MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY

# MITI REPORT 2019

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# CHAPTER 1
# ECONOMIC PERFORMANCE 2019

# CHAPTER 1
# ECONOMIC PERFORMANCE 2019

## GROWTH IN GROSS DOMESTIC PRODUCT

Malaysia posted a 4.3% growth in gross domestic product (GDP) in 2019, slowing down from the 4.7% logged in 2018. This was the slowest pace in GDP growth since the 2009 global financial crisis. The economy, however, remained in expansionary mode though it continued to face downside risks from negative external factors, especially the coronavirus (COVID-19) outbreak in the People's Republic of China (PRC), given Malaysia's exposure to the country as its biggest trading partner.

Moderation was observed in the manufacturing, services and construction sectors. Sector-wise, services and manufacturing remained the anchors of growth. Growth in manufacturing moderated to 3% in the fourth quarter of 2019 (4Q19) compared with 3.6% in the 3Q19. The services sector, the pillar of economic growth, grew 6.1% in 4Q19 (3Q19: 5.9%), supported by the wholesale and retail trade, information and communications technology (ICT), food and beverage and the accommodation sub-sectors.

Construction recorded a marginal 1% growth in 4Q19 (3Q19: -1.5%), the result of a turnaround in affordable housing activities in the residential sub-sector. Mining and agriculture remained in negative territory though the latter recorded improvement as compared with 2018. Mining and quarrying posted a slower -2.5% drop in 4Q19 while a 16.9% (3Q19: - 8.4%) fall in palm oil exports was largely the cause of a 5.7% contraction in agriculture.

## DOMESTIC PERFORMANCE

The domestic sector, particularly services which contributed 56.7% to total GDP, continued to drive growth. Domestic demand expanded by 4% in 2019 while private consumption grew 7.6% year-on-year. Higher private sector activities - particularly robust consumer spending in the retail, wholesale and ICT sub-sectors - supported by positive income and employment growth and low inflationary pressure drove domestic growth.

Investments in total declined 2.1% in 2019, largely owing to a decrease in public investment though private investment grew marginally by 1.7%. However, the economy will be receiving an additional boost from a series of cuts in the overnight policy rate (OPR) in 2020 together with the postponement of the targeted fuel subsidy and the government stimulus package. Inflationary pressure is also expected to be contained especially with the Government's reduction of highway tolls and lower global oil prices.

**Exhibit 1.1: Summary of GDP by Expenditure**

| | Quarterly Basis | | | | Year-on-Year | | | | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | |
| GDP | (4.3) | 2.1 | 3.3 | 2.7 | 4.5 | 4.9 | 4.4 | 3.6 | 4.3 |
| Private Consumption | 0.1 | 2.3 | 7.1 | (1.5) | 7.6 | 7.8 | 7.0 | 8.1 | 7.6 |
| Public Consumption | (28.1) | 2.2 | 2.7 | 34.2 | 6.3 | 0.3 | 1.0 | 1.3 | 2.2 |
| Investments | (1.6) | 8.4 | (4.8) | (2.2) | (3.5) | (0.6) | (3.7) | (0.7) | (2.1) |
| Private Investment | 24.7 | 15.8 | (9.7) | (20.1) | 0.4 | 1.8 | 0.3 | 4.2 | 1.7 |
| Public Investment | (38.8) | (12.9) | 14.0 | 52.0 | (13.2) | (9.0) | (14.1) | (7.7) | (11.0) |
| Domestic Demand | (5.8) | 4.1 | 2.8 | 3.8 | 3.9 | 3.8 | 3.6 | 4.6 | 4.0 |
| Real Exports | (6.2) | 0.1 | 2.4 | 0.7 | 0.1 | 0.1 | (1.4) | (3.1) | (1.1) |
| Real Imports | (8.7) | 3.0 | 1.6 | 2.3 | (1.4) | (2.1) | (3.3) | (2.3) | (2.3) |
| Net Exports | 14.7 | (18.8) | 8.9 | (11.1) | 10.9 | 22.9 | 15.9 | (9.8) | 10.0 |

*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

## EXPORT-ORIENTED SECTORS

In 2019, exports decreased marginally by 1.7% to RM986.4 billion, weighed down by a fall in shipments of manufactured goods and commodities. Growth in the manufacturing sector moderated to 3% in 4Q19 (3Q19: 3.6%) due to a drop in export of manufactured goods, particularly of electrical and electronics (E&E) products to the US, PRC and regional economies. Mining remained in negative territory with a 1.5% decline due to a sharp contraction in liquefied natural gas exports from the temporary closure of facilities as well as lower prices. Impetus for recovery is expected from the commencement of commercial operations of the Petronas Floating Liquefied Natural Gas-2 (PFLNG2) facility in the 2Q20.

Growth in the agriculture sector dipped to 2%, dragged down by a 16.9% drop in palm oil exports. The decline was partially attributed to a shift in domestic purchasing pattern in India, as was indicated in the contraction of palm oil exports to the country in the last two months of 2019 against the strong growth seen in the first half of the year.

**Exhibit 1.2: Summary of Sectors' Contribution to GDP by Supply-Side Approach**

| | Quarter-on-Quarter Growth (%) | | | Year-on-Year Growth (%) | | | 2019 |
|---|---|---|---|---|---|---|---|
| | 2Q19 | 3Q19 | 4Q19 | 2Q19 | 3Q19 | 4Q19 | |
| **GDP** | **2.1** | **3.3** | **2.7** | **4.9** | **4.4** | **3.6** | **4.3** |
| **Agriculture, Forestry & Fishing** | **(1.6)** | **15.9** | **(12.7)** | **4.2** | **3.7** | **(5.7)** | **2.0** |
| Rubber | (34.0) | 45.1 | (7.8) | 2.2 | 7.2 | 1.9 | 5.8 |
| Palm Oil | (6.6) | 18.2 | (12.3) | 9.5 | 8.4 | (16.9) | 2.7 |
| Livestock | 4.4 | 10.6 | 0.4 | 6.1 | 7.0 | 7.6 | 6.4 |
| Other Agricultural Activities | 6.3 | 8.4 | (15.9) | 3.4 | 3.0 | 5.2 | 3.3 |
| Forestry and Logging | 5.4 | 5.3 | (20.3) | (5.8) | (12.4) | (14.1) | (7.3) |
| Marine Fishing | (9.7) | 38.7 | (27.3) | 1.9 | 3.6 | (1.1) | 3.4 |
| Aquaculture | 11.1 | 22.7 | (1.7) | (18.4) | (15.1) | 4.5 | (10.4) |
| **Mining and Quarrying** | **(0.4)** | **(11.6)** | **14.9** | **2.9** | **(4.3)** | **(2.5)** | **(1.5)** |

| | Quarter-on-Quarter Growth (%) | | | Year-on-Year Growth (%) | | | 2019 |
|---|---|---|---|---|---|---|---|
| | 2Q19 | 3Q19 | 4Q19 | 2Q19 | 3Q19 | 4Q19 | |
| Crude Oil | (3.3) | (16.3) | 15.2 | (4.2) | (14.4) | (6.1) | (7.3) |
| Natural Gas | 1.2 | (9.7) | 16.0 | 9.4 | 3.7 | (1.2) | 2.9 |
| Others | 5.7 | 0.2 | 7.7 | 3.4 | 3.2 | 6.8 | 3.4 |
| **Manufacturing** | **4.4** | **1.2** | **2.3** | **4.3** | **3.6** | **3.0** | **3.8** |
| Vegetable and Animal Oils and Fats | 0.2 | (6.4) | 20.1 | 1.1 | (8.4) | (5.7) | (0.5) |
| Food Processing | 15.7 | 8.9 | (8.8) | 7.3 | 11.0 | 8.8 | 7.0 |
| Beverages | 27.8 | (4.8) | (1.9) | 3.4 | 3.2 | 3.1 | 3.0 |
| Tobacco Products | 46.9 | (13.2) | (20.4) | 5.9 | 4.6 | 5.2 | 6.0 |
| Textile and Apparels | 17.3 | (6.3) | 0.8 | 5.9 | 5.6 | 6.0 | 5.6 |
| Leather Products | 21.3 | (24.1) | (19.4) | 5.6 | 6.3 | 4.9 | 5.0 |
| Wood Products | (0.3) | 7.9 | (3.0) | 4.6 | 6.0 | 4.6 | 5.1 |
| Paper Products | 8.9 | (4.9) | (15.6) | 5.0 | 4.8 | 4.6 | 4.6 |
| Printing | (16.4) | (3.6) | 23.0 | 4.6 | 5.3 | 2.1 | 4.3 |
| Refined Petroleum Products | 2.5 | (2.2) | 6.8 | 3.0 | 3.2 | 2.4 | 2.9 |
| Chemicals and Chemical Products | (1.4) | 9.7 | 3.7 | 2.4 | 2.3 | 2.1 | 2.2 |
| Rubber Products | 36.0 | 12.7 | 1.9 | 7.8 | 7.1 | 6.3 | 6.9 |
| Plastic Products | (1.2) | 32.8 | (18.2) | 3.9 | 0.6 | 2.2 | 2.9 |
| Non-Metallic Mineral Products | 21.6 | 0.0 | (10.2) | 4.4 | 4.3 | 4.1 | 4.3 |

| | Quarter-on-Quarter Growth (%) | | | Year-on-Year Growth (%) | | | 2019 |
|---|---|---|---|---|---|---|---|
| | 2Q19 | 3Q19 | 4Q19 | 2Q19 | 3Q19 | 4Q19 | |
| Basic Metals | 28.1 | (0.3) | (4.9) | 4.1 | 4.0 | 5.0 | 4.1 |
| Fabricated Metal Products | 12.4 | (9.2) | (6.7) | 4.0 | 3.9 | 2.9 | 3.6 |
| Machinery and Equipment | (27.4) | 1.8 | (9.4) | 3.0 | 5.5 | 4.5 | 4.1 |
| Computers and Peripheral Equipment | (2.5) | (2.3) | 3.8 | 12.0 | 11.8 | (6.0) | 5.4 |
| Electrical Equipment | 16.1 | (27.5) | 28.3 | 2.5 | 0.0 | 3.9 | 2.8 |
| Electronic Components and Boards, Communication and Electrical Equipment | (8.2) | 2.9 | 5.0 | 4.1 | 2.3 | 2.8 | 3.5 |
| Medical, Precision and Optical Equipment, Watches and Clocks | 43.9 | 0.1 | 10.2 | 0.9 | 2.8 | 3.4 | 0.2 |
| Motor Vehicles and Transport Equipment | 21.5 | (6.4) | 21.3 | 7.2 | 6.8 | 4.0 | 6.2 |
| Furniture | 1.5 | (9.1) | (3.4) | 8.3 | 7.1 | 9.2 | 8.2 |
| Other Manufacturing and Repair and Installation and Equipment | 0.8 | 55.5 | (12.9) | 1.2 | 3.1 | 6.7 | 4.4 |
| **Construction** | **(3.6)** | **5.5** | **(2.2)** | **0.5** | **(1.5)** | **1.0** | **0.1** |
| Residential | (9.6) | 8.9 | 4.6 | (1.1) | (3.2) | 3.0 | (2.1) |
| Non-Residential | (5.1) | 1.4 | 17.4 | (9.1) | (12.0) | (10.0) | (8.7) |
| Civil Engineering | (2.0) | 10.2 | (15.0) | 5.4 | 4.7 | 6.8 | 6.0 |
| Special Trades | 2.9 | (3.2) | (4.3) | 4.7 | 0.9 | 4.4 | 3.2 |
| **Services** | **2.4** | **4.3** | **4.1** | **6.1** | **5.9** | **6.1** | **6.1** |
| Electricity and Gas | 3.9 | 0.5 | (1.2) | 5.9 | 5.0 | 5.3 | 5.6 |

| | Quarter-on-Quarter Growth (%) | | | Year-on-Year Growth (%) | | | 2019 |
|---|---|---|---|---|---|---|---|
| | 2Q19 | 3Q19 | 4Q19 | 2Q19 | 3Q19 | 4Q19 | |
| Water, Sewerage and Waste Management | (0.6) | 3.1 | 2.9 | 8.5 | 6.4 | 6.2 | 7.7 |
| Wholesale Trade | 9.4 | 10.5 | (0.1) | 4.8 | 6.3 | 5.9 | 5.5 |
| Retail Trade | (0.5) | 4.2 | 10.0 | 9.2 | 8.1 | 7.2 | 8.5 |
| Motor Vehicles | 2.5 | 24.9 | (6.3) | 4.6 | 2.4 | 4.3 | 4.0 |
| Food and Beverage | 2.0 | 2.2 | 10.3 | 10.1 | 10.2 | 10.8 | 10.4 |
| Accommodation | 4.2 | 6.6 | 1.9 | 6.6 | 6.6 | 6.9 | 6.6 |
| Transportation and Storage | 2.0 | 2.4 | 4.6 | 7.0 | 6.8 | 6.7 | 6.8 |
| ICT | 3.4 | 1.5 | (1.9) | 6.3 | 6.0 | 6.7 | 6.6 |
| Finance | (0.1) | 2.7 | 3.4 | 5.7 | 4.4 | 5.9 | 4.7 |
| Insurance | (6.3) | 4.3 | 7.5 | 2.2 | 3.8 | 3.1 | 5.0 |
| Real Estate | 2.0 | 2.0 | 0.5 | 4.8 | 4.7 | 5.0 | 4.7 |
| Business Services | 4.4 | (1.6) | 7.5 | 9.4 | 9.2 | 9.4 | 9.2 |
| Private Health | 7.1 | (0.8) | 0.2 | 5.5 | 6.1 | 5.7 | 5.7 |
| Private Education | 3.8 | 7.3 | (0.1) | 5.4 | 5.3 | 5.7 | 5.4 |
| Other Services | 0.2 | 2.1 | 1.3 | 5.2 | 5.5 | 5.6 | 5.5 |
| Government Services | 1.4 | 4.5 | 9.9 | 3.7 | 3.1 | 3.6 | 3.7 |
| **Import Duties** | **3.3** | **1.7** | **(3.1)** | **(4.3)** | **34.7** | **(3.3)** | **2.0** |

*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

## CURRENT ACCOUNT SURPLUS

For the full year of 2019, Malaysia's current account surplus reached a seven-year high of RM49.7 billion or 3.3% of GDP, thus enhancing Malaysia's position as a net domestic saver. This achievement is the outcome of a series of current account surpluses built up over the years. Malaysia posted an 11% increase in trade surplus to RM137.39 billion, the largest since 2009.

In 4Q19, the current account, dragged down by larger deficits in the primary income and services accounts, was at its lowest level since 3Q18 with RM7.6 billion or 1.9% of GDP. According to the Department of Statistics Malaysia (DOSM), the primary income account registered a deficit of RM15.7 billion (3Q19: RM12.2 billion) while the services account had a deficit of RM4 billion (3Q19: RM1.6 billion). Secondary income, although still in deficit in 4Q19, remained at the 3Q19 level of RM5.5 billion. Goods surplus, as a result of a sharper fall in imports against exports, widened to RM32.8 billion. In 4Q19, exports and imports contracted by 3.2% and 3.5% year-on-year respectively.

## TOURISM

A significant drop in tourism activities, as reflected in the travel account, was one of the factors that dragged down the services account surplus lower to RM6.4 billion in 4Q19, the lowest posted since the third quarter of 2015. According to Malaysia Airport Holdings Berhad, growth in total airport passenger movements in 4Q19 was lower at 6.7% compared with the 8% recorded in 3Q19. Given the COVID-19 pandemic, a further decline is envisaged for tourism in 2020. The larger deficit in transportation also contributed to a weaker services account.

