

# Macro Note

## Malaysia: Approved Investments Exceed MYR100bn In Jan-Sep

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- Malaysia's total investments approved hit MYR109.8bn in Jan-Sep this year (9M20). Despite the COVID-19 pandemic that triggered a deep global downturn and delayed investment decisions worldwide, Malaysia's manufacturing sector demonstrated resilience with investment approvals continuing to rise by 16.6% y/y to MYR65.3bn in 9M20. This partially cushioned the drag from services (-51.8% y/y to MYR42.8bn) and primary (-73.5% y/y to MYR1.7bn) sectors.
- During 9M20, foreign sources remained the key driver of overall manufacturing investments even though domestic direct investment in the sector saw a leap of 45.5% y/y to MYR25.9bn (or 39.6% share). China, Singapore, and Switzerland were the top three leading sources of FDI in the sector, while East Malaysia attracted more than one-third of overall manufacturing investment. Key sub-sectors that benefited included petroleum products, basic metal products, electrical & electronics, machinery & equipment, as well as chemicals & chemical products.
- We are raising our 2020 full-year approved investment forecast to MYR138bn as the 9M20 total investment approvals have surpassed our initial target of MYR100bn. Our new target is ~32% higher than the actual investments approved during the global financial crisis in 2009. This is an encouraging sign that Malaysia remains an attractive investment destination with ongoing efforts by the government to expedite the approval process for investment applications and offer competitive incentives. Higher actualisation of these investment approvals could help jump-start private investments in 2021 and beyond.

### Higher Manufacturing Investment Approvals In 9M20

Malaysia approved a total of MYR109.8bn investments for the primary, manufacturing, services sector in Jan-Sep this year (9M20), which was 27.3% lower than a year ago. Of the total investments approved, domestic direct investments (DDI) accounted for MYR67.2bn or 61.2%, while the remaining MYR42.6bn or 38.8% were foreign direct investments (FDI). These investments involved 2,935 projects and are expected to create 64,701 employment opportunities in Malaysia over the next few years.

Despite the global COVID-19 pandemic outbreak triggering a deep global downturn and delaying investment decisions worldwide, Malaysia's manufacturing sector demonstrated its resilience with investment approvals continuing to rise by 16.6% y/y to MYR65.3bn in 9M20. This partially cushioned the drag from services (-51.8% y/y to MYR42.8bn) and primary (-73.5% y/y to MYR1.7bn) sectors.

- With MYR65.3bn investment or 59.5% of overall investment approvals, **the manufacturing sector** became the largest contributor. Foreign sources remained the key driver of overall manufacturing investments (FDI, +3.2% y/y to MYR39.4bn or 60.4% share) even though domestic direct investment in the sector saw a leap of 45.5% y/y to MYR25.9bn (or 39.6%). These manufacturing FDIs were mainly new projects (MYR28.2bn or 71.6%), against MYR11.2bn or 28.4% for the purpose of capital expansion. China (MYR16.8bn), Singapore (MYR7.6bn), Switzerland (MYR2.8bn), the USA (MYR2.3bn), and the Netherlands (MYR1.9bn) were the top five leading sources of FDI in the sector, which collectively made up nearly 80% share or MYR31.3bn.

By states, East Malaysia (Sarawak: MYR15.8bn and Sabah: MYR11.9bn) attracted more than one-third of overall manufacturing investment during 9M20, followed by Penang (MYR10.6bn), Selangor (MYR7.3bn), and Johor (MYR5.7bn). Key beneficiary sub-sectors included petroleum products including petrochemicals (MYR15.0bn), basic metal products (MYR14.5bn), electrical & electronics (MYR7.7bn), machinery & equipment (MYR5.8bn), chemical & chemical products (MYR4.5bn), food manufacturing (MYR3.0bn), transport equipment (MYR3.0bn), as well as scientific & measuring equipment (MYR2.1bn). These industries make up 85% of total approved investments for the sector.

2. Approved investment in the **services sector** more than halved to MYR42.8bn in 9M20, which accounted for 39.0% of overall investment approvals. It was almost entirely led by DDI (-37.4% y/y to MYR40.6bn or 94.9% of total services investment approvals) as FDI in the sector fell by 90.9% y/y to MYR2.2bn, accounting for just 5.1% of total services investment approvals.

