MIDA MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY

Newsletter

Malaysia, Your Profit Centre in Asia

A **MIDA** Publication for Global Investors

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HIGHLIGHTS

MALAYSIA, READY TO REAP POSITIVE IMPACT FROM TPPA

Malaysia and 11 other countries signed the TPPA at a ceremony in Auckland, New Zealand on 6 February 2016 aimed at expanding markets, reducing tariffs and promoting freer trade. The signing of the TPPA, which will represent approximately 40% of global GDP worth US$30 trillion (RM128 trillion) came after 5 years and 19 rounds of negotiations.

Dato' Sri Mustapa Mohamed, the Minister of International Trade and Industry who signed the comprehensive trade pact highlighted that Malaysia was probably the only country among the 12 nations which received Parliament approval and ratification, although the laws do not require the government to do so. It, however, needs to amend 26 laws and regulations on labour and intellectual property rights to meet the requirements of TPPA.

The 12 countries in the TPPA are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam. They have two years to ratify the agreement before it comes into force in 2018.

Malaysia is set to reap the positive impacts from the implementation of TPPA. In the timeline spanning from 2018-2027, Malaysia's GDP is projected to increase by US$107 billion (RM444 billion) to US$211 billion, which would raise GDP growth between 0.6% and 1.15% in 2027. The study by PwC suggests that investments are projected to increase by US$136 billion (RM565 billion) to US$239 billion (RM933 billion) over 2018-2027, largely due to higher investment growth in textiles, construction and distributive trade.

More than 90% of the economic gains will be attributable to lower non-tariff measures. Increase in export growth is projected to be outpaced by the increase in import growth, with a trade surplus projected to narrow between 4.3% and 5.2% of GDP in 2027. Export-oriented companies will benefit from greater market access, especially with countries that Malaysia is yet to have a trade pact with, namely Canada, Mexico, Peru and US.

Sectors which contributed over 20% of Malaysia's GDP in 2014 are expected to record higher output growth, especially the manufacturing sub-sector. Access to US government procurement, greater digital liberalisation and stronger enforcement of trade secret protection will further benefit companies.

AMCHAM MALAYSIA

Datuk Wong Siew Hai, the Chairman of the Malaysian American Electronics Industry, which is part of the American Malaysian Chamber of Commerce (AMCHAM) commented that there is a high risk that investments in Malaysia will reduce and move to Vietnam if Malaysia does not participate in the TPPA. He asserted that Malaysia's E&E exports to the US is expected to be the largest beneficiary of lower tariff lines given that US is its third largest E&E export destination. TPPA will also allow the E&E companies in Malaysia to have better access to US government procurement.

AMMI ASSOCIATION OF MALAYSIAN MEDICAL INDUSTRIES PERSATUAN INDUSTRI PERUBATAN MALAYSIA

The Association of Malaysian Medical Industries (AMMI) believes that TPPA will enable medical device manufacturers in Malaysia to further grow their exports to TPPA member countries and attract more FDI in medical device manufacturing. Identified as one of the high potential growth industries under the 11th Malaysia Plan, exports of medical devices by AMMI member companies continue to register double digit growth. High value medical devices manufactured in Malaysia include orthopaedic products, dialysers, surgical implants, medical electrodes, pacemakers and defibrillators. The reliability of "Made in Malaysia" medical devices are recognised globally, reflected by the increase in value of exports by 13% from RM11.9 billion in 2013 to RM13.5 billion in 2014.

Malaysian Textile Manufacturers Association

The textile and apparel industry, through its association, the Malaysian Textile Manufacturers Association (MTMA) welcomed Malaysia's acceptance to TPPA. The industry is one of the oldest in Malaysia and was the 10^{th} largest export earner. Based on the cost-benefit analysis carried out by PwC and ISIS, the textile and apparel industry is expected to be the biggest gainer from TPPA. The projected output growth for the industry is from 3.14 to 3.78 percentage point, and the projected export growth is from 4.09 to 4.87 percentage point. In terms of total exports of textile and apparels to the US, Malaysia ranks at the 26th position. From the perspective of market access, 72.9% textile tariff lines constituting 36.44% of total exports to the US will see elimination upon entry into force. Without TPP, only 11% of tariff or 0.9% of total exports is duty free. Two major products are given duty free upon entry into force, which is an offer exclusively given by the US to Malaysia and Vietnam only. Apart from the US, there will be 90.0% textile tariff lines constituting 89.55% of total exports to Canada that will see duty elimination upon entry into force.