**Exhibit 1.3: Summary of Current Account Performance 2018-2019**

| | 2018 Quarter-on-Quarter Performance (RM billion) | | | | 2019 Quarter-on-Quarter Performance (RM billion) | | | | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | |
| **Current Account** | 13.6 | 2.8 | 3.3 | 10.8 | 16.4 | 14.3 | 11.5 | 7.6 | 49.7 |
| Goods | 34.2 | 25.9 | 26.4 | 32.7 | 33.8 | 28.1 | 30.8 | 32.8 | 125.5 |
| Services | (5.5) | (5.6) | (2.9) | (3.8) | (1.8) | (3.4) | (1.6) | (4.0) | (10.9) |
| Manufacturing Services | 2.7 | 2.6 | 2.9 | 2.9 | 2.6 | 2.9 | 2.9 | 3.0 | 11.3 |
| Maintenance and Repair | 0.0 | 0.0 | 0.1 | (0.0) | (0.0) | (0.0) | (0.1) | (0.0) | (0.2) |
| Transportation | (6.4) | (6.8) | (7.1) | (7.2) | (6.0) | (6.6) | (6.5) | (6.6) | (25.8) |

| | 2018 Quarter-on-Quarter Performance (RM billion) | | | | 2019 Quarter-on-Quarter Performance (RM billion) | | | | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | |
| Travel | 6.7 | 7.3 | 8.4 | 7.7 | 7.9 | 7.1 | 9.5 | 6.4 | 30.9 |
| Construction | (2.8) | (3.2) | (1.3) | (0.9) | (0.8) | (0.9) | (0.9) | (0.4) | (3.0) |
| Insurance and Pension | (2.0) | (2.2) | (2.2) | (2.2) | (2.0) | (2.2) | (2.1) | (2.0) | (8.3) |
| Financial | (0.0) | (0.0) | (0.0) | (0.1) | (0.0) | (0.0) | (0.0) | (0.0) | (0.1) |
| Charges for use of Intellectual Property | (1.5) | (1.7) | (1.8) | (2.0) | (1.7) | (1.9) | (2.3) | (2.3) | (8.3) |
| Telecom, Computer and Information | (0.5) | (0.3) | (0.5) | (0.4) | (0.5) | (0.5) | (0.6) | (0.6) | (2.2) |
| Cultural and Recreational | (0.9) | (0.9) | (0.9) | (1.1) | (0.8) | (0.9) | (1.1) | (0.8) | (3.6) |
| Government Goods and Services | (0.3) | (0.3) | (0.4) | (0.3) | (0.3) | (0.2) | (0.2) | (0.2) | (1.0) |
| Other Business Services | (0.3) | (0.2) | (0.2) | (0.1) | (0.2) | (0.2) | (0.2) | (0.2) | (0.8) |
| **Primary Income** | (10.4) | (12.8) | (15.5) | (12.9) | (10.1) | (5.5) | (12.2) | (15.7) | (43.5) |
| Compensation for Employees | (1.6) | (1.7) | (2.0) | (2.4) | (2.4) | (2.1) | (2.2) | (2.4) | (9.1) |
| Direct Investment | (8.0) | (9.2) | (11.4) | (7.2) | (7.6) | (4.6) | (10.3) | (10.8) | (33.3) |
| Portfolio Investment | (4.0) | (5.1) | (4.1) | (6.0) | (3.4) | (1.9) | (3.4) | (4.1) | (12.9) |
| Other Investment | 3.2 | 3.3 | 2.0 | 2.7 | 3.3 | 3.1 | 3.7 | 1.6 | 11.8 |
| **Secondary Income** | (4.6) | (4.8) | (4.6) | (5.2) | (5.5) | (4.9) | (5.5) | (5.5) | (21.4) |

*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

## FINANCIAL ACCOUNT

The financial account for 4Q19 improved through a lower net outflow of RM0.6 billion compared with RM1.3 billion in 3Q19. A smaller net outflow of portfolio investments was recorded against a net inflow in the direct investment (DI) in 4Q19. The DI posted a net inflow of RM2.2 billion (3Q19: -RM0.8 billion), reflecting a higher net inflow of RM8.2 billion of foreign direct investment against a smaller net outflow of direct investment abroad of RM6.0 billion.

The portfolio investment account recorded a smaller net outflow of RM2.8 billion against RM26.8 billion in 3Q19 as a result of more moderate outflows from resident investors and a return of non-resident portfolio investments. The improvement in portfolio investment reflected increasing investor confidence arising from the US-PRC Phase One trade deal. Expectations of two impending rate cuts by the US Federal Reserve have raised hopes of increased capital inflows into emerging markets, including Malaysia.

**Exhibit 1.4: Summary of Capital and Financial Account Performance**

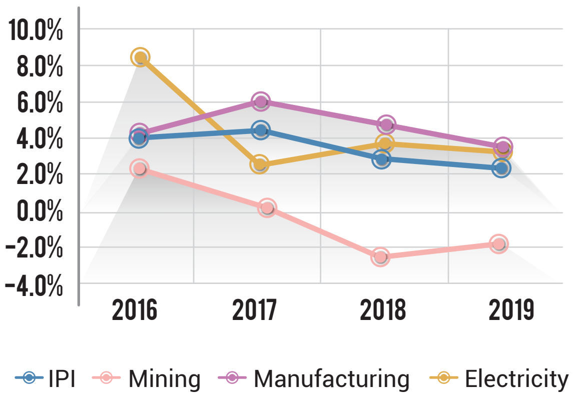
| | 2018 Quarter-on-Quarter Performance (RM billion) | | | | 2019 Quarter-on-Quarter Performance (RM billion) | | | | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | |
| Capital Account | (0.0) | (0.0) | (0.0) | (0.0) | 0.0 | (0.0) | (0.0) | 0.3 | 0.3 |
| **Financial Account** | 11.9 | 10.5 | 2.3 | (6.1) | (13.8) | (18.6) | (1.3) | (0.6) | (34.3) |
| Direct Investment | 9.2 | (0.5) | 0.5 | 2.1 | 16.3 | (8.2) | (0.8) | 2.2 | 9.4 |
| Portfolio Investment | (1.5) | (37.9) | 0.8 | (5.8) | 2.1 | (10.2) | (26.8) | (2.8) | (37.7) |
| Financial Derivatives | 0.8 | 0.8 | 0.0 | (0.7) | (0.2) | (0.5) | 0.9 | (0.6) | (0.4) |
| Other Investment | 3.3 | 48.2 | 1.0 | (1.8) | (31.9) | 0.3 | 25.3 | 0.6 | (5.7) |
| Net Errors and Omissions | (7.3) | (14.2) | (9.1) | (10.8) | 2.9 | 2.9 | (3.7) | (9.4) | (7.2) |

*Note: Capital Account; 0.0=Less than RM50 million*
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

## MODERATION IN INDUSTRIAL PRODUCTION INDEX

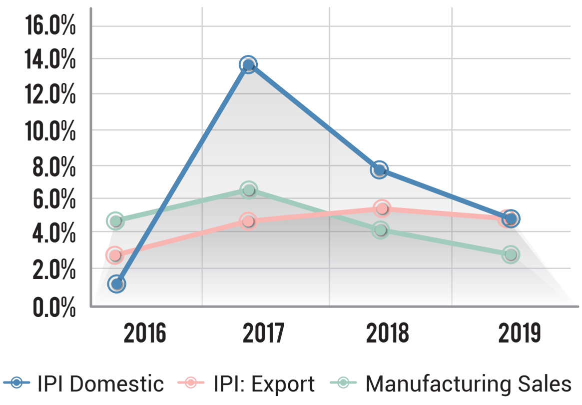
The overall Industrial Production Index (IPI) grew at 2.4% in 2019. The manufacturing sector expanded by 3.6% while mining shrank to 1.7% for a second consecutive year of negative growth. Manufacturing sales rose to above the IPI at 5% (2018: 2.4%), reflecting the sizeable re-export component of the domestic industrial environment. The on-going US-PRC trade tension together with weak commodity prices and supply disruptions in the mining sector were among the drag factors on Malaysia's IPI performance in 2019.

**Exhibit 1.5: IPI Performance 2016 - 2019 (%)**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 1.6: IPI versus Manufacturing**

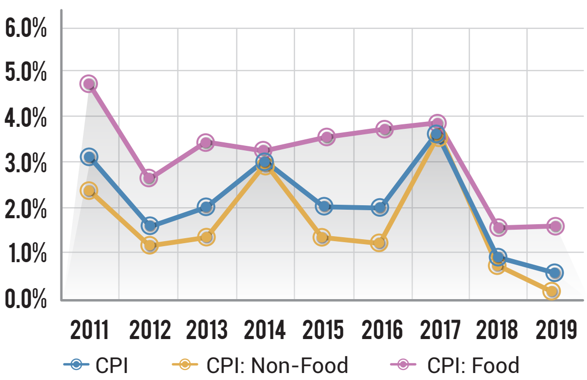



*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

## INFLATION

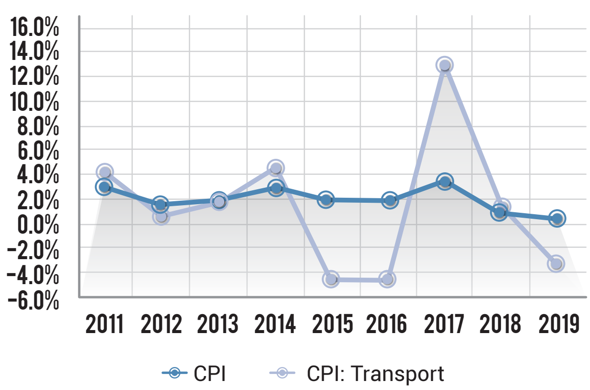
In 2019, headline inflation declined to 0.7% (2018: 1%). Core inflation, however, rose 1.1% from 0.8% in 2018. The inflationary pressure continued to ease as domestic retail fuel price ceilings were maintained, with transport inflation contracting by 3.1%. Malaysia, as a net food importer, imports almost a quarter of its total food supply. Imported inflation from the food component of the country's trade was evident in food inflation being higher than headline inflation.

**Exhibit 1.7: Consumer Price Index (CPI) Performance**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 1.8 Headline Inflation versus CPI: Transport 2011 - 2019 (%)**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

### Exhibit 1.9: Consumer Price Indices

| Indices | Month-on-Month Growth Rate (%) | | | Year-on-Year Growth Rate (%) | | | 2019 |
|---|---|---|---|---|---|---|---|
| | Oct 2019 | Nov 2019 | Dec 2019 | Oct 2019 | Nov 2019 | Dec 2019 | |
| CPI | 0.2 | 0.1 | 0.2 | 1.1 | 0.9 | 1.0 | 0.7 |
| Non-Food | 0.3 | 0.1 | 0.0 | 0.8 | 0.6 | 0.6 | 0.2 |
| Food and Non-Alcoholic Beverages | 0.1 | 0.0 | 0.5 | 1.8 | 1.5 | 1.7 | 1.7 |
| Alcoholic Beverages and Tobacco | 0.0 | 0.1 | (0.1) | 2.2 | 0.4 | 0.2 | 1.5 |
| Clothing and Footwear | (0.3) | 0.1 | (0.1) | (1.3) | (1.1) | (1.0) | (1.9) |
| Housing, Water, Electricity, Gas and Other Fuels | 0.0 | 0.4 | 0.0 | 1.6 | 1.7 | 1.7 | 1.9 |
| Furnishings, Household Equipment and Maintenance | 0.0 | 0.1 | 0.1 | 1.7 | 1.5 | 1.4 | 1.4 |
| Health | 0.1 | 0.2 | 0.0 | 1.4 | 1.4 | 1.4 | 0.6 |
| Transport | 0.2 | 0.0 | 0.1 | (2.3) | (2.4) | (1.9) | (3.1) |
| Communication | 1.6 | 0.0 | 0.0 | 1.5 | 1.5 | 1.5 | 0.4 |
| Recreation and Culture | 0.0 | 0.1 | (0.1) | 0.7 | 0.8 | 0.6 | 0.7 |
| Education | 0.1 | 0.0 | 0.0 | 1.9 | 1.6 | 1.7 | 1.4 |
| Restaurants and Hotels | 0.0 | 0.1 | 0.2 | 1.2 | 1.1 | 1.1 | 1.2 |
| Miscellaneous Goods and Services | (0.2) | 0.4 | (0.1) | 2.2 | 2.5 | 2.4 | 0.4 |
| Durable Goods | (0.1) | (0.1) | (0.1) | 2.1 | 1.9 | 1.7 | (0.2) |
| Semi-Durable Goods | (0.2) | 0.0 | (0.1) | (0.9) | (0.9) | (0.8) | (1.9) |
| Non-Durable Goods | 0.0 | 0.1 | 0.2 | (0.2) | (0.2) | (0.1) | (0.7) |
| Services | 0.2 | 0.3 | 0.0 | 1.9 | 1.9 | 1.9 | 2.0 |
| Core CPI | 0.1 | 0.3 | 0.0 | 1.4 | 1.4 | 1.4 | 1.1 |

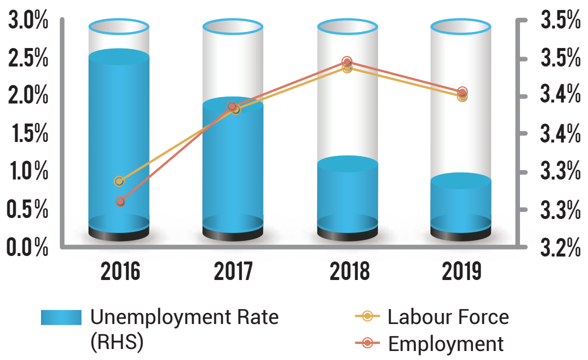
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

## AVERAGE EMPLOYMENT GROWTH

Malaysia's average employment growth was at 2% in 2019 compared with 2.5% in 2018. The job market posted improvement against a weaker external trade performance due primarily to the steady expansion of the IPI, especially for domestic-oriented industries and the commodity-based and services sectors. Sector-wise, job vacancies in services grew during the year while vacancies in construction and manufacturing shrank owing to lower investment spending and uncertainties in the global economy. Malaysia's unemployment rate is relatively low and stable at around 3%, which means the population is experiencing close to full employment. For 4Q19, employment growth was up by 2.2% (3Q19: 2.1%) and unemployment down by 3.2% (3Q19: 3.3%).

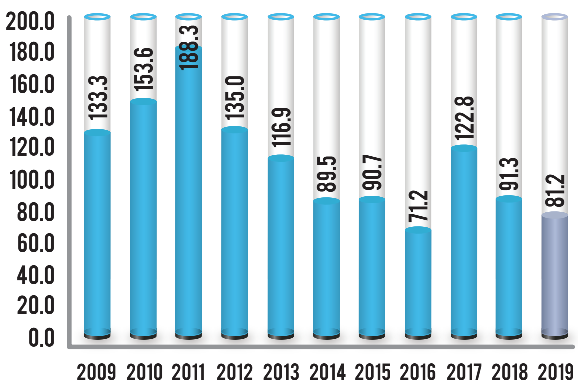
In tandem with moderating growth in GDP, average job vacancies per month were 81,200, the lowest in a three-year period. There was, however, improvement in terms of vacancies by type of jobs. The share of low-value jobs in the total workforce decreased against a rise for high-value jobs. This was apparent in that for every hundred jobs available, sixty-eight were for elementary occupations in 2019 compared with 78 for such occupations in 2018. Conversely, the share of jobs for professionals increased from 2% in 2018 to 3.3% in 2019. A similar trend had been observed also for jobs for senior executives and technicians.