Key drivers of approved services investments are for support services, MSC status projects, and other services such as BioNexus status and software developments. The support services industry under the purview of MIDA covers sub-sectors such as integrated logistics, R&D, green technology, integrated circuit design, oil and gas services, and licensed warehouse. The support services sub-sector recorded an increase of 17.9% y/y to MYR4.0bn, mainly underpinned by projects in green building, waste management, integrated logistics services, and energy saving that posted increases of more than 100%. That said, the top five drivers of approved investments in the services sector were real estate (MYR23.7bn), utilities (MYR7.2bn), support services (MYR4.0bn), telecommunications (MYR2.6bn), and financial services (MYR2.1bn).

3. **Primary sector's** 9M20 investment approvals of MYR1.7bn was 1.5% of overall approved investments. FDI dominated the total approved investments in the sector with MYR1.0bn or 58.8% share, while DDI accounted for MYR653.2m or 41.2%. Among three main sub-sectors, mining industry continued to take the lead with a total approved investment of MYR1.7bn (or 99.5% of total primary investment approvals), followed by plantation & commodities (MYR5m or 0.3% share), and agriculture (MYR2m or 0.1% share).

### **Twinking Upward 2020 Full-Year Investment Approval Target**

We are raising our 2020 full-year approved investment forecast to MYR138bn as the 9M20 total investment approvals have surpassed our initial target of MYR100bn. Our new target is about 32% higher than the actual investments approved during the global financial crisis in 2009. This is a positive sign that Malaysia remains an attractive investment destination with ongoing efforts by the government to expedite the investment approval process and offer competitive incentives.

Under the Budget 2021, the government has unveiled a slew of initiatives to accelerate investments in Malaysia to spur economic growth and create higher multiplier effects in the economy. Those initiatives include:

1. A MYR1bn special incentive package for high value-added technology projects including R&D investments in aerospace and electronic clusters;
2. Income tax rate of 0% up to 10% for the first 10 years and 10% for the subsequent period of 10 years to manufacturers of pharmaceutical products including vaccines;
3. A 10% income tax rate for a period of 5 years and renewable for another 5 years for Global Trading Centres;
4. An extension of the Principal Hub, Industrialised Building System components manufacturing, and shipbuilding and ship repairing industry incentives' application period; and
5. Expansion of the scope of special tax rates to selected manufacturing companies which relocate their businesses into Malaysia or undertake new investments, to include selected high-technology services sectors.

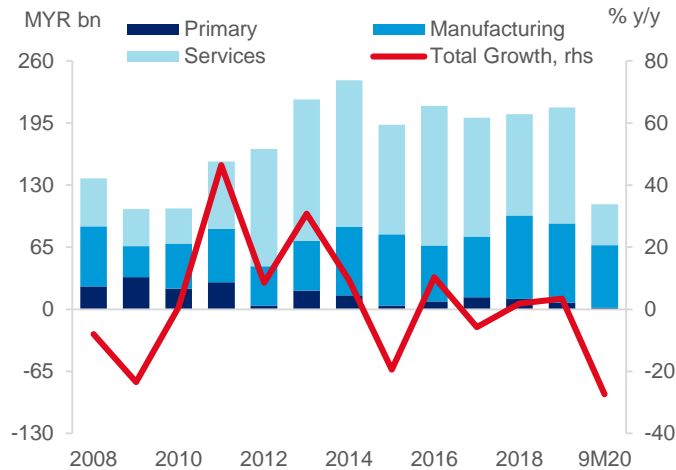
Furthermore, MIDA has:

1. Set up the Project Acceleration and Coordination Unit (PACU) to provide end-to-end facilitation for all projects approved to enable the timely implementation of investments in the country;
2. Introduced online modules namely e-Manufacturing Licence (e-ML), e-Incentive, and JPC Online Application to accelerate the necessary approvals for manufacturing licences, incentives, and exemption of customs duties to expedite the execution of projects; and
3. Established a One-Stop-Centre (OSC) to evaluate applications of eligible business travellers to enter Malaysia for trade and investment purposes.