With the signing of the TPPA and as a country that adopts an open economic policy, Malaysia's participation in the TPP is consistent with the national interest to further enhance its competitiveness in the regional and global markets. It is also Malaysia's stance that participation in the TPP does not mean that it marginalises China, ASEAN and Islamic countries, or ignores the World Trade Organization (WTO). Malaysia still believes that the WTO is an important platform to enhance trade relations between the countries of the world.

2015: A BANNER YEAR FOR SEMICONDUCTOR MERGERS AND ACQUISITIONS

2015 has been a busy year for Merger and Acquisition (M&A) activities. Global M&A volume last year surpassed US$5 trillion, breaking the record-setting volume of US$4.6 trillion in 2007 according to data by Dealogic, a research firm that tracks Wall Street M&A activities. The biggest deals have been in healthcare, technology and energy. Within the technology sector, there has been a tsunami of M&A deals particularly in the semiconductor space. These megadeals are driven by consolidation trends within the telecommunication and networking equipment.

Mergers and Acquisitions or M&A is a term used to refer to the consolidation of companies, as defined by Investopedia. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

M&A IN THE ELECTRICAL AND ELECTRONIC (E&E) SPACE

A wave of mergers and acquisitions is reshaping the landscape of the semiconductor industry as companies join forces to shoulder the soaring technology costs and increasing consumer demand to stay competitive. Dealogic reported that in the first nine months of 2015, the announced semiconductor acquisition had a combined total value of US$105 billion, an increase of 128% as compared to US$46 billion in 2014.

Broadcom by Avago US$37 billion	• To create a global diversified leader in **wired and wireless communication** semiconductors. • The deal is expected to close in the first quarter of 2016.
Freescale by NXP USD$11.86 billion	• To double the proportion of auto-related revenue to 40% to create the world's top maker in **automotive electronics**. • NXP, the top maker of semiconductors infotainment and keyless ignition systems, will assemble their range of discreet automotive applications into a complete system running on top of Freescale's processors.
Altera by Intel US$17 billion	• Altera, a leading provider of field-programmable gate array (FPGA) technology **complements** Intel's leading-edge product portfolio. • To **enable new classes of products** in the high-growth data centre and Internet of Things (IoT) market segments. • To spur the **growth of the FPGA business**, Intel intends to invest and apply Moore's Law to create products of the future such as **autonomous driving and machine learning**. • To **enhance Altera's products** through design and manufacturing improvements resulting from Intel's integrated device manufacturing model.
EMC by Dell US$ 67 billion	• The acquisition of EMC, a storage company, by Dell would immediately make Dell the **market share leader in the storage business** and help the company to **diversify away from the PC** market.
SanDisk by WD US$19 billion	• To enable WD to **vertically integrate into non-volatile NAND flash** memory market, securing **long-term access** to solid state technology at **lower cost**. • WD projected that its addressable **market will double** and will **expand its participation** in higher-growth segments and manufacturing. • The acquisition will help **fuel innovation** and **strongly position** the company to capture higher -growth opportunities.

There are various strategic reasons why M&A takes place, but the underlying rationale for any business consolidation is economic at the core. Through M&A, a company is able to increase the capabilities from expanded R&D opportunities or more robust manufacturing operations. Similarly, companies may want to combine and leverage on cost saving opportunities in their manufacturing operations.

While these are the common reasons for M&A to occur, companies frequently merge due to multiple reasons. The potential downsides for M&A activities are mainly related to human resource issues such as immediate fears about job security or business lines. However, on a more positive note, mergers may also include more opportunities for advancement or having access to more resources to do one's job.

MNCs undergoing these M&A activities have reiterated that there is no significant impact to its Malaysian operations, as they would continue with consideration given to its workforce. Therefore, the M&A made by these companies should not be a source of worry or confusion as M&A activities bode well for the industry as a whole.

The E&E industry is the backbone of Malaysia's manufacturing sector. Being the best partner for investors, MIDA will intensify engagement with E&E companies in Malaysia to further understand and develop strategies to complement their future plans. Besides the transformational shifts within the country, the uncertain global outlook has also dampened investments in economies all over the world, setting off a chain reaction whereby Malaysia is not excluded.