**Exhibit 1.10: Labour Market Key Indicators 2016-2019 (%)**



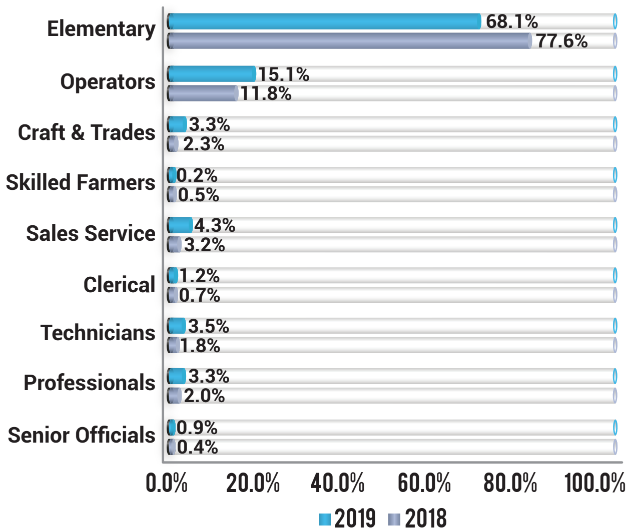

*Note: RHS - Right Hand Side*
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 1.11: Monthly Average of Job Vacancies 2009 - 2019 (Person '000)**



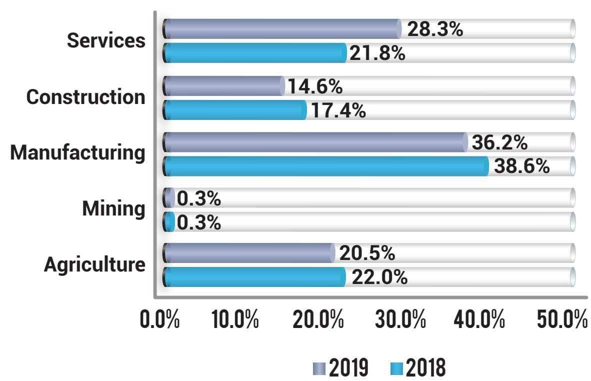

*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 1.12: Share of Job Vacancies by Type 2018 – 2019 (%)**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 1.13: Share of Job Vacancies by Sector 2018 - 2019 (%)**

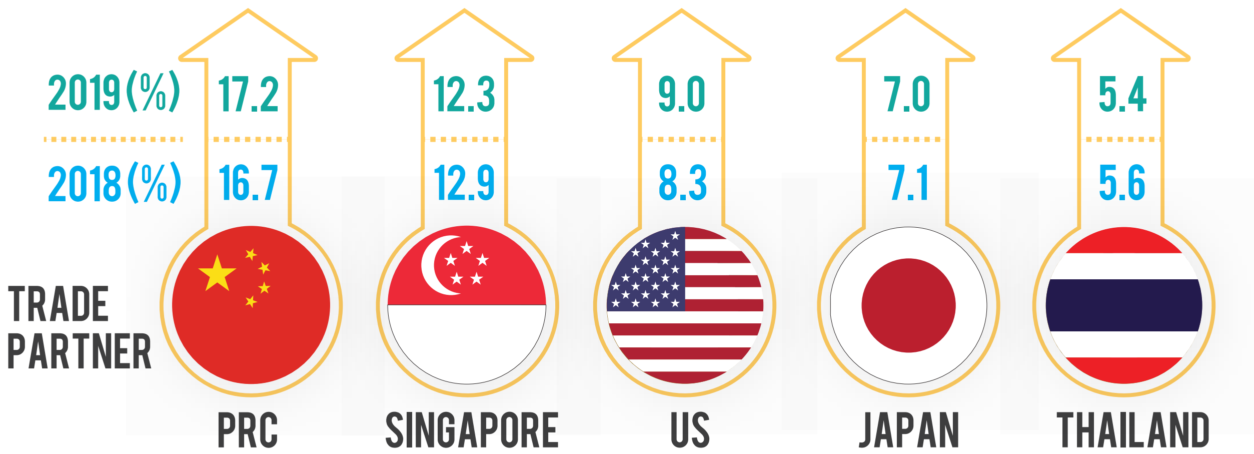



*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

## EXTERNAL TRADE PERFORMANCE

Softer external demand dragged Malaysia's trade down 2.1% to RM1.84 trillion in 2019 from RM1.88 trillion in 2018. This was caused largely by lesser demand from major trading partners as well as lower commodity prices, particularly for crude palm oil and crude oil. Malaysia's trade surplus, however, continued its double digit growth for a third consecutive year, widening by 11% to RM137.39 billion (2018: RM123.78 billion), the largest since 2009. Exports declined by 1.7% to RM986.4 billion (2018: RM998.01 billion) while imports were lower by 3.5% to RM849 billion (2018: RM877.7 billion). The decrease in exports was attributed to lower exports to Hong Kong, Japan, Australia, Singapore and the EU (Source: DOSM).

**Exhibit 1.14 Malaysia's Top Five Trading Partners, 2018 - 2019**



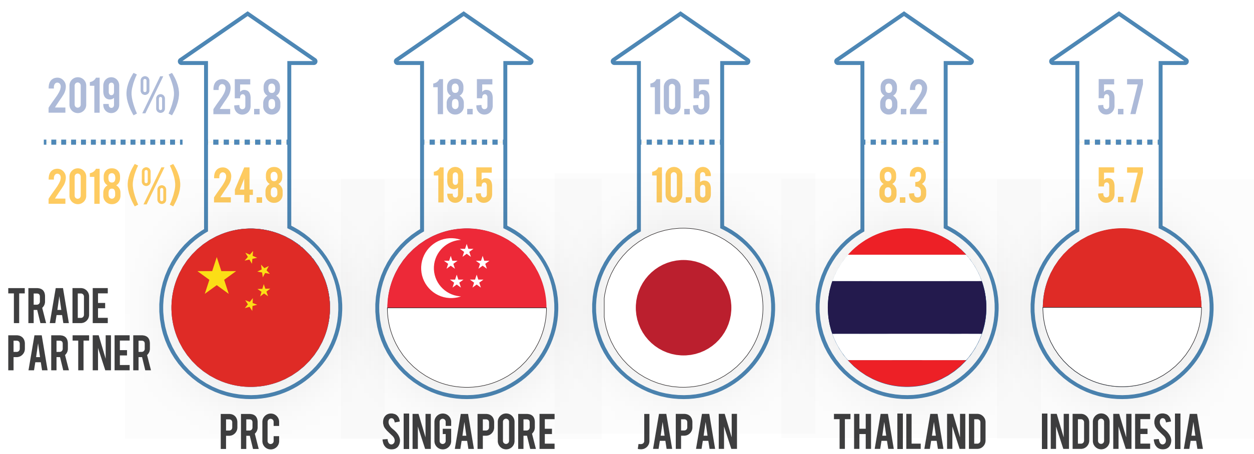

*Source: Department of Statistics Malaysia (DOSM)*

## TRADE WITH FREE TRADE AGREEMENT PARTNERS

Trade with Free Trade Agreement (FTA) partners contributed 66.7% to Malaysia's external merchandise trade account and made up 45.7% of its total trade. The characteristics of Malaysia's trade with its top FTA partners remained unchanged, with only slight marginal variations of each partner's respective share of the country's total trade.

The PRC's trade with Malaysia accounted for 25.8% of the latter's total trade in 2019, a slight increase over the 2018 figures of 24.8%. Singapore was the second largest trading partner with 18.5%, a slight drop compared with 19.2% in 2018. Japan was third with 10.5% followed by Thailand with 8.2% and Indonesia with 5.7%.

**Exhibit 1.15 Malaysia's Top Five FTA Trading Partners, 2018 - 2019**



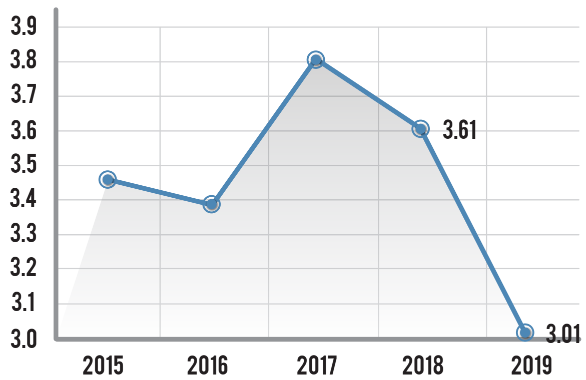

*Source: Department of Statistics Malaysia (DOSM)*

## GLOBAL ECONOMIC PERFORMANCE

The downside risks to trade growth that the International Monetary Fund (IMF) had been flagging throughout the year began to feed through into the global growth forecast for 2019 as world economic growth slowed to 3% from 3.6% in 2018. Uncertainty in the global economy was exacerbated by the escalation of the US-PRC trade tension. The US Government imposed a 30% - from the previously announced 25% - tariff on USD250 billion in Chinese goods as well as the hiking of tariffs in September 2019 on the remaining USD300 billion imports from the PRC. Although a partial deal – the Phase One trade deal – had since then been signed, the US-PRC tariffs are expected to stay in place till at least 2020.

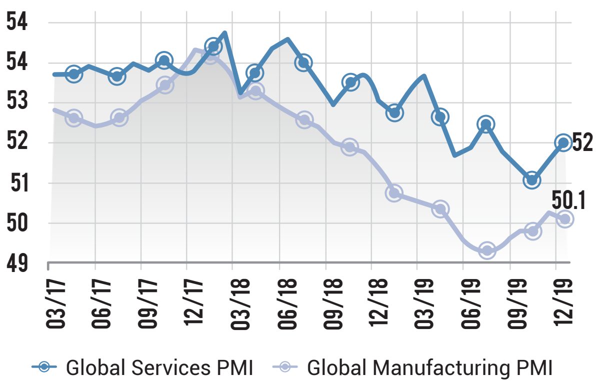
The global manufacturing Purchasing Managers Index (PMI) fell to 50.1 at the end of 2019 as weak international trade flows weighed on overall performance and stymied hopes of a stronger recovery in manufacturing from the mid-year downturn. The services sector, however, remained resilient as the PMI remained above the neutral level of 50.

**Exhibit 1.16: World GDP Growth 2015 – 2019 (%)**




*Source: International Monetary Fund (IMF); Malaysia EXIM Bank Advisory & Research (MEXIM A&R)*

**Exhibit 1.17: Global Manufacturing and Services PMI**

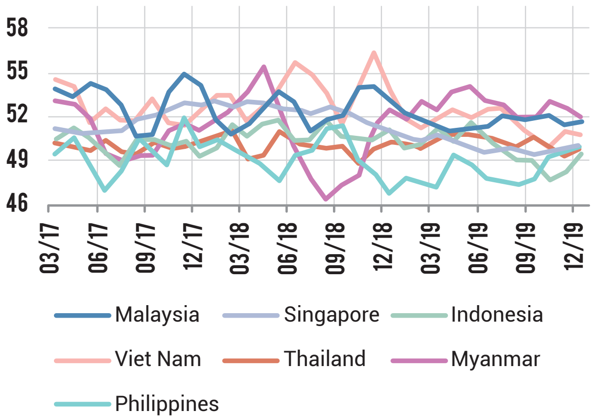



*Source: Bloomberg; Malaysia EXIM Bank Advisory & Research (MEXIM A&R)*

## ASEAN PURCHASING MANAGERS' INDEX AND EXPORT

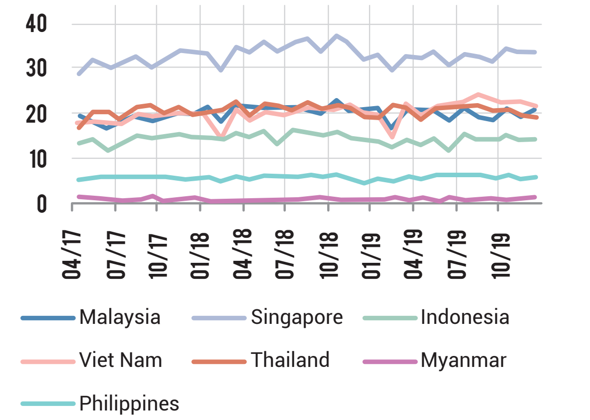
In 2019, the Malaysian and Indonesian manufacturing sectors contracted, with the PMI readings below the critical 50 points threshold. Conversely, the outlook for manufacturing in Viet Nam, the Philippines, Thailand and Myanmar were relatively encouraging, with PMI readings at the expansion level (above 50) and supported by strong output and new orders. The value of total exports of Malaysia, Singapore, Indonesia and Thailand declined in 2019 while those of Myanmar, Viet Nam and Philippines improved.

**Exhibit 1.18: ASEAN Manufacturing PMI**




*Note: >50: Expansionary <50: Contractionary*
*Source: Bloomberg; Malaysia EXIM Bank Advisory & Research (MEXIM A&R)*

**Exhibit 1.19: ASEAN Exports (USD billion)**

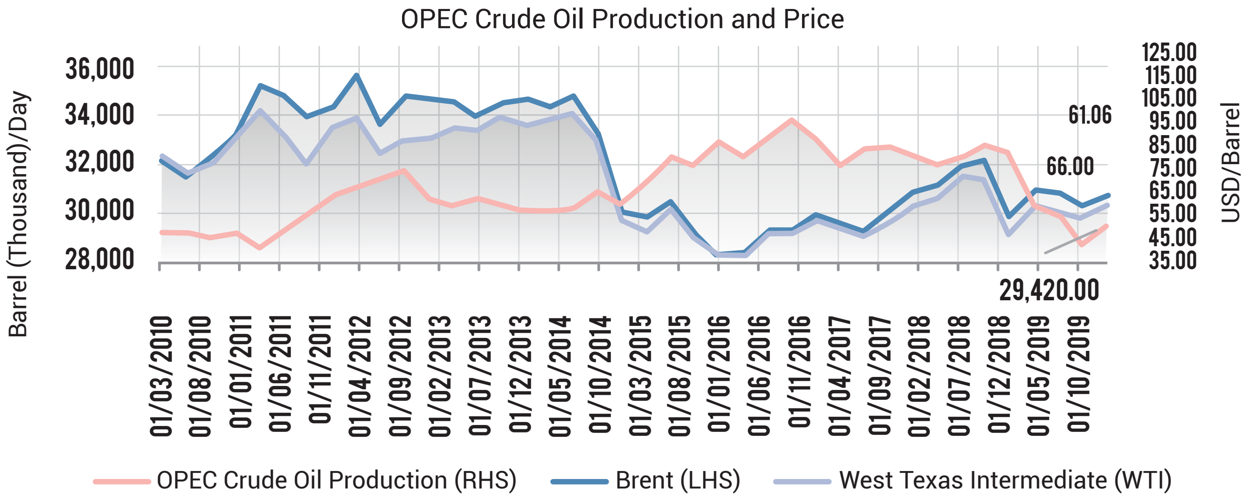



*Note: >50: Expansionary <50: Contractionary*
*Source: Bloomberg; Malaysia EXIM Bank Advisory & Research (MEXIM A&R)*

## OIL

Brent crude oil prices slipped from a year-high of around USD72 per barrel to USD62 per barrel in the second half of 2019 and closed at USD66 per barrel at the end of December 2019. The Organisation of Petroleum Exporting Countries (OPEC) and non-OPEC countries participating in the Declaration of Cooperation agreed to extend voluntary production adjustments until 31 March 2020 in order to stabilise the oil market. Crude production by OPEC members dropped to 29.42 million barrels a day in December 2019, a three-year low compared to 31.8 million barrels per day in the same period of 2018. However, the production cuts had only limited effect on price due to mounting fears of weak demand and other developments on the global stage, including the tightening of US sanctions on Venezuela and Iran, the continuing US-PRC trade tension and other geopolitical tensions.