With these initiatives to lure investments amid emerging business opportunities in a post-pandemic new normal and global economic recovery, we expect overall investments to regain momentum in 2021-2022, albeit at a measured pace. Actualisation of those investment approved year-to-date could help jump-start private investments in 2021 and beyond. The ratification of the recently signed Regional Comprehensive Economic Partnership (RCEP) by end-2021 should also reinforce Malaysia as a gateway to ASEAN and beyond, as well as strengthen Malaysia's trade and investment outlook over the medium term. The tabling of 12<sup>th</sup> Malaysia Plan (12MP) 2021-2025 in Parliament early next month (Jan 2021) is another key event to watch as it will outline a development roadmap for Malaysia to recover and be competitive over the next five years, particularly in a post-pandemic new normal.

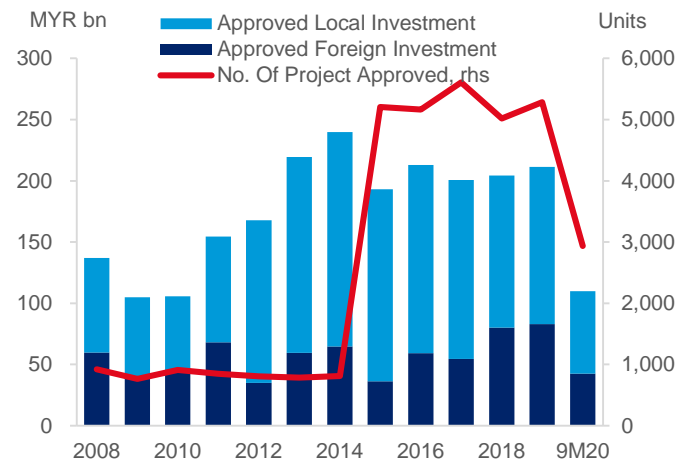
### Overall Investment Approvals At MYR109.8bn In 9M20

Source: MIDA, CEIC, UOB Global Economics & Markets Research



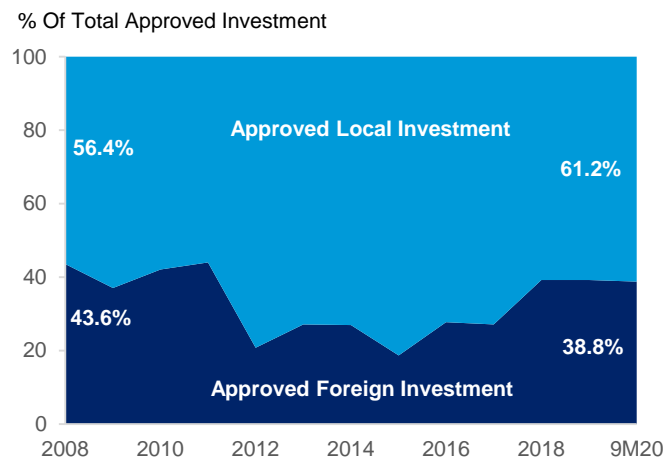
### Domestic Investments Took The Lead

Source: MIDA, CEIC, UOB Global Economics & Markets Research



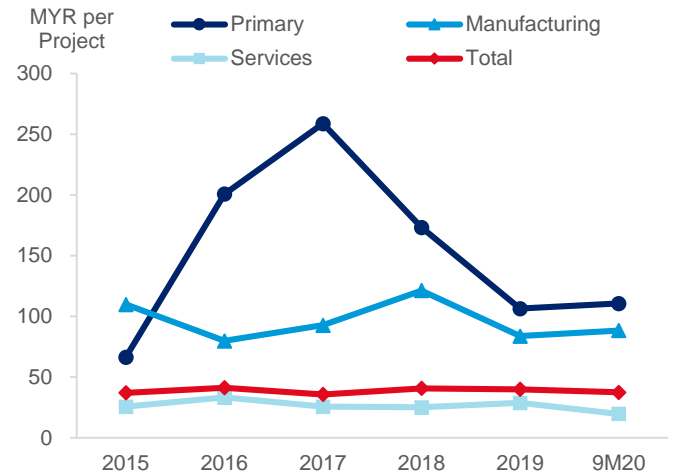
### Share of Foreign Investment Approvals Nearly 40%