Despite these strong headwinds, MIDA continues to receive and approve new and expansion projects for high technology and high value added investments in the E&E industry. In 2015, MIDA approved a total of 93 Electrical & Electronics projects whereby, 26 were new projects and 67 were expansion/diversification projects. The approved projects reflect investors' prevailing confidence in the country's business environment. Major sources of foreign investments were mainly from the USA, Japan and PRC. Investments approved from the USA were mainly in the electronics components sub-sector. From Japan, they were primarily in the electronics and from PRC, were mainly in the electrical components.

INDUSTRY NEWS

Generally, many MNCs in the electronics industry are streamlining their operations in Malaysia to stay competitive. Many companies have already upgraded their operations into integrated manufacturing ++ centres, incorporating the manufacturing ++ concepts involving R&D, product design and development, and market distribution activities while moving the low end manufacturing to some of our neighbouring countries.

Under the 11th Malaysia Plan, the Government has introduced several strategies to chart a new direction for the manufacturing sector to produce high value, diverse and complex products. Focus is given to high end manufacturing activities that capture higher domestic value add, shift towards more complex and diversified products, and generate high paying jobs. This is to ensure that the manufacturing sector in Malaysia remains competitive.

Among the initiatives introduced is the Accelerated Capital Allowance for Automation. The objective of this scheme is to encourage the quick adoption of automation, especially for the more reliant foreign labour industries. For more information on this incentive, please click the following link: http://www.mida.gov.my/home/new-incentives-under-the-2015-budget/posts/

SERVICES NEWS

INVESTORS TO LEVERAGE ON GREEN INCENTIVES

As Malaysia is gearing itself to become a high income status economy by 2020, it is critical for the nation to strike the right balance between greening the economy and adopting pro-business approaches. These two elements can be combined with the introduction of new green technologies to ensure a sustainable growth in the long run.

Green technology utilisation today is becoming widely accepted among businesses within all types of industries. Many corporations have realised the benefits of adopting green technology in their day-to-day operations, particularly in minimising energy costs and reducing carbon footprints. Companies are now implementing a greener approach by decreasing their waste through various recycling initiatives. This aims to ultimately reduce the impact of inconsiderate waste management on the environment.

In response towards global business changes, the Government continuously reviews incentives for identified targeted sectors to ensure that Malaysia's competitive advantages are sustained in attracting green investments. The Green Technology incentive is one of the measures by the Government to push the green agenda.

In the 2014 Budget, provisions of Investment Tax Allowance for the purchase of green technology assets, and Income Tax Exemption on the use of green technology services and systems have been introduced. This Green Technology incentive streamlines and replaces the Renewable Energy (RE) and Energy Efficiency (EE) incentives under the Promotion of Investments Act, 1986 which recently expired on 31 December 2015. In addition, this incentive covers a broader scope of green technology activities in the areas of energy, transportation (Electric Vehicle services), building, waste management and green supporting services.

The Investment Tax Allowance is offered on a project basis and aims to incentivise companies which undertake green technology projects involving capital investments incurred for business purposes or for its own consumption, whereby such investments are expected to derive green results. Projects which qualify for this incentive are renewable energy, energy efficiency, integrated waste management and green building / data centre.

The Income Tax Exemption is offered to companies that carry out services or activities that support the implementation and operation of green technology projects. Eligible services or activities include system integration of renewable energy; energy services; services related to green building / data centre, green certification of products, equipment and building; as well as a green township. Applications for this incentive are to be submitted to MIDA for further evaluation and approval.

The Government also offers an incentive in the form of Investment Tax Allowance to encourage companies to purchase and use green technology equipment which has been certified by recognised verification bodies. These equipments need to be produced by manufacturers which have obtained a green certification and are registered in MyHijau Mark as well as listed in MyHijau Directory. Under this incentive, companies need to submit their applications to the Malaysian Green Technology Corporation for evaluation. Upon approval, the company can make its claim with the Inland Revenue Board.

The Government has also introduced the Waste Eco Park (WEP) incentive to promote waste management in a more integrated manner. This incentive is offered to companies developing the infrastructure in Waste Eco Parks (WEPs); companies managing WEPs; and industry players which are involved in waste recycling, recovery and treatment and are located in WEPs.