**Exhibit 1.20: Oil Prices versus OPEC Production**



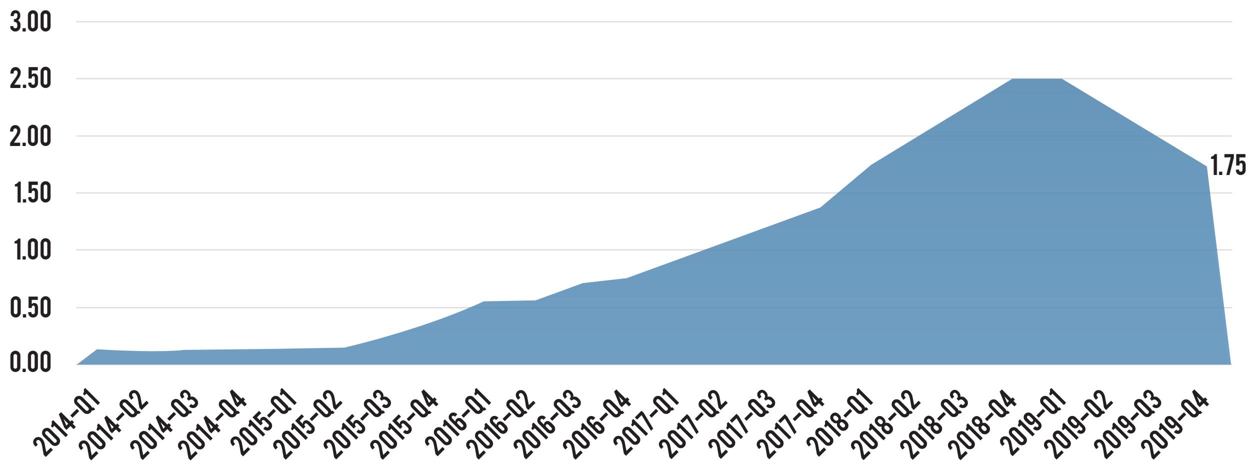

*Note: RHS - Right Hand Side, LHS - Left Hand Side*
*Source: Bloomberg; Malaysia EXIM Bank Advisory & Research (MEXIM A&R)*

## FEDERAL RESERVE FUND RATE

The tone of the Federal Open Market Committee meetings in July and September 2019 indicated that the US Federal Reserve (the Fed) was mindful of the need to contain overly aggressive rate cut expectations. A low inflation rate, which was below the central bank's target of 2%, was presented as an argument for monetary easing.

The Fed chairman had also expressed concern on the threat to growth posed by escalations in the US-PRC trade tension. Against this backdrop, and following the cuts in July and September, the Fed cut rates for a third time in December 2019, taking the ceiling of the Fed funds target rate corridor to 1.8% at the end of the year.

**Exhibit 1.21: US FED Fund Rate**




*Source: Bloomberg, Malaysia EXIM Bank Advisory & Research (MEXIM A&R)*


# CHAPTER 2
# TRADE PERFORMANCE

# CHAPTER 2
# TRADE PERFORMANCE

## OVERVIEW

In 2019, Malaysia's total trade contracted by 2.1% to RM1.84 trillion against a backdrop of softer global demand rising from trade tensions and other unfavourable external economic conditions. The country's trade surplus, however, still registered double-digit growth for a third consecutive year, with an 11% increase to RM137.39 billion (2018: RM123.78 billion). This was the largest increase since 2009 and marked Malaysia's twenty-second consecutive year of trade surplus.

Malaysia's top five trading partners - the People's Republic of China (PRC), Singapore, the United States of America (US), Japan and Thailand - collectively accounted for 50.9% or RM934.89 billion of total trade. The PRC, which remained the country's largest trading partner for the eleventh consecutive year, accounted for 17.2% of total trade last year. The PRC, with a 14.2% share of total exports valued at RM139.61 billion, has surpassed Singapore as Malaysia's largest export destination.

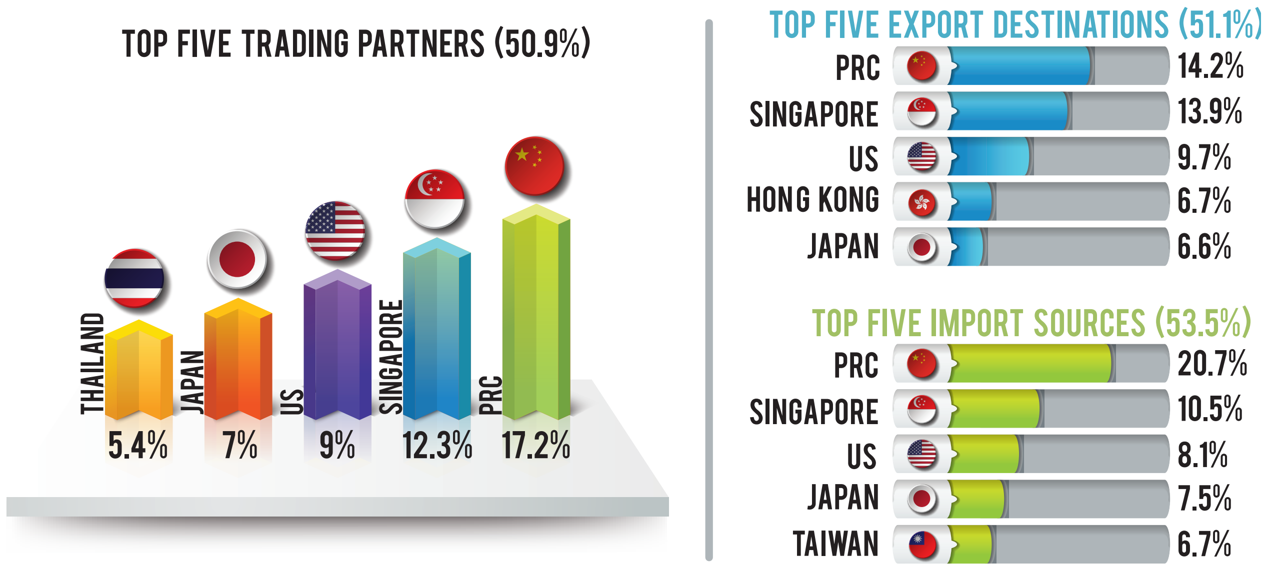
Total exports dipped by 1.7% to RM986.4 billion though it was still the second highest export value achieved thus far. The overall drop in the export trade was exacerbated by lower commodity prices for crude palm oil for a large part of the year. The five top export destinations - comprising the PRC, Singapore, US, Hong Kong and Japan - accounted for 51.1% or RM504.07 billion of Malaysia's export trade. Exports to the PRC grew by 0.3% with higher exports of broad-based products mainly iron and steel, liquefied natural gas (LNG), paper and pulp, palm oil and palm oil-based agriculture products, metal products, optical and scientific equipment and processed food.

Total imports declined by 3.5% to RM849.01 billion. The top five sources of imports were the PRC, Singapore, US, Japan and Taiwan, which collectively accounted for 53.5% or RM454.42 billion of Malaysia's total imports. The PRC was also Malaysia's leading import source, with a 20.7% share of total imports in 2019. Imports from the PRC, which grew 0.1% to RM175.59 billion, comprised largely of petroleum products, transport equipment and plastic products.

Malaysia's trade with member states of the Association of Southeast Asian Nations (ASEAN) dipped 4.4% to RM488.91 billion or 26.6% of total trade. Malaysia's ASEAN trade, weighed down by a lower volume of exports - largely of electrical and electronic (E&E) products and commodity-based products such as petroleum, crude petroleum and rubber products - declined to RM284.03 billion or 1.1% of total trade volume. The dip in exports of such products was, however, offset by higher exports of iron and steel products, machinery, equipment, LNG as well as petroleum-related products which collectively increased by RM7.19 billion.

In the 2019 global rankings of trading nations, Malaysia was listed as the world's 26th largest exporter and importer.

**Exhibit 2.1: Top Five Markets with over 50% Share of Total Trade, Exports & Imports**




*Source: Department of Statistics Malaysia (DOSM)*

## Exports

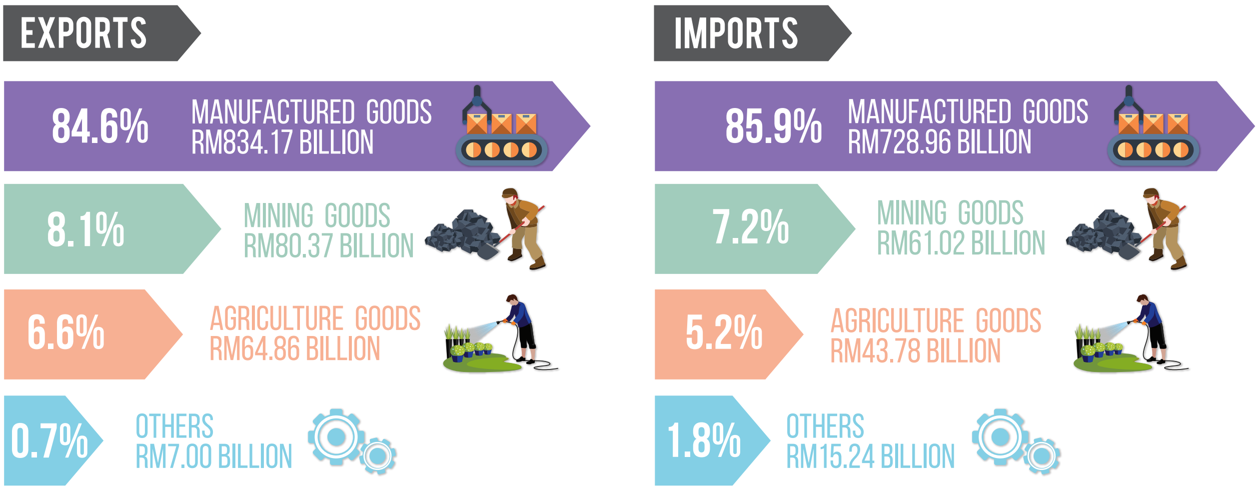
Manufactured goods, which accounted for 84.6% of total exports in 2019 (2018: 83.4%), declined by 0.3% to RM834.17 billion. Exports of E&E products, which had the largest share of total manufactured goods exports, dipped 2.3% to RM372.67 billion or 37.8% of the total. Other exports which fell in volume were mining goods, crude petroleum and agriculture goods.

Exports of mining goods, which made up 8.1% of the total for the year, were down by 10.6% to RM80.37 billion. Crude petroleum exports fell by 28.1% to RM26.35 billion consequent of lower Average Unit Value (AUV) and volume. Agriculture exports, which made up 6.6% of the total, contracted by 3.2% to RM64.86 billion. Palm oil and palm oil-based agricultural products declined by 3.6% to RM43.10 billion, largely due to lower export volume of palm kernel oil on account of lower AUV. Exports which recorded significant growth were iron and steel products, processed food and optical and scientific equipment.

## Imports

In 2019, total imports declined by 3.5% to RM849.01 billion. The three main categories of imports by end use - intermediate goods, capital goods and consumption goods - accounted for 75.6% of the total. Imports of intermediate goods valued at RM467.18 billion, or 55% of the total, grew by 1.1% year-on-year in the wake of higher imports of primary industrial supplies. Capital goods, valued at RM100.32 billion or 11.8% of total imports, dropped by 10.8%, mainly due to lower imports of transport equipment, particularly aircrafts. Imports of consumption goods rose by 1.3% to RM74.01 billion or 8.7% of the total, due to higher volume of non-durables such as pharmaceutical products. Imports of manufactured goods - comprising largely of E&E products at RM245.46 billion, chemicals and chemical products at RM81.55 billion, petroleum products at RM77.51 billion and machinery equipment and parts at RM69.64 billion - made up 85.9% of total imports in 2019.

**Exhibit 2.2: Composition of Malaysian Exports and Imports**




*Source: Department of Statistics Malaysia (DOSM)*

# BILATERAL RELATIONSHIPS

## East Asia

### People's Republic of China

Malaysia's existing strong relations with the PRC continued through active engagements and programmes in 2019. This strong relationship was reflected in the presence of the Prime Minister and the Minister of International Trade and Industry at the Second Belt and Road Forum for International Cooperation held in Beijing from 25 to 27 April 2019. Malaysia's participation at the forum was an affirmation of the Malaysian Government's support for the Belt and Road Initiative (BRI). Apart from the forum, Government leaders of both countries also held bilateral meetings to deepen diplomatic relations as well as dialogues on investment opportunities and facilitation measures.

Malaysian Small and Medium Enterprises (SMEs) participated in the 16th China International Small and Medium Enterprises Fair (CISMEF) which was held from 23 to 26 June 2019 in Guangzhou. The objective of the participation was to assist local SMEs to gain greater access to the Chinese and other global markets. The delegation was led by the Deputy Minister of International Trade and Industry. Potential sales of RM130.4 million and investments of up to USD1.2 billion were recorded from Malaysia's participation in CISMEF.

Malaysia also participated in the Second China International Import Expo (CIIE) in Shanghai from 5 to 11 November 2019. Potential sales of RM235.6 million were recorded from the participation in CIIE which is one of the outcomes of the BRI that targets the boosting of exports to PRC as well as other participating nations.

From 1 to 2 July 2019, the Minister led a delegation to Dalian to participate in the World Economic Forum which focused on discussing new ideas and innovations to power the next phase of globalisation. The Minister also held bilateral meetings with key provincial governors and industry champions to promote Malaysia as a hub for 4th Industrial Revolution (4IR) technologies. Several working visits were also made to Shenzen, Guangzhou, Shanghai and Suzhou for bilateral meetings with key provincial leaders as well as dialogues and roundtable meetings with high-value potential investors and exporters to boost confidence in Malaysia as a preferred trading partner and investment destination.

### Japan

From 28 November to 5 December 2019, the Minister of International Trade and Industry led a 123-member Trade and Investment Mission to the Japanese cities of Kobe, Nagoya and Tokyo. Members of the mission included the Chief Minister of Sabah, State Executive Councillors and other Government officials. The mission served as an important annual engagement platform for Malaysia to strengthen bilateral economic and trade relations between the two countries as reflected in the business-matching sessions with Japanese companies that provided ample opportunities to promote Malaysian brands and services to the Japanese market. Three seminars on business opportunities in Malaysia and 12 one-to-one meetings with Japanese companies were held in the cities visited. The potential investments - mainly in the biomass, automotive, aerospace, semiconductor, shipbuilding and food sectors - expected from these engagements were estimated to total RM3.82 billion while the value of potential exports to Japan was RM33 million.

The Ministry of International Trade and Industry (MITI) launched another trade promotion programme in the form of the Digital Trade Halal Value Chain initiative on 15 August 2019. The initiative targeted at promoting halal products and services during the Tokyo Olympics and Paralympics 2020. The Export Acceleration Mission (EAM) on Halal Products and Services to Japan was held from 4 to 8 November 2019. Besides promoting Malaysian halal products and services in Japan, the EAM aimed at making Malaysia one of the main halal providers for the Olympics. A total of 192 business-to-business meetings were held between Malaysian and Japanese companies and potential sales of RM37.22 million were recorded.