Source: MIDA, CEIC, UOB Global Economics & Markets Research



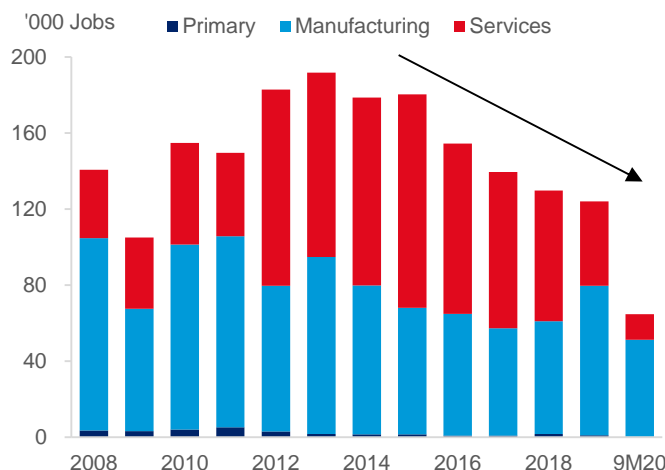
### Investment Value Per Project

Source: MIDA, CEIC, UOB Global Economics & Markets Research



### Potential Employment From Projects Approved By Sector

Source: MIDA, CEIC, UOB Global Economics & Markets Research



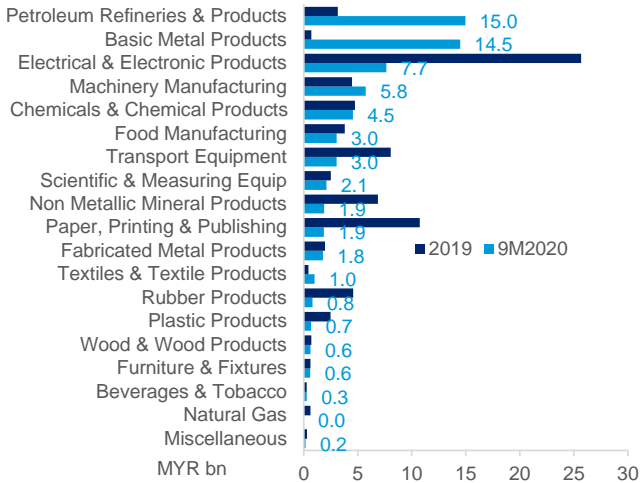
### Approved Manufacturing Investments Up 16.6% Y/Y In 9M20

Source: MIDA, CEIC, UOB Global Economics & Markets Research



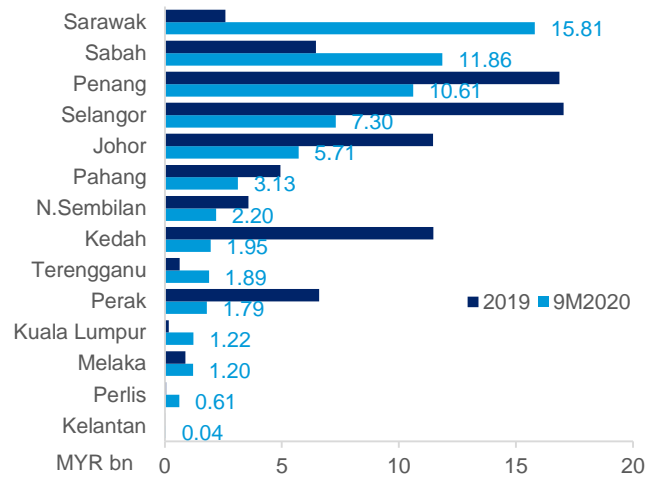
### Overall Manufacturing Investment By Sub-Sector

Source: MIDA, CEIC, UOB Global Economics & Markets Research



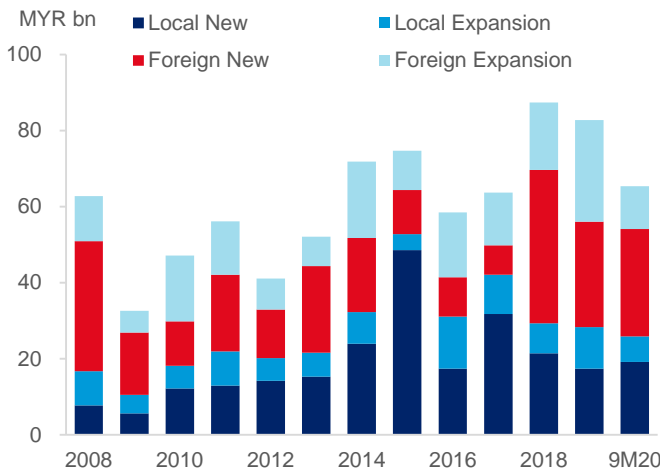
### East Malaysia Attracted The Highest Manufacturing Investment In 9M20