Currently, the locations of waste recycling facilities are scattered across the country and the valuable waste materials / components which can be further recycled are not fully recovered. WEPs aim to promote zero waste by locating recycling companies from different industries next to each other. WEPs adopt the concept that waste generated in one industry could become resources or raw materials for another industry.

The availability of affordable land which comes with basic infrastructure has been identified as one successful measure to promote the growth of the waste treatment/ recovery/ recycling industries in other countries such as Japan, Sweden and Hong Kong. Malaysia has adopted the same measure and encourages the development of WEPs.

MIDA Hosts Aerospace Suppliers Symposium

MIDA together with Spirit Aerosystems organised an Aerospace Suppliers Symposium 2016 at MIDA HQ on 22 February 2016. The event which was graced by YB. Dato' Sri Mustapa Mohamed, Minister of International Trade and Industry (MITI) attracted an overwhelming response from both local and foreign participants. A total of 40 international participants have flown a long way to join the event, together with 65 potential suppliers from Malaysia.

According to YB Minister, "Since the beginning of Spirit's establishment, it has provided quality employment opportunities to more than 600 Malaysians. The majority of Spirit's employees has a minimum of technical certificate, while others with diploma and degree in engineering, aeronautics and related industries."

Through its vendor programmes, Spirit's operations have not only benefitted its direct suppliers that are located in Melaka, Penang, Kedah and Selangor, but the company has actually stimulated the development of local supporting industries by providing diverse business and job opportunities to more than 80 local suppliers and 2,700 jobs respectively in the areas of composites fabrication, metal fabrication, tooling and jigs, machining, logistics and consumables.

"With the rise of local vendors, we expect more foreign companies to be attracted to Malaysia and avail themselves to the supply chain and ecosystem that have been created over the years," added Dato' Sri Mustapa.

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Malaysia Remains an Attractive Proposition

MIDA recently held its Annual Media Conference on 29 February 2016 at MIDA HQ. The announcement of Malaysia's investment performance for the year 2015 was made by YB Dato' Seri Ong Ka Chuan, Minister of International Trade and Industry (MITI) II.

The investment performance in 2015 was strongly influenced by global economic headwinds exacerbated by the drop in oil and commodity prices, as well as the appreciation of the US dollar. Despite a decrease in the overall value of investments for 2015, Malaysia secured a total of 680 new projects worth RM74.7 billion approved in the manufacturing sector, registering an increase of 4% in capital investments.

"The global economy including Malaysia will be facing challenges on multiple fronts in 2016. The road ahead requires Malaysia to go beyond just economic growth. We need to build upon the core strengths of

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the country and secure opportunities with long-term benefits for all Malaysians. History proves that Malaysia is a resilient nation. The strong private sector performance and Malaysia's diversified economy have enabled the country to continue strengthening its fiscal position. The priority now is not just about the number of investors or absolute value of investments but to bring in investments that can help fulfil the country's aspirations and would get Malaysians high income and quality jobs," said the Minister during his announcement.

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ECONOMY NEWS

Mustapa : TPPA brings greater market access for businesses

TPP poised to improve IP environment

Total trade expected to expand at faster rate

Promote Malaysian brand

INDUSTRY NEWS

MPAS RM1.9b plant to begin ops in 2018

Global halal market growing bigger

Tek Seng set to triple production capacity

Halal industry to keep growing

UMW on course to deliver first Trent 1000 fan case

Inari to buy land, factory in Bayan Lepas

US tech firm invests RM400m more in Perak operations

LinearTech's RM2b boost for Penang plant

Innovation key to MRO sector growth

Kossan sets aside RM120m for state-of-the-art plant

SERVICES NEWS

- RM2.5m flagship facility to drive Volvo expansion
- Consortium Zenith to invest RM800m in freight railway ops
- Data centre planned for Sedenak
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- Malaysia's aviation sector to soar
- Big potential for Asia Pacific food and hospitality industry
- DRB-HICOM pumps more into automotive university
- GCH expanding facility

ABOUT MIDA

The Malaysian Investment Development Authority (MIDA) is the Government's principal promotion agency under the Ministry of International Trade and Industry (MITI) to oversee and drive investments into the manufacturing and services sectors in Malaysia. Starting operations in 1967, MIDA is the first point of contact for investors that want to take advantage of Malaysia's vibrant economy, world-class infrastructure and business-friendly environment to set up their profit centre in Asia. For more information, visit www.mida.gov.my or e-mail us at investmalaysia@mida.gov.my.

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