### Republic of Korea

The Minister of International Trade and Industry and the Minister of Trade, Industry and Energy of the Republic of Korea (ROK) signed a Memorandum of Understanding (MoU) on Industrial Cooperation Pursuant to the Fourth Industrial Revolution during the visit of President Moon Jae-in to Malaysia from 12 to 14 March 2019. The signing of the MoU on 13 March, was witnessed by the Prime Minister and President Moon. The MoU aimed at encouraging and promoting collaboration in terms of technology transfer, research and development and capacity-building programmes for emerging technologies such as artificial intelligence and smart manufacturing as well as the automotive industry. In conjunction with the visit by the ROK President, the Malaysian Investment Development Authority (MIDA) and the Korea Chamber of Commerce and Industry jointly organised the Malaysia-ROK Business Forum on 14 March to enhance networking and collaboration between Malaysian and Korean businesses.

## West Asia

### Middle East

The World Economic Forum (WEF) Annual Meeting 2019 was held in Davos-Klosters, Switzerland, on 22-25 January. On the sidelines of the meeting, the Minister of International Trade and Industry held bilateral meetings with the Minister of National Economy of Palestine and the chairman of the Bank of Palestine; Minister of Commerce and Industry of Qatar and the Chief Executive Officer of Qatar Investment Authority; and Minister of Economy and Planning of Saudi Arabia to exchange views on trade and investment as well as discussing potential business activities. To further strengthen economic relations between Malaysia and Qatar, the Minister co-chaired the Second Malaysia-Qatar Joint Trade Committee Meeting with the Minister of Commerce and Industry of Qatar on 8 to 10 October 2019 in Kuala Lumpur. The discussions covered cooperation in trade, investment and industry; banking and finance; agriculture and food security; standards; and transport and energy.

### Turkey

The Minister of International Trade and Industry accompanied the Prime Minister during the latter's official visit to Turkey from 24 to 27 July 2019. One of the key objectives of the visit was to attract foreign direct investment from Turkey. MITI in collaboration with MIDA and the Malaysia External Trade Development Corporation (MATRADE) organised a roundtable discussion with Turkish captains of industry from 40 companies from various sectors such as aerospace, automotive, machinery and equipment, defence technology, transport equipment, building technology, pharmaceuticals and information and communication technology (ICT).

## South Asia

The Prime Minister made an official visit to Pakistan from 21 to 23 March 2019 which coincided with Pakistan Day on 23 March. During the visit, the Prime Minister paid a courtesy call on the President of Pakistan Dr. Arif Alvi and attended a four-eye meeting with Pakistan's Prime Minister Imran Khan. Both countries agreed to further strengthen existing cooperation in various areas such as trade, investment, infrastructure development and tourism.

## Americas

### United States of America

In 2019, the Minister and the Deputy Minister of International Trade and Industry continued to engage with key members of business groups including the American Malaysia Chamber of Commerce (AMCHAM), US Chamber of Commerce and US-ASEAN Business Council. From 1 to 6 April, the Minister led a trade and investment mission to five cities in the US, namely, Washington DC, New York, Seattle, San Jose and San Francisco. During the trip, bilateral discussions were held with Government officials and American businesses as well as the media. The mission generated potential investments of RM6.6 billion mainly in the E&E and chemical sectors. An important outcome of the mission was the establishment of the Centre of Artificial Intelligence for Future Industry (CAIFI) between Microsoft and Malaysia's National Applied Research and Development Centre (MIMOS) to provide capacity development programmes. As a follow-up to the mission, MITI together with the US-ASEAN Business Council (USABC) co-organised the SME Workshop on Industry 4.0 and Digital Economy on 23 May 2019.

### Latin America And Caribbean Countries

The Government of Colombia through its Embassy in Kuala Lumpur conducted a Spanish language training in MITI from October to December 2019 as part of its Cultural Diplomacy Programme. A total of 38 officials from MITI and agencies benefitted in learning basic communication skills in Spanish language. Apart from that, the Embassy and Juan Valdez Café also organised the Colombian Coffee Day at MITI on 13 November 2019.

## European Union

In 2019, the European Union (EU) was Malaysia's third largest trading partner after the PRC and Singapore. During a working visit to Italy from 23 to 30 September, the Minister of International Trade and Industry delivered a keynote address at the Maire Tecnimont Region Day, engaged with major Italian companies as well as discussed the holding of the High-Level Dialogue Session 2020 in Kuala Lumpur with Italian business associations namely Ambrosetti and the Italy-ASEAN Association. The visit attracted potential investments of RM6.7 billion.

The Minister made a working visit to Hungary from 13 to 17 November in conjunction with the 50th anniversary of the establishment of diplomatic relations between Malaysia and Hungary. The Minister signed an MoU on Economic Cooperation between Malaysia and Hungary and visited the autonomous vehicle test bed in Zalaegerszeg as well as meeting with the

Hungarian Chamber of Commerce and Industry and local companies. In Malaysia, the Minister held a Roundtable Meeting - coordinated by the Swedish Embassy - on 12 December with the Swedish business community in Malaysia. The meeting, which was attended by fifteen companies, discussed various matters pertaining to the companies' business operations in Malaysia.

## Oceania

The Minister of International Trade and Industry led a Trade and Investment Mission to the Australian cities of Adelaide, Canberra and Melbourne in August 2019. The 18th Joint Trade Committee meeting co-chaired by the Minister and the Australian Minister of Trade, Tourism and Investment was held in Canberra on 20 August in conjunction with the mission. The Minister also met with several federal and state ministers to review established collaboration as well as to explore new areas for trade and cooperation.

## Africa

Africa is an emerging market with trade opportunities Malaysia could tap into. As part of the engagement process, the Minister of International Trade and Industry hosted a Roundtable Dialogue to explore trade potential with African heads of mission to Malaysia on 3 June 2019 at MITI Tower in Kuala Lumpur. The Dialogue acknowledged the diverse opportunities in the African continent which can be tapped for mutual benefit. It was agreed that focused and strategic trade and investment promotion activities through tripartite collaboration with the embassies, private sector and the Government would be crucial to ensure substantial outcomes. The areas identified as having high potential for trade and investment are automotive components and parts, building materials, infrastructure concessions including highways, ports, public housing and government buildings, ICT, agriculture and halal industry.

The African delegation at the dialogue comprised 21 officials including 14 Ambassadors and High Commissioners of Algeria, Egypt, Gambia, Ghana, Kenya, Lesotho, Namibia, Senegal, Somalia, South Africa, Sudan, Uganda, Zambia and Zimbabwe as well as senior embassy officials from Guinea, Morocco, Nigeria and Tanzania. The delegation was led by the Dean of African Ambassadors to Malaysia, H.E. Cuthbert Zhakata, the Ambassador of Zimbabwe.

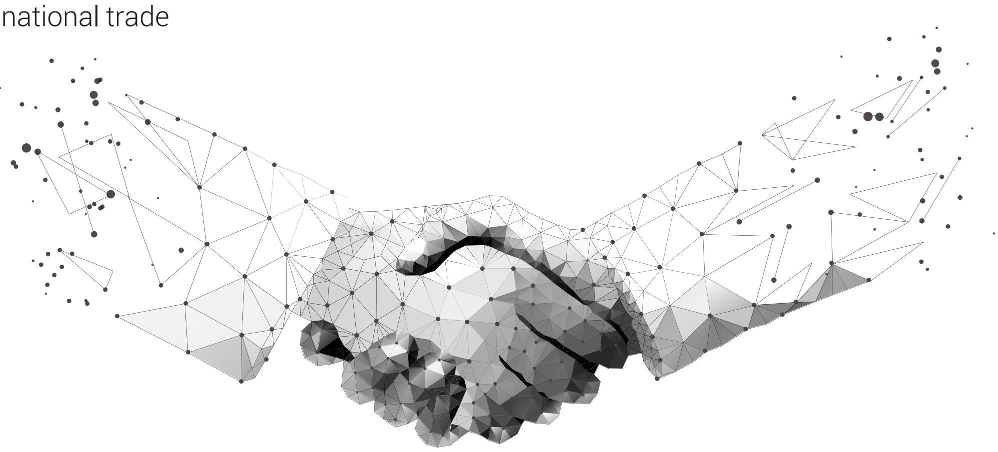
# FREE TRADE AGREEMENTS

## Free Trade Agreements for Malaysia

Malaysia is a signatory to 15 Free Trade Agreements (FTAs), of which seven are bilateral agreements and the remaining eight are regional FTAs. All seven bilateral FTAs - with Australia, Chile, India, Japan, New Zealand, Pakistan and Turkey - have been implemented and entered into force. Seven regional FTAs have entered into force through the ASEAN FTAs with Hong Kong, the People's Republic of China (PRC), Japan, Republic of Korea (ROK), India, Australia and New Zealand. The eighth regional FTA, the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), has yet to be ratified.

## Trade Performance with Free Trade Agreement Partners

Malaysia's trade policy is premised on the vision of a more liberalised and fair global trading environment. As a country that is highly dependent upon trade, Malaysia's involvement in FTAs is vital in the pursuit of the national trade agenda as well as in growing the country's export trade through preferential market access. Malaysia continues to accord high priority to the rule-based multilateral trading system under the World Trade Organisation (WTO) as well as in pursuing regional and bilateral trading arrangements to complement the multilateral approach to trade liberalisation. The country is committed to ensure that all FTAs will encompass the following non-negotiable elements i.e. free, fair and mutually beneficial trade.



FTAs can help attract investment, spur innovation and enhance technological upgrading as well as widening market access for exports of goods and services. With Malaysia's implementation of the 15 FTAs, smoother trade flows and stronger ties with trading partners have been established and barriers as well as behind-the-border issues which impede the smooth flow of goods and services can be more effectively addressed. In 2019, approximately 66.7% of Malaysia's total trade was contributed by trade partners, albeit with the total volume registering a 3.4% drop to RM1.22 trillion (2018: RM1.27 trillion). Of the total, exports accounted for RM672.11 billion (2018: RM694.36 billion) and imports RM551.45 billion (2018: RM572.76 billion).

Trade with ASEAN member states and ASEAN + 1 FTA Partners had registered some contraction from 2018. However, it remained as Malaysia's most important trading partner, constituting 28.8% of Malaysia's total trade with a value of RM488.91 billion. The PRC has been Malaysia's leading ASEAN+1 FTA partner for eleven consecutive years since 2009. In 2019, Malaysia's trade with the PRC increased by 0.2% to RM315.19 billion (2018: RM314.56 billion) and accounted for 17.2% of Malaysia's total trade. As ASEAN continues to grow as an important destination for trade and investment, domestic exporters have been quick to expand and invest in member countries, thus expanding Malaysia's export to the Philippines, Cambodia, Viet Nam and Brunei.

## Issuance of Preferential Certificate of Origin

A Preferential Certificate of Origin (PCO) verifies that goods of a certain origin are qualified to enjoy the preferential treatment as provided under specific FTAs. PCOs also promote regional economic integration, through the adoption of the common Rules of Origin and broader acceptance of standards for products. The effectiveness of FTAs in enhancing the competitiveness of Malaysian exports in partner markets can, to some extent, be evaluated through the number of PCOs issued, as reflected in the issuance of approximately 1.7 million PCOs over a three-year period by MITI. In 2019, the number of PCOs issued for all preferential schemes increased by 0.99% to 616,099 compared with 610,033 in 2018.

**Exhibit 2.3: Number of PCOs Issued 2017-2019**

| YEAR | 2017 | 2018 | 2019 |
|---|---|---|---|
| NO. OF PCOs ISSUED | 566,778 | 610,033 | 616,099 |

*Source: DagangNet*

The ASEAN Trade in Goods Agreement (ATIGA) is the leading trade agreement of which 237,530 PCOs were issued in 2019, an increase of 0.46% from 236,446 in 2018. The ASEAN-China FTA (ACFTA) recorded the second highest number of PCOs issued with 129,688; followed by ASEAN-Australia-New Zealand FTA (AANZFTA) with 47,592; Malaysia-Japan Economic Partnership Agreement (MJEPA) with 42,265; and ASEAN-Korea FTA (AKFTA) with 41,479. The main products which contributed to the increase in the utilisation of PCOs were crude oil, E&E products, cocoa butter, fats and oils and rubber gloves. Aside from the top five, greater utilisation of PCOs was also seen in other trade agreements including the ASEAN-India FTA (AIFTA), Malaysia-India Comprehensive Economic Cooperation Agreement and Malaysia-Australia FTA (MAFTA).

## Updates on Free Trade Agreement Negotiations

### Malaysia-European Free Trade Association Economic Partnership Agreement

On March 2014, Malaysia initiated the FTA negotiations with the European Free Trade Agreement (EFTA) member states comprising Iceland, Liechtenstein, Norway and Switzerland - for the Malaysia–European Free Trade Association Economic Partnership Agreement (MEEPA). Eight rounds of negotiations had been held since then, with the last being in 2017. On 26 June 2019, the Cabinet approved the resumption of MEEPA negotiations.

## INTANGIBLE TECHNOLOGY TRANSFER

The Strategic Trade Act (STA) 2010 legislates the control of export, transshipment, transit and brokering of strategic items and technology, including arms and related materials as well as activities that will or may facilitate the design, development and production of weapons of mass destruction and delivery systems. The STA is consistent with Malaysia's obligation under the United Nations Security Council Resolution (UNSCR) 1540. Export control is not only about fulfilling international obligations but also, most importantly, protecting national security and preventing the proliferation of weapons of mass destruction such as chemical, biological, radiological and nuclear weapons.

The STA regulates the movement of strategic items including technology and software as specified in Part 1 (Military Items) and Part 2 (Dual Use Items) of the Strategic Trade (Strategic Items) Order 2010 (Amendment 2018). In principle, a transfer of technology - intangible export - occurs when a person in Malaysia supplies or provides strategic technology in the form of technical knowledge or data and technical assistance as, for example, via electronic means - e-mail, facsimile, telephone, video conferencing - or in providing access to electronic files to any person outside of Malaysia. Controlling the movement of intangibles is an unending challenge and requires a strong degree of commitment and compliance from stakeholders.

MITI, in response to the complexity of identifying activities under Intangible Technology Transfer (ITT), introduced the first such guidelines in 2016. The guidelines went through a series of discussions and workshops with related research institutions, universities and business entities before it was published. However, with the rapid changes occurring in the ITT environment including the development of new technologies by various stakeholders including in academia, a review of the 2016 guidelines was deemed in order to assist stakeholders determine more effectively whether strategic ITT or related activities have occurred and whether these are in compliance with STA 2010 requirements.

The revised ITT guidelines are the outcome of various engagements with the Higher Education Department of the Ministry of Education and representatives of local universities as well as from the ITT outreach presentation to the Deputy Vice Chancellor (Research and Innovation) in Universiti Sains Malaysia, Penang. Serving as an initial review, the draft guidelines were presented at the *Bahagian Perancangan Kecemerlangan Institut Pengajian Tinggi Awam and Institut Pengajian Tinggi Awam* Research Management Centre together with the targeted audience. MITI also shared the draft with the Research Management Centre of Universiti Teknologi Malaysia and Universiti Malaysia Kelantan. Subsequently, MITI conducted an internal review of the guidelines based on the feedback received. The revised guidelines were officially endorsed at the Strategic Trade Action Committee (STAC) meeting on 18 July 2019.

The 2019 ITT guidelines feature additional information on recent ITT developments, a more extensive Frequently Asked Questions (FAQ) section, an introduction to ITT Control Mechanisms including a flowchart on Application of Permit for Exports of Strategic Technology under STA and examples of a pre-screening sheet for transfer of technologies and export of goods. As clear guidelines and procedures enable a more systematic control of technology within an organisation, the revised guidelines put emphasis on the crucial role of companies and higher institutions of learning in ensuring that everyone, whether staff or students, are well-informed on ITT. An organisation's policy on ITT must be clearly communicated to everyone with access to strategic technology and that best practices should be exercised by instituting access restrictions on such technology at various levels according to the security-sensitivity level of the product.

