mode of Privatisation

- Sale of Assets
- Build-Operate-Transfer
- Build-Operate-Own
- Corporatisation
- Build-Transfer
- Management Contract
- Sale of Equity
- Lease of Assets
Strategies: Focused Institutional Back-up

• The Cabinet (meets weekly).
• 23 Ministries assisted by key Agencies/Departments.
• The Ministry of International Trade and Industry is assisted by its agencies:-
  – Malaysian Industrial Development Authority (MIDA) - A one stop investment promotion agency.
  – Malaysian External Trade Development Corporation (MATRADE) - Export promotion.
  – Small and Medium Industries Development Corporation (SMIDEC) - SMI development.
  – Malaysian Technology Development Corporation (MTDC) - Technology development.
MIDA

• Established in 1967.
• The principal Government Agency responsible for the promotion and coordination of industrial development in the country.

• Principle Activities:-
  – Promotion of FDI and Domestic Investment (15 overseas centres and 10 state offices).
  – Evaluation of applications for manufacturing licences, incentives, duty exemptions, technical agreements and expatriate position.
  – Industrial planning.
MIDA – Advisory Services Centre

• Ministry of Human Resource
• Immigration Department
• Royal Customs and Excise Department
• Department of Occupational Safety and Health
• Department of Environment
• Ministry of Finance
• Telekom Malaysia Berhad
• Tenaga Nasional Berhad
Promotional Tools – General and Targetted Outreach Programmes

- Regular investment missions to capital exporting countries i.e. USA, Europe, Japan, South Korea, Japan.
- Frequent domestic investment seminars/workshop.
- Publication and dissemination of promotional materials.
Coordination – At all levels

• Regular consultation with the private sector
  – as inputs to National Plans and Annual Budgets.
  – as feedback on current government policies, rules and regulations.

• Regular reviews of policies, incentives and procedures to improve Malaysia’s investment climate.
Malaysia’s Growth Rates from 1980 - 2000

Growth Rates (%)

Year

*estimate
Crisis Management: In house Corrective Measures

- Crisis periods - Mid 80’s
  - 1997-1998

- Mid 80’s - The world recession impacted prices of Malaysia’s commodities. Consequence - reduction in Government’s revenue and contraction of the economy.

- Corrective measures:
  - reduced government expenditure.
  - stepped-up privatisation programmes.
  - adopted more growth strategies through opening up of the manufacturing sector.
Crisis Management – In house Corrective Measures (cont’d)

• The 1997 financial crisis: - contagion effect of the devaluation of the Thai Bhat plus speculative attacks on other regional currencies.

• Consequences:
  – short term capital flight.
  – depreciation of Ringgit.
  – contraction of the economy.
  – decline in private investment.
  – crisis of confidence.
Crisis Management – In house Corrective Measures (cont’d)

• Corrective Measures:-
  – Establishment of the National Economic Action Council (NEAC).
  – Introduction of short-medium term recovery measures through the National Economic Recovery Plan (NERP).
  – Major measures implemented:
    ➢ selective exchange controls.
    ➢ injection of public funds to finance infrastructure projects.

continues
Crisis Management – In house Corrective Measures (cont’d)

- encourage FDIs through further opening up of the manufacturing and selected service sectors.
- set up special mechanism to undertake management, recapitalisation and consolidation of the affected financial and corporate sectors.
- stepped up public campaign to restore confidence.
Outlook

- Positive growth trends.
- Healthy economic fundamentals.
- Investment confidence returning.
- Private sector investment and financing rebounded to resume its role as the engine of growth.
The Next Step – Era of Sustainable Growth

• Focus investments on building value-added, enhancing knowledge, R&D and technology base and developing human resources.

• Finalise and implement:-
  – The K-Economy Masterplan.
  – The Third National Development Plan (2001-2010).
  – The SMI Master Plan.

• Transform the agriculture sector into a modern, dynamic and competitive one through injection of public and private sector investments.
Thank You