

28 February 2012

A strong start for Malaysia

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Last year's investment performance shows that domestic investors should be more involved, especially in manufacturing



Bangunan Lestari Kumpulan Emkay in Cyberjaya has been given the Leadership in Energy and Environmental Design gold rating by the US Green Building Council. There are huge opportunities in the 'greening' process undertaken by firms to improve their energy consumption.

MALAYSIA needs RM1,311 billion in investments to become a high-income economy by 2020, reckons the Performance Management and Delivery Unit (Pemandu).

According to the recent Investment Performance 2011 Report by the Malaysian Investment Development Authority (Mida), Malaysia is on the correct trajectory to achieve its investment goals set under the 10th Malaysia Plan (10MP).

Last year, RM148.6 billion of investments were approved by the Malaysian government -- well above the yearly target of RM115 billion set under the 10MP and also higher than the yearly average of Pemandu's investment target of RM131.1 billion.

Investment generated last year created 149,496 job opportunities from the 4,964 projects.

Domestic investment was the biggest contributor, with RM82.2 billion or 55.3 per cent of total investment, while foreign investment approval was at RM66.4 billion.

Services emerged as the most attractive sector with a share of 43.3 per cent -- of which RM48.2 billion, or 74.8 per cent, came from domestic investors.

Malaysia's investments continue to be externally oriented. Both primary and manufacturing sectors corresponded highly with Malaysian trade composition while contributions from foreign investors in these sectors outstripped the locals.

The largest contributors of foreign investment were Japan, South Korea, the United States and Singapore -- with whom Malaysia had bilateral and regional free trade arrangements.

While the news of better-than-expected investment outcome excites us, there are several improvements that need to be made.

Last year, Pemandu released six progress updates to inform the public and investor community of the exciting new projects and initiatives taking place in Malaysia.

It announced 95 projects with an investment total of RM162.15 billion.

With closer inspection, there are firms investing in the National Key Economic Areas that reported the sum of what they will spend in Malaysia for the next nine years rather than just its 2011-2012 expected spending.

Given the lower figure reported by Mida, it is expected that the remainder values between investments announced by Pemandu and approval done by Mida will be spent some time from this year to 2019.

Investment can come in different forms. Mida collects them in the form of greenfield or expansion projects.

The Department of Statistics divides the Gross Capital Stock by type of assets that include structures, transport equipment, machines and equipment.

Malaysians need to realise that the type of investments matters. Not every inch of land in the country should be cleared for factories to churn out shiny widgets. More effort is needed to increase our investment depth.

As Malaysia moves towards the high-income level, the sophistication level of our output will need to increase. This would mean more investments to acquire capital equipment, machinery, intellectual property rights and less on constructing new buildings.

Part of this next level of investment also involves improving the stock of talents in Malaysia, deepening capital and improving productivity.

In essence, Malaysia is headed in the right direction as proven by the capital-intensity of its manufacturing sectors. Capital-intensity measured by capital investment per employee ratio improved from RM484,767 in 2010 to RM557,894 in 2011.

However, this process requires further intensification and greater domestic investor involvement, given the predominant position of foreign investors in the manufacturing sector.

There are huge opportunities available for investment deepening for domestic investors. An example is in the "greening" process undertaken by firms to improve their energy consumption.

Mida investment figures reported only RM21.9 million worth of "greening" investment took place last year, which is surprisingly low.

Investment reported in the services sector also requires closer scrutiny. For example, the largest investment recorded in the sector came from real estate.

The sector is then followed by transportation, which saw concentrated efforts to construct highways and ports. The two sectors constituted 44 per cent of the services sector investment value approved in 2011.

The high figure recorded in the two sectors masked a weaker investment climate in areas like research and development and integrated logistics services.

If one were to read the Mida Investment Performance Report over the years, one would find that the attractive investment destination hasn't changed much over the years.

Ever since investment numbers have been reported, the most attractive destinations are Penang, Selangor and Johor.

In recent times, Sarawak has joined the ranks given its rejuvenated investment attractiveness that came from the expectation of the Sarawak Corridor of Renewable Energy.

Institutional factors help Penang, Selangor and Johor to be known as manufacturing powerhouses in Malaysia. Given focused efforts in the past, investors have found it easier to flock to these states.

The three states also have excellent infrastructure that includes international airports and seaports. Among the busiest seaports in the world are those in Selangor and Johor.

For the three states, agglomeration/concentration of firms and labour helped them to be continuously successful.

On the other hand, the recent success of Sarawak's investment climate comes from its specialisation in energy and capital-intensive sectors. For the other states in Malaysia, specialisation of industries can serve as good investment strategies.

With the help of Pemandu and Mida, these states need to identify niche industries and supporting services. For example, expansion in integrated logistics services can help to improve connectivity among states that have low investment intensity.

The revival of private investment in Malaysia last year is highly welcome news considering the projected global economic uncertainty this year. Both Mida and Pemandu, along with respective state governments should be congratulated on the investment results.

Moving forward, both Mida and Pemandu should be continuously evaluating strategies for the real transformation of Malaysia as the high-income economy really takes off.