## Outreach Programmes on Strategic Trade Act 2010

MITI is committed in providing a safe business environment for economic development and has been proactive in ensuring that Malaysia's trade is conducted under secure conditions. Regulatory reviews have been undertaken continually to implement the Strategic Trade Act 2010 (STA 2010) effectively in order to address issues related to the proliferation of weapons of mass destruction. With an increasingly borderless trading world, the global supply chain is getting more complex. Conventional trade has always been about physical commodities such as cargoes and tangible items but in the current scenario, intangibles such as ICT software and other emerging technologies have become important components of the global trade.

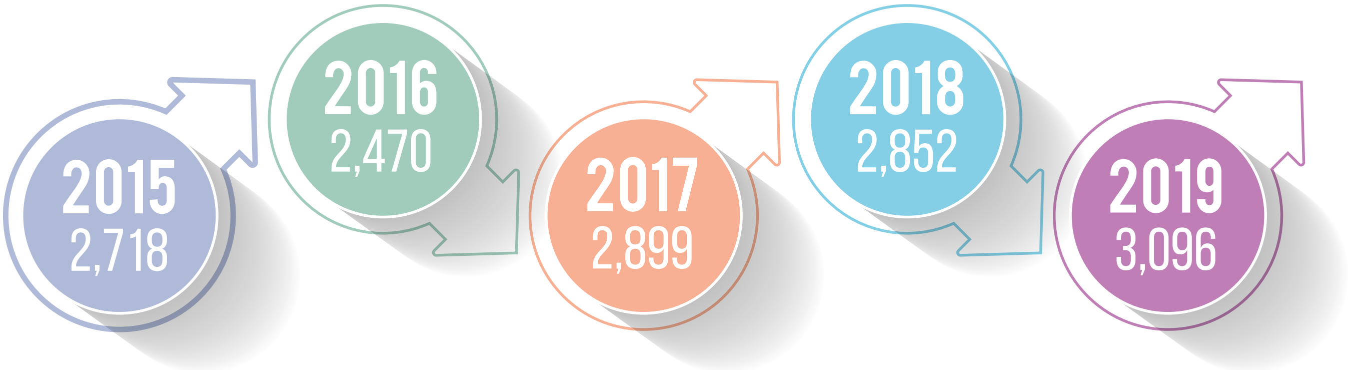
In tandem with such developments, MITI has further widened engagement with stakeholders involved in research and development in industry and academia in order to enhance awareness on export control compliance. These outreach programmes inform on the risks of handling sensitive items as well as the importance of applying for the STA 2010 permit to safeguard their respective interests and to prevent sensitive technology from being acquired by non-state actors. A total of 372 outreach and capacity-building programmes have been conducted since the inception of STA 2010. In 2019, MITI organised 62 related programmes and 33 outreach programmes for industry and academic institutions.

STA 2010 has been in force for almost 10 years but educating industry players of diverse backgrounds, particularly with intermediaries such as traders and logistics companies, remains a challenge. This has necessitated the creation of a strategic network of enforcement agencies to enhance the level of integrity and responsibility as well as compliance by stakeholders. The enforcement network under STA includes the Royal Malaysian Police, Royal Malaysian Customs Department, Malaysian Marine Enforcement Agency, Malaysian Communications and Multimedia Commission, Atomic Energy Licensing Board, Pharmaceutical Services Division, Ministry of Health, Bank Negara Malaysia, Securities Commission and Labuan Offshore Financial Services Authority.

## Permits For Export of Strategic Items

In 2019, MITI received 3,096 e-permit applications to export strategic items. Over a five-year period from 2015 to 2019, there has been an upward trend in such applications, with 2019 registering an increase of 7.6% year-on-year. The increasing applications reflects the higher level of awareness among stakeholders in handling the risks of trading dual-use commodities and technology as well as the compliance requirements of STA 2010 regulations.

**Exhibit 2.4: Applications for Export of Strategic Items 2015-2019**




*Source: Ministry of International Trade and Industry (MITI)*

# MULTILATERAL TRADE POLICY NEGOTIATIONS

## Overview

The global economy, which was already facing headwinds in 2019, was exacerbated by shifts in the monetary policy stance of developed economies as well as the Brexit impasse. The World Trade Organisation (WTO) has accordingly revised the April 2019 forecast of 2.6% for world merchandise trade growth downwards to 1.2% in October, the lowest since 2009.

## Malaysia's Involvement in Multilateral Trade Negotiations

### Developments at World Trade Organisation

#### Reforms

The ongoing trade tensions and increasing number of unilateralist and protectionist measures posed systemic threats to the credibility and effectiveness of the WTO. Discussions on WTO reforms and modernisation deepened in 2019. The proposal to reform the WTO was mooted in order to strengthen the organisation's functions in three key areas: monitoring members' trade policies, serving as a forum for trade negotiations and providing a mechanism to settle trade tensions.

The most immediate issue requiring resolution is the deadlock in appointing members to the WTO Appellate Body (AB). The AB is a standing body comprising seven members appointed by the Dispute Settlement Body (DSB) for a four-year term subject to a maximum of two terms. The AB can uphold or overturn the legal findings and conclusions of a panel under the DSB and its decision is final and binding upon all parties to the dispute. A minimum of three AB members is required to make a ruling on a case. However, there was only one member left in the AB at the end of 2019, rendering it inoperable due to challenges in the selection process to fill the vacancies.

#### Informal Ministerial Gathering of Developing Countries

Aside from the annual gathering of trade ministers in January 2019, the Informal WTO Ministerial Gathering of Developing Countries held in Delhi, India, from 13 to 14 May was the result of an initiative by the Indian Government to deepen dialogue and efforts to overcome challenges faced by the multilateral trading system. Malaysia, together with twenty other members from developing and least developed countries, was an invitee to the meeting. In the face of multiple challenges confronting the WTO as well as the multilateral trading system, the trade ministers pledged to strengthen the organisation, particularly in maintaining the development component and in enhancing cooperation.

#### Dispute Settlement

A total of 593 disputes have been filed for arbitration by WTO members since its inception. Of that total, 176 cases were appealed, an indication that members believe in the effective enforcement of rules to uphold an equitable, secure and predictable multilateral trading system. Malaysia has registered interest as a third party in 25 disputes cases, among which are issues related to intellectual property rights, anti-dumping of fish fillets, safeguards on imports of crystalline silicon photovoltaic products and cases relating to steel and aluminium products. In 2019, Malaysia registered as a third party in two cases related to safeguards on imports of crystalline silicon photovoltaic products and has also recently participated in consultations between Indonesia and the EU related to measures imposed by the latter on palm oil and palm oil biofuels.

### Negotiations on Fisheries Subsidies

Negotiations on fisheries subsidies are based on mandate to clarify and improve existing WTO disciplines which commenced in 2001 at the Doha Ministerial Conference. The mandate which included a call for the prohibition of some forms of fisheries subsidies that had contributed to overcapacity and overfishing was elaborated upon in 2005 at the Hong Kong Ministerial Conference. Pursuant to the 2017 WTO Ministerial Decision on Fisheries Subsidies (FS), Members reiterated the need to focus on the mandated fisheries outcome and agreed to adopt an agreement on comprehensive and effective disciplines which prohibit subsidies that contribute to overcapacity and overfishing; and eliminate subsidies that will lead to illegal, unreported and unregulated (IUU) fishing by Twelfth WTO Ministerial Conference (MC12). Work and negotiations under the Negotiating Group on Rules-Fisheries Subsidies (NGR-FS) have progressed extensively since 2018. Extensive negotiations are underway to ensure these are concluded by the MC12.

### Joint Statement Initiative on e-Commerce

Joint Statement Initiatives are delineations of the normal multilateral track work in WTO. Throughout 2019, groups of WTO members worked towards developing new rules on a range of issues - from e-commerce, investment facilitation, domestic regulation in services and micro enterprises and SMEs - in order to enhance efficiency and predictability in cutting-edge sectors of the economy. Malaysia is a member in three of the four joint statement initiatives. Negotiations are also ongoing to ensure that the process remains open and inclusive, with the emphasis on the different levels of economic development and views of developing and least developed countries in order to attract a broad participation of the membership.

### Capacity-Building Programmes

In 2019, MITI organised two capacity-building programmes in collaboration with WTO's Institute for Training and Technical Cooperation. The first programme was the National Workshop on Trade in Services from 7 to 9 October 2019 which was attended by 100 representatives from Government ministries and agencies, the private sector and various industries. The objectives of the workshop were to build participants' knowledge on the key concepts and provisions contained in the General Agreement on Trade in Services; enhance participants' ability to analyse schedules of specific commitments made in the WTO; and improve knowledge of scheduling techniques under different approaches. Participants were also updated on current developments in negotiations on the domestic regulations and services aspects of e-commerce.

The second programme was the WTO National Workshop on Market Access Issues held from 4 to 8 November at MITI. The workshop, which was attended by ninety Government officials from 22 ministries and agencies, was to enhance participants' knowledge on the basic principles of WTO, rules concerning tariffs and schedules of concessions as well as related market access issues including non-tariff measures.

# World Economic Forum

## World Economic Forum Annual Meeting 2019

Malaysia, represented by the Minister of International Trade and Industry, participated in the WEF Annual Meeting 2019 held from 22 to 25 January at Davos-Klosters, Switzerland. The theme of the meeting was "Globalization 4.0: Shaping a Global Architecture in the Age of the Fourth Industrial Revolution". The Minister was invited to participate in several sessions, namely, "Governing Digital Trade: Next Steps" and "Shaping ASEAN's Agenda in the Global Context" as well as being a panel member in the 3rd Belt and Road Forum organised by the PRC where he spoke on Malaysia's experience in the National Policy for Industry 4.0, the challenges faced in digital trade and initiatives to strengthen ASEAN regional integration. The Minister also engaged with the trade ministers of Switzerland, Qatar, Saudi Arabia, the United Kingdom (UK), Chile and the PRC, Chief Executive Officers (CEOs) and top management of organisations and multinational companies to discuss potential business activities in Malaysia as well as exchanging views on trade and investment prospects. One of the outcomes of these meetings was an investment project in Lahad Datu, Sabah, worth USD3.2 billion.

## World Economic Forum Annual Meeting of the New Champions

The Minister of International Trade and Industry attended the WEF Annual Meeting of the New Champions (AMNC) - also known as the Summer Davos – held in Dalian, PRC, from 1 to 3 July 2019. The AMNC, which discusses the latest trends in science, technology and innovation, has been hosted by the WEF since 2007. The theme for the 2019 AMNC was "Leadership 4.0: Succeeding in the New Era of Globalisation". The meeting deliberated on the forms of leadership and collaboration required for the new era known as Globalisation 4.0 as characterised by the geo-economic shifts and systemic impact of the Fourth Industrial Revolution. On the sidelines of the AMNC, the Minister met with the governors of the provinces of Liaoning and Hebei to enhance cooperation between Malaysia and the two provinces as well as representatives of Airbus Defence and Space which has had a good relationship with Malaysia over the past ten years.

# The Commonwealth

## The Commonwealth Public-Private Dialogue on Women in Digital Economy and International Trade

A two-day Workshop on Inclusive Trade in the Commonwealth with the theme "Public-Private Dialogue on Women in the Digital Economy and International Trade" was held from 29 to 30 January in Kuala Lumpur to start off the Commonwealth Connectivity Agenda on Trade and Investment (CCA) Action Plan. The workshop was jointly organised by the International Trade Centre and the Commonwealth Secretariat in partnership with the Malaysian Government. The workshop was officiated by the Deputy Prime Minister of Malaysia and Minister of Women, Family and Community Development. The Minister of International Trade and Industry was also in attendance.

Malaysia is the first host country to start off a CCA meeting by focusing on one of the cross-cutting elements of inclusive and sustainable trade through the workshop. The workshop provided a platform for public and private stakeholders from Commonwealth countries to exchange ideas and best practices in addressing systemic barriers to the full participation of women in the digital economy and international trade. The objective of the CCA Action Plan is to grow intra-Commonwealth trade to USD2 trillion by 2030.

### Commonwealth Trade Ministers Meeting 2019

Malaysia participated in the Commonwealth Trade Ministers Meeting (CTMM) held in London in October to discuss the Early Harvest initiatives of the CCA Action Plan which is scheduled to be endorsed in the run-up to the Commonwealth Heads of Government Meeting in 2020. Among the Early Harvest initiatives that are currently being developed are principles of digital connectivity; creation of a depository on digital policies; principles on sustainable investment on digital infrastructure; and principles of good regulatory practices. The CTMM 2019 also adopted a joint communiqué entitled "Advancing Our Shared Prosperity" that endorsed the Commonwealth Connectivity Action Plan and Commonwealth Statement on the Multilateral Trading System.

## Issues and Challenges

### Palm Oil

Malaysia has actively utilised the WTO platform to address the discriminatory measures imposed by other members against palm oil. In 2019, as had been so in previous years, Malaysia continued to raise concerns on the issue at the meetings of the Committee on Trade in Environment, Technical Barriers to Trade and Council on Trade in Goods. Malaysia also joined the consultations on the dispute complaint initiated by Indonesia against the EU on 9 December 2019. Indonesia claimed that the EU Renewable Energy Directive (RED) II is inconsistent with the WTO's Agreement on Technical Barriers to Trade, the General Agreement on Tariffs and Trade 1994 and the Agreement on Subsidies and Countervailing Measures.

## ASEAN ECONOMIC INTEGRATION

## Malaysia's Top Four ASEAN Trading Partners

### Singapore

Singapore remained Malaysia's second largest trading partner in 2019. Total trade between the two countries was valued at RM226.44 billion, a drop of 6.9% compared with RM243.32 billion in 2018. The trade volume in 2019 represented 12.3% of Malaysia's total trade and underlined the strong economic ties between the two nations. Singapore is Malaysia's second largest export destination and import source after the PRC. Exports to Singapore fell 2.4% to RM136.89 billion while imports from Singapore were valued at RM89.55 billion. Malaysia and Singapore have invested significantly in each other's economy. A total of 118 foreign investment projects in the manufacturing sector worth RM5.6 billion from Singapore were approved in 2019.

Singapore and Malaysia have been actively engaged with each other through frequent trade and investment missions and working visits over the years to strengthen economic ties. At the 9th Malaysia-Singapore Annual Leaders' Retreat held in Putrajaya on 9 April 2019, both leaders highlighted the strong bilateral economic ties between both nations and the potential for collaboration especially in areas such as the digital economy and Industry 4.0.

### Indonesia

Indonesia remained as one of Malaysia's top trading partners and markets despite a dip of 3.8% in trade volume to RM69.63 billion (2018: RM72.40 billion) in 2019. Malaysia's exports to Indonesia for the year fell by 3.4% to RM30.83 billion (2018: RM31.91 billion) while imports from Indonesia dropped by 4.2% to RM38.80 billion (2018: RM40.49 billion). In 2019, Malaysia was the 6th largest foreign investor in Indonesia, with investments largely in chemicals and pharmaceuticals, food and beverages, plantation food crops and livestock, transportation, warehousing, telecommunications, and mining.

Malaysia continued to engage with Indonesia at the governmental and private sector level in order to further strengthen the existing robust bilateral trade relations. A notable event for Malaysia and Indonesia during the year was the review of the Border Trade Agreement (BTA) 1970. Meetings to review the BTA were held from 15 to 16 August in Penang, with the review expected to be finalised in 2020. Other engagement sessions with Indonesia included meetings with the Ministry of Industry, Ministry of Trade, Ministry of Agriculture and the World Halal Food Council.