Source: MIDA, CEIC, BNM, UOB Global Economics & Markets Research



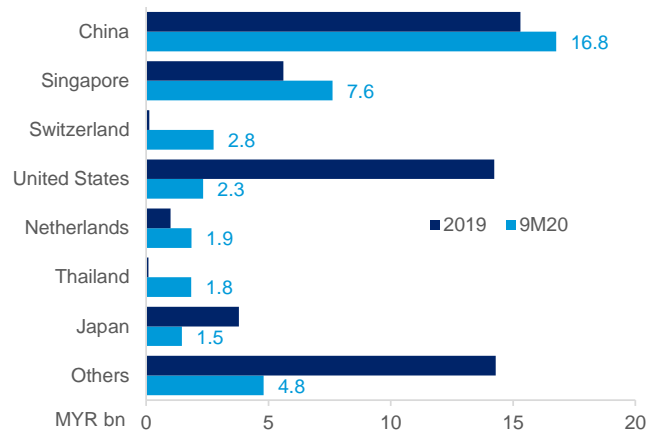
### Foreign Manufacturing Approvals Largely For New Projects ...

Source: MIDA, CEIC, UOB Global Economics & Markets Research



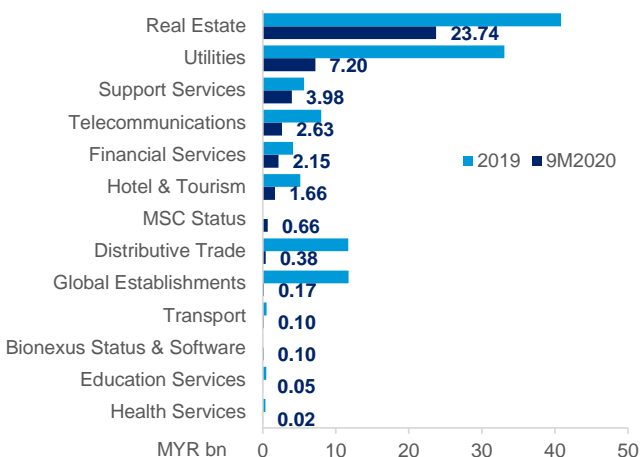
### ... Led By China, Singapore, And Switzerland In 9M20

Source: MIDA, CEIC, UOB Global Economics & Markets Research



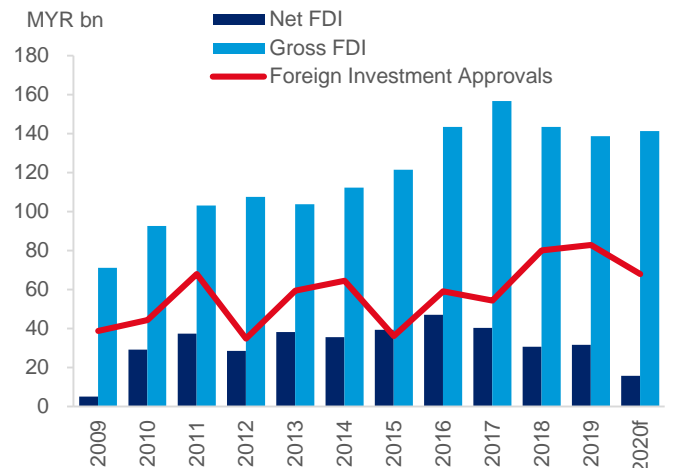
### Services Investment By Sub-Sector

Source: MIDA, CEIC, UOB Global Economics & Markets Research



### Projected Foreign Direct Investments (FDI) Based On Investment Approvals

Source: MIDA, CEIC, BNM, UOB Global Economics & Markets Research



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