A significant development in Indonesia in 2019 was the announcement of the relocation of Indonesia's administrative capital to East Kalimantan. The relocation is expected to commence in 2024 and construction works are expected to begin on a phase-by-phase basis beginning in mid-2020. The relocation project could provide huge opportunities in construction and related industries, ranging from conception (concept and design) to delivery (construction and maintenance).

### Thailand

Thailand was Malaysia's 5th largest trading partner and the 6th largest export market as well as import source globally. Malaysia's total trade with Thailand dipped by 5.4% to RM99.98 billion (2018: RM105.68 billion). Exports fell by 2.2% to RM55.81 billion (2018: RM57.06 billion) while imports were down by 9.2% to RM44.17 billion (2018: RM48.62 billion). In the period of 1980-2019, Thailand invested a total of RM2.98 billion in 167 manufacturing projects which created 17,611 jobs.

The Minister of International Trade and Industry accompanied the Prime Minister of Malaysia on the latter's working visit to Bangkok from 20 to 21 June 2019 in conjunction with the 34th ASEAN Summit and Related Meetings. During the visit, the Minister attended the opening ceremony of Malaysia Fest 2019. The event was the outcome of the Malaysia-Thailand Chamber of Commerce's engagement with the Prime Minister during the latter's first official visit to Thailand in October 2018. During the visit, the Minister urged Malaysian businesses abroad to consider returning to invest in Malaysia. The Minister also attended a dialogue session with Thailand's corporate leaders to discuss trade and investment opportunities as well as to attract potential investors to Malaysia.

### Viet Nam

Malaysia and Viet Nam enjoy close ties and both countries have achieved significant progress in bilateral trade and investment cooperation. In 2019, Viet Nam was Malaysia's 11th largest trading partner globally and 4th largest within ASEAN. Total trade between Malaysia and Viet Nam increased by 1% to RM54.32 billion in 2019

(2018: RM53.79 billion). Malaysia was the 8th largest foreign investor with RM50.4 billion in Viet Nam in 2018, with investment in over 500 projects primarily in real estate development, construction, oil and gas, banking, industrial processing, and utilities.

Malaysia's exports to Viet Nam – mainly of E&E products; petroleum products; chemicals and chemical products; metal products; and machinery, equipment and parts - increased by 1.2% to RM34.73 billion (2018: RM34.33 billion). Viet Nam imports into Malaysia – primarily of E&E products; iron and steel products; textiles, apparels and footwear; agricultural products; and non–metallic mineral products - increased marginally by 0.7% to RM19.59 billion compared with RM19.46 billion in 2018.

The Prime Minister's official visit to Viet Nam took place from 26 to 28 August 2019. The highlights of the visit were a courtesy call on Viet Nam's President, a meeting with the Vietnamese Prime Minister, meetings with Malaysian companies in Viet Nam and visits to FPT Software Company at Hoa Lac Hi-Tech Park and Noi Bai Industrial Zone. Malaysia and Viet Nam are committed to further strengthen and promote investment opportunities in both countries, particularly in high-potential areas such as oil and gas, information technology, smart manufacturing, artificial intelligence, Industrial Revolution 4.0, waste water treatment, skills training, logistics, smart agriculture, halal food industry and textiles.

Viet Nam will be assuming the role as Chair of ASEAN in 2020 with the theme "Cohesive and Responsive".

## Updates on ASEAN Trade in Services Agreement and ASEAN Comprehensive Investment Agreement

The Minister of International Trade and Industry, together with other ASEAN Economic Ministers, signed the ASEAN Trade in Services Agreement (ATISA) and the Fourth Protocol to Amend the ASEAN Comprehensive Investment Agreement (ACIA) on 23 April 2019 at the 25th ASEAN Economic Ministers' Retreat and Related Meetings in Phuket, Thailand. Both agreements aimed at strengthening and enhancing trade in services and investment among member states as well as to boost opportunities for economic and business development through the creation of a larger market and better predictability in the regional business environment in line with the ASEAN Economic Community (AEC) Blueprint 2025.

## ASEAN Priority Economic Deliverables 2019

The 13 priority economic deliverables under Thailand's ASEAN Chairmanship in 2019 was based on the theme "Advancing Partnership for Sustainability" which is underlined by three strategic drivers.

### STRATEGIC DRIVER 1: FUTURE-ORIENTATION

- ASEAN Digital Integration Framework Action Plan (DIFAP) 2019-2025 ASEAN Innovation Roadmap 2019-2025: Partnering for Innovative Community (ongoing);
- Guideline on Skilled Labour/Professional Services Development in Response to the Fourth Industrial Revolution (4IR);
- ASEAN Declaration on Industrial Transformation to Industry 4.0; and
- Digitalisation of ASEAN Micro Enterprises.

### STRATEGIC DRIVER 2: ENHANCED CONNECTIVITY

- ASEAN Single Window (ASW) (ongoing);
- Local Currency Settlement Framework;
- ASEAN Infrastructure Financing Mechanisms;
- ASEAN Gastronomy Tourism Master Plan (ongoing); and
- Conclusion of Regional Comprehensive Economic Partnership (RCEP) negotiations (concluded at the 3rd RCEP Summit and to continue with related work for signing).

### STRATEGIC DRIVER 3: SUSTAINABLE IN ALL DIMENSIONS

- Promoting Sustainable Fisheries through ASEAN Cooperation;
- Roadmap for ASEAN Sustainable Capital Markets; and
- Concluding the MoU between the ASEAN Centre for Energy and an ASEAN partner university/institution to support the work towards the establishment of an ASEAN Biofuels and Bioenergy Research & Development (R&D) Network Centre.

## ASEAN Protocol on Enhanced Dispute Settlement Mechanism

The ASEAN Protocol on Enhanced Dispute Settlement Mechanism (EDSM) is a legal instrument that outlines the procedures for dispute settlement related to trade and economy among ASEAN member states and their obligations. The protocol, known as the 2004 Protocol on EDSM, was first signed on 29 November 2004 in Vientiane, Lao PDR.

Following the installation of the protocol, the ASEAN Task Force on Enhanced Dispute Settlement Mechanism (TF-EDSM) was established to deliberate on the issues, challenges and recommendations pertaining to the EDSM. In May 2015, the Senior Economic Officials Meeting decided that a review of the Protocol was necessary if the mechanism were to keep pace with the rapid changes taking place in global trade. ASEAN member states have been negotiating to improve the dispute settlement mechanism since 2016 and after improvements had been agreed upon, the Protocol was signed on 20 December 2019, in Manila, Philippines.

Among the improvements incorporated into the ASEAN Protocol on EDSM were:

- Better clarity and greater fairness on the requirements of a claim;
- More convenient processes and timeline for the parties involved to implement the panel's decision; and
- Greater opportunity for involvement in the case for the affected parties.

## Developments in ASEAN Free Trade Agreements

### Regional Comprehensive Economic Partnership

Twenty-eight rounds of negotiations have been conducted in the Regional Comprehensive Economic Partnership (RCEP) since talks began in November 2012 in Phnom Penh. These included seven regular and nine inter-sessional ministerial meetings which were convened to design a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement as envisaged in the Guiding Principles and Objectives for Negotiating the RCEP. Significant progress was made at the 3rd RCEP Summit in November 2019. All the 20 chapters on text-based negotiations were finalised though challenges remain in concluding the market access negotiations between a few bilateral pairs owing to the domestic political sensitivities of some participating countries. The settlement of this issue would require renewed political mandates, intensified domestic consultations and greater stakeholder buy-in so that negotiations can be concluded without compromising the RCEP outcomes that are in line with the agreed objectives.

### ASEAN-Australia-New Zealand Free Trade Agreement

The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) entered into force on 1 January 2010 for Australia, Brunei Darussalam, Malaysia, Myanmar, the Philippines, Singapore, Viet Nam and New Zealand. This was followed by Thailand (12 March 2010), Lao PDR (1 January 2011), Cambodia (4 January 2011) and Indonesia (10 January 2012). AANZFTA delivers benefits to businesses and consumers in ASEAN member states, Australia and New Zealand by reducing or eliminating tariffs as well as creating regional rules of origin, thus enabling all signatories to tap into the regional supply chain despite being at different levels of growth and development. According to the ASEAN Statistical Yearbook, trade in 2018 between ASEAN, Australia and New Zealand totalled RM308.65 billion or 2.7% of ASEAN's total trade. Foreign direct investments originating from Australia and New Zealand totalled RM28.66 billion in 2018 or 4.7% of the total FDI into ASEAN.

The First Protocol to Amend the AANZFTA Agreement - signed by all parties on 26 August 2014 - had been ratified and implemented in March 2019. At the 23rd ASEAN Economic Ministers and the Ministers of Australia and New Zealand (Closer Economic Relations) Consultations in Singapore on 1 September 2018, the Ministers endorsed the recommendations to further review and upgrade the agreement. Subsequently, during the 11th AANZFTA Joint Committee Meeting (FJC) and related meetings held from 28 April to 3 May 2019 in Melbourne, Australia, discussions were held to upgrade the AANZFTA.

Five additional subsidiary bodies were established under the FTA Joint Committee to carry forward the relevant upgrading work encompassing the following:

- Committee on e-Commerce;
- Working Group on Government Procurement;
- Sub-Committee on Customs Procedures and Trade Facilitation;
- Sub-Committee on Financial Services; and
- Sub-Committee on Telecommunication Services.

All parties have agreed for the first round of negotiations to commence during the 12th FJC Meeting in June 2020 in Auckland, New Zealand.

## ASEAN-European Union Free Trade Agreement

The EU is an important trading partner of ASEAN. In 2018, the EU retained its position as ASEAN's 2nd largest trading partner with the total two-way trade amounting to RM71.42 billion and the largest source of FDI among the dialogue partners with a total inflow of RM5.45 billion. To capitalise on the robust trade and investment relations between the two groupings, a region-to-region talk was initiated some years ago to explore mutually beneficial endeavours. Progress in the talks, however, has been slow and negotiations have been suspended since 2009.

In March 2017, both groupings agreed to resume the ASEAN-EU Free Trade Agreement (ASEAN-EU FTA) negotiations as well as to develop a framework on the parameters for the agreement. Subsequently, a Joint Working Group for the ASEAN-EU FTA was established and two rounds of meetings were convened in October 2017 and January 2018. In recognition of the differences in some areas in terms of ambitions and interests, both ASEAN and the EU are intensifying efforts to narrow the gaps for the parameters, with both sides noting the need for stronger political will in the pursuit of an ASEAN-EU FTA.

## ASEAN-Hong Kong Free Trade Agreement

The ASEAN-Hong Kong Free Trade Agreement (AHKFTA) and ASEAN-Hong Kong Investment Agreement entered into force for Lao PDR, Myanmar, Singapore, Thailand, Viet Nam and Hong Kong on 11 June and 17 June 2019 respectively. Both agreements entered into force for Malaysia on 13 October 2019.

Trade and investment between ASEAN and Hong Kong have been registering steady growth over the years. In 2018, total bilateral merchandise trade grew 9.5% year-on-year to RM472.51 billion or 4.2% of ASEAN's total trade. Hong Kong remained as the sixth largest trading partner of ASEAN. Total FDI flows from Hong Kong to ASEAN increased substantially by 83% to RM41.16 billion or 6.6% of ASEAN's total FDI in 2018.

# REGIONAL AND INTERNATIONAL RELATIONS

## Asia-Pacific Economic Cooperation

### Background

The Asia-Pacific Economic Cooperation (APEC) was established in 1989 with 12 founding members: Australia, Brunei Darussalam, Canada, Indonesia, Japan, ROK, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the US. The PRC, Hong Kong and Chinese-Taipei joined in 1991 followed by Mexico and Papua New Guinea in 1993. With the accession of Chile in 1994 and Peru, Russia and Viet Nam in 1998, APEC now has 21 member economies.

In 1994, during a monumental Leaders' Meeting in Bogor, Indonesia, the long-term goal of "free and open trade and investment in the Asia-Pacific," aptly named as the Bogor Goals, was adopted. This collective aspiration aims at achieving trade and investment liberalisation specifying a deadline of 2010 for developed economies and 2020 for developing economies.

While the Bogor Declaration provided aspirational guidance to member economies, the Osaka Action Agenda, which was adopted in the subsequent year, prescribed more streamlined action plans in achieving the goals through nine general principles - Comprehensiveness; WTO-consistency; Comparability; Non-discrimination; Transparency; Standstill; Simultaneous Start, Continuous Process and Differentiated Timetables; Flexibility and Cooperation. Based on the original premise of establishment, the subsequent Bogor Goals and the ensuing Osaka Action Agenda, APEC's primary purpose is to facilitate economic growth and prosperity in the region through the removal of trade and investment barriers and enhancing supply chain connectivity across borders, as well as improving the business environment behind borders.

In summary, the three pillars of the APEC agenda are:

- Trade and investment liberalisation: Each APEC member economies voluntarily agrees to liberalise in a particular area of trade and investment;
- Business facilitation: Each member economies aims at improving the ease and reducing the cost of doing business in the region easier; and
- Economic and Technical Cooperation (ECOTECH): Creating activities and programmes to achieve the overall goals of attaining sustainable growth, broadening the benefits of that growth to improve the economic and social wellbeing of all the peoples as well as deepening the spirit of community in APEC.

All APEC member economies have equal standing and decision-making is reached through consensus. There are no binding commitments or legal obligations. All commitments are undertaken on a voluntary basis and capacity-building projects are intended to help member economies implement APEC initiatives. In the 30 years of its establishment, APEC has developed into a dynamic engine of economic growth and now ranks as one of the most important regional forums in the world. The APEC economies have grown at an annual average rate of 3.7%, from RM63.55 trillion in 1990 to RM179.03 trillion in 2018.

In 2019, APEC member economies contributed up to 77% of Malaysia's total trade, with total exports at RM758.5 billion and total imports at RM658.7 billion. APEC member economies also contributed 73.5% or RM60.83 billion in terms of FDI to the manufacturing sector. To date, RM4.3 billion of total investment has been pumped into the manufacturing sector. APEC's efforts to achieve sustainable growth and equitable development in the Asia-Pacific region have, traditionally been advanced through capacity-building activities. APEC has contributed substantially to capacity-building in some sectors of the member economies. Since 2017, 125 Malaysian participants have been trained in 64 areas of interest for Malaysia and 11 Malaysian subject-matter experts have shared their expertise in APEC capacity-building projects. From 2013 to 2019, 25 APEC-funded projects valued at USD3.1 million (RM12.84 million) have been awarded to Malaysia.

## APEC 2019: Connecting People, Building the Future

Chile was the host for the APEC 2019 meeting with the theme "Connecting People, Building the Future". Four priorities were set out to be achieved during Chile's tenure as the host:

- Digital Society;
- Integration 4.0;
- Women, SMEs and Inclusive Growth; and
- Sustainable Growth.

However, owing to political unrest and the declaration of a state of emergency in Chile on 30 October 2019, President Sebastián Piñera, the chair of APEC Chile 2019, cancelled the APEC Economic Leaders' Week. A Host Economy Leader's Statement reflecting Chile's view and assessment of APEC 2019 was issued instead. The APEC Concluding Senior Officials' Meeting was convened on 7 December 2019 at the APEC Secretariat in Singapore to ensure that all the outcomes and deliverables are endorsed appropriately. Chile, together with all the APEC member economies, collaborated to ensure that all priority areas produced concrete outcomes. Among the key achievements of APEC in 2019 were:

- La Serena Roadmap on Women and Inclusive Growth;
- Roadmap on Combatting Illegal, Unreported and Unregulated (IUU) Fishing; and
- Roadmap on Marine Debris.

As the host of APEC 2020, Malaysia will ensure that there is continuity of and progress in the work undertaken by Chile as the 2019 host. Malaysia works closely with all APEC member economies, particularly in developing and continuing the agenda built in 2019 by focusing on and advancing work in the areas of inclusivity, digital economy, human capital and sustainability.

## Trade and Investment

In 2019, APEC continued to work on deepening regional economic integration by intensifying efforts to achieve the Bogor Goals by the 2020 deadline. Among others, members have endorsed a proposal to address the Unfinished Business of the Bogor Goals through the Final Push on Services initiative. To demonstrate leadership in APEC, Malaysia volunteered to be the champion economy for manufacturing-related services, one of the five areas identified under this initiative as APEC 2020 deliverables. Malaysia's project proposal "Next Generation MSME - Specific Provisions and Possible Next Steps" which was endorsed in 2019, is slated for implementation in 2020. Essentially, the project identifies possible specific provisions on micro, small and medium enterprises (MSMEs) that could be formulated in future regional trade agreements in order to increase understanding of the importance of the MSME provisions in addressing related issues.

A concerted effort by APEC economies is essential to ensure the further growth of the digital trade as e-commerce continues to drive trade and investment of member economies. Realising the importance of the digital economy, APEC in 2019 agreed on the Terms of Reference of the Digital Economy Steering Group, a body that has oversight over the APEC Internet and Digital Economy Roadmap endorsed in 2017 as well as the implementation plan. Concurrently, in line with the Lima Declaration on the Free Trade Area of the Asia-Pacific (FTAAP), APEC economies are also undertaking several initiatives and capacity-building programmes in areas such as tariffs, rules of origin, investment, digital trade and e-commerce and transparency as pathways to the FTAAP.

## Economic Committee

The Economic Committee has been championing efforts to address structural and regulatory obstacles related to cross-border trade and investment as well as behind-the-border barriers. The efforts to remove such obstacles are based on structural reforms of institutional frameworks, regulations and Government policies. Progress towards this objective was achieved through the implementation of the Leaders' Agenda to Implement Structural Reform in 2004, the APEC New Strategy for Structural Reform initiative in 2010 and the Renewed APEC Agenda for Structural Reform launched in 2015. The latter serves as a guide to APEC's work on structural reform up to 2020. The agenda calls for a robust, comprehensive and ambitious structural reform to reduce inequality and stimulate growth in APEC economies as well as to contribute to the grouping's overarching goal of promoting balanced, inclusive, sustainable, innovative and secure growth through measures in line with the following three pillars:

- More open, well-functioning, transparent and competitive markets;
- Deeper participation in such markets by all segments of society, including MSMEs, women, youth, older workers and people with disabilities; and
- Sustainable social policies which promote the above-mentioned objectives to enhance economic resiliency and which are well-targeted, effective and non-discriminatory.

In 2019, Malaysia under the auspices of the Economic Committee secured in excess of USD400,000 in funding to support three APEC capacity-building programmes. Malaysia plans to link the projects to the theme and priority areas of APEC 2020.

The three programmes are:

- Workshop on Innovative Regulatory Policy Development: APEC Economies' Approaches on Sharing Economy - The workshop aims at improving understanding of the sharing economy model and international practices on sharing economy regulatory policy;
- Workshop on Crowdfunding: An Alternative Economic Tool to Promote Innovation in This Digital Era for Inclusive Growth - The workshop serves as a platform to expose APEC economies to crowdfunding and to exchange best practices and experiences in managing crowdfunding; and
- Public-Private Dialogue: Understanding Digital Market Mechanism and Possible Competition Issues in Digital Economy in APEC Region - The dialogue is designed to assist APEC competition agencies to respond to changes in competition enforcement emerging from the rapidly growing digital market.

## Economic and Technical Cooperation

Capacity-building projects are the key components of Economic and Technical Cooperation (ECOTECH), one of the main pillars of APEC. In 2019, Malaysia continued to support and participate in APEC's capacity-building agenda in promoting trade, investment and sustainable growth in the region through ECOTECH. Sharing of best practices, exchange of knowledge and information as well as policy discussions have benefitted APEC economies since the establishment of ECOTECH in 1996.

In 2019, Malaysia received APEC funding for 116 projects in various fields such as trade and investment liberalisation and facilitation, connectivity, women economic empowerment, economic development in remote areas and digital innovation. In the same year, 36 Malaysian officials participated in capacity-building programmes organised by the various APEC fora including the Energy Working Group (EWG), Health Working Group (HWG), Human Resource Development Working Group (HRDWG), Oceans and Fisheries Working Group (OFWG), Small and Medium Enterprises Working Group (SMEWG), Tourism Working Group (TWG), Policy Partnership on Food Security (PPFS) and Policy Partnership on Women and the Economy (PPWE). Apart from sending representatives, Malaysian expertise was also shared through speakers at capacity-building programmes upon request by the hosting economies or fora concerned.

On the domestic front, MITI conducted several outreach programmes as well as holding dedicated Client Days with Ministries, agencies and academia. The focus of the programmes was primarily on the development of Concept Notes and Project Proposals to apply for APEC project funding. Positive results have been made from the programmes as reflected in the increased number of Concept Notes submitted for APEC Project Session I and II in 2019. This is in line with Malaysia's preparations and aspiration to deliver tangible and concrete outcomes as the host of APEC 2020.

The following projects which were approved under ECOTECH in 2019 are expected to be realised in 2020:

- Symposium on Gender Mainstreaming and Women Empowerment to Fight Corruption by the Anti-Corruption and Transparency Working Group;
- APEC Young Entrepreneurs Kick-Off: Survival of the Fittest by SMEWG;
- APEC Policy Dialogue on Small and Medium Enterprises and Entrepreneurship Framework: Let's be Coherent and Cohesive by SMEWG;
- Workshop on Enhancing Participation in Flood Disaster Preparedness through Community-based Hazard Mapping by EPWG;
- Industry-Academia-Government Collaboration on Alternative Re-employment Project for Aging Population: An Alternative Employment Management Model by HRDWG;
- APEC Start-up Investment Forum - Building A Holistic Start-up Funding Landscape to Boost Economic Growth by SMEWG;
- APEC Disaster Risk Management Strategies for Support MSMEs Business Sustainability by EPWG;
- Digital Agility for Women in Leadership by PPWE;
- Developing Community-based Entrepreneurship in Rural Tourism through Digital Empowerment by TWG; and
- #mydigitalmaker APEC Tech Talent Development Programme by HRDWG.

## APEC 2020: Towards Shared Prosperity

Malaysia, which hosted the APEC meetings for the first time in 1998, will be the host for the second time for APEC in 2020. More than 350 APEC-related meetings and events have been planned throughout Malaysia's tenure as the host. To underscore the need to address the uneven distribution of economic wealth between and within APEC economies in the era of digital disruption, APEC 2020 will carry the key message of "Shared Prosperity" across all APEC priority areas and initiatives. As the host, Malaysia's focus will be on narrowing inequalities within and among economies through the creation of more inclusive, sustainable, innovative and secure trade and investment via regional cooperation. The objective will be achieved through concerted efforts to move away from the conventional ways of doing things by introducing changes that would bring broader benefits, including through process improvements within APEC. Malaysia has chosen the theme "Optimising Human Potential towards a Future of Shared Prosperity" for APEC 2020.

The theme will be anchored by two key elements:

- Economic growth that ensures no one is left behind; and
- Equitable participation and benefits from the economic growth of the region.

Underlining the theme are three main priority areas which will serve as enablers:

- Improving the narrative of trade and investment;
- Inclusive economic participation through digital economy and technology; and
- Driving innovative sustainability.

The year 2020 marks the final milestone of the Bogor Goals which was launched in 1994. As the host, Malaysia is well-placed to lead in the charting of a new vision for the future of APEC post-2020 and will work closely with all APEC economies to deliver on this front. Malaysia intends to bring APEC closer to the people, to use the APEC platform to highlight people-centric issues and to determine possible mechanisms by which the region could contribute directly and effectively to improve the people's standard of living. One of the ways to achieve this is to bring together policymakers, ecosystem players, the private sector and other relevant stakeholders to work towards a more inclusive and balanced APEC.

On the domestic front, the "Shared Prosperity" agenda will entail providing opportunities to local businesses and brands to become providers of products and services in the supply chain. Special priority will be accorded to SMEs, especially to expose businesses to international standards. Towards this end, and in conjunction with the APEC 2020 meetings, Malaysia has arranged a number of programmes for Malaysian businesses, including SMEs, social enterprises and start-ups, to showcase local products and capabilities as well as holding entertainment events for the general public.

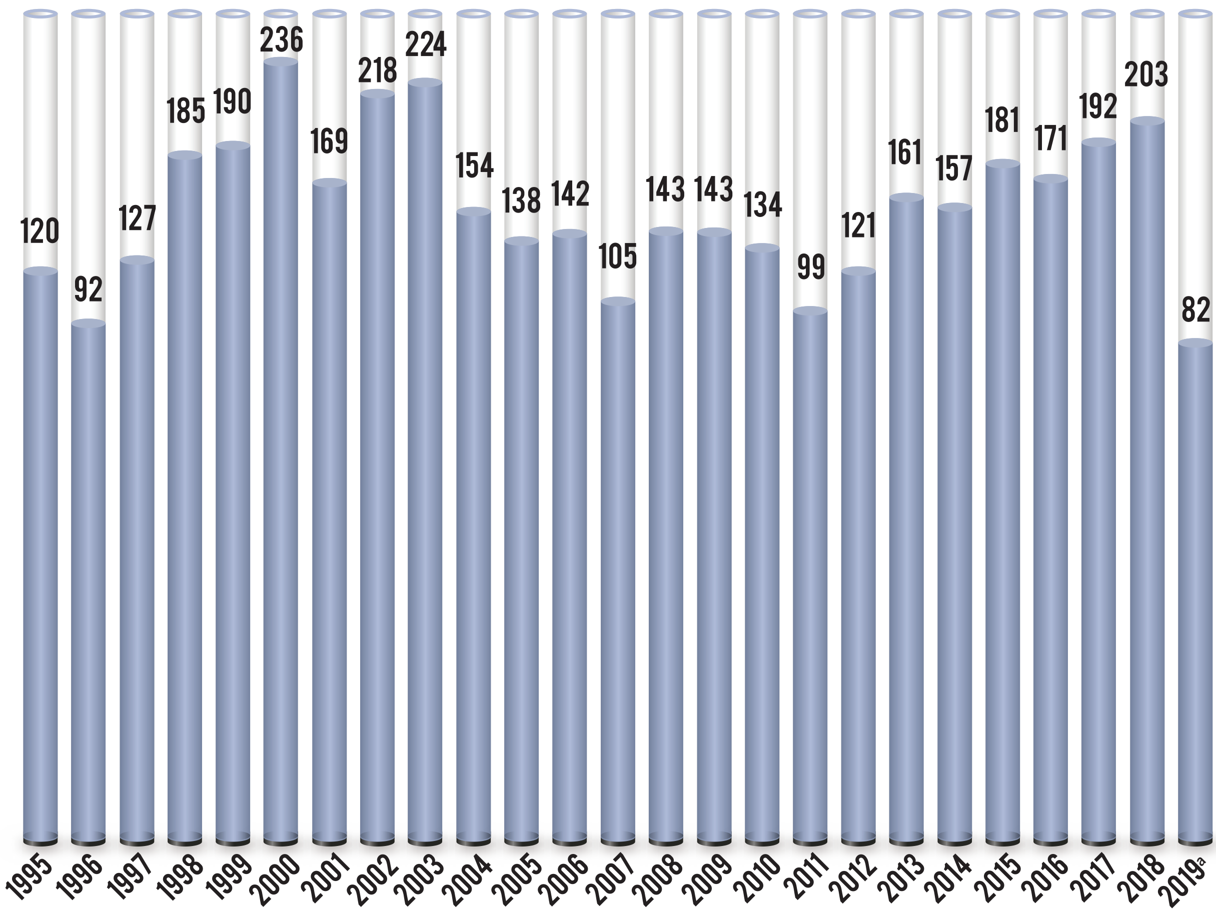
# CURRENT TRADE PRACTICES

## Trade Remedies

In the aftermath of the global financial crisis 2008, the world economy has shown a slowdown whereby the growth rate in global trade experienced a downturn, decreased global demand for goods and services and shortage of trade financing. The crisis has also triggered the rise in the use of protectionist trade measures in order to safeguard and enhance a nation's economic interests and well-being, such as its key industries, commodities and workers. Various trade protectionist measures, including trade remedies have been undertaken by affected countries, such as anti-dumping, countervailing and safeguards measures.

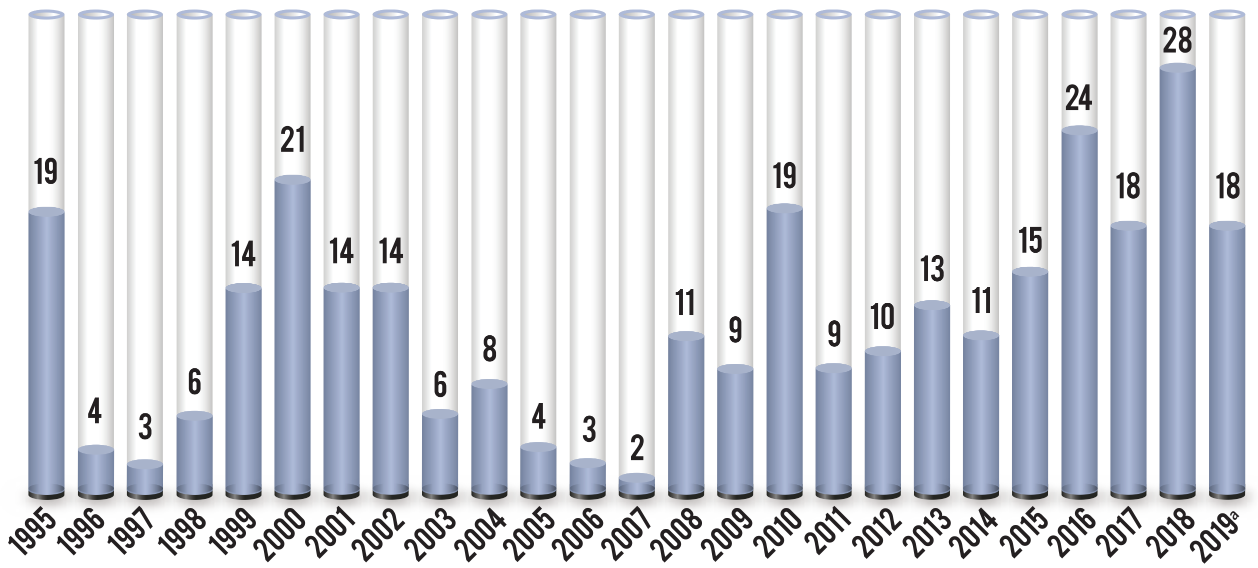
Exhibits 2.5, 2.6 and 2.7 highlight the increasing trend of trade remedies measures undertaken by WTO members, particularly in the post 2009 global financial crisis period. The sector most affected was metal products which had a share of approximately 31% to 44% of total trade remedies initiations from 1995 to June 2019. This was followed by chemical products, plastic products, machinery and equipment and other products.

**Exhibit 2.5: Anti-Dumping: Number of Measures by WTO Members (1995-2019[a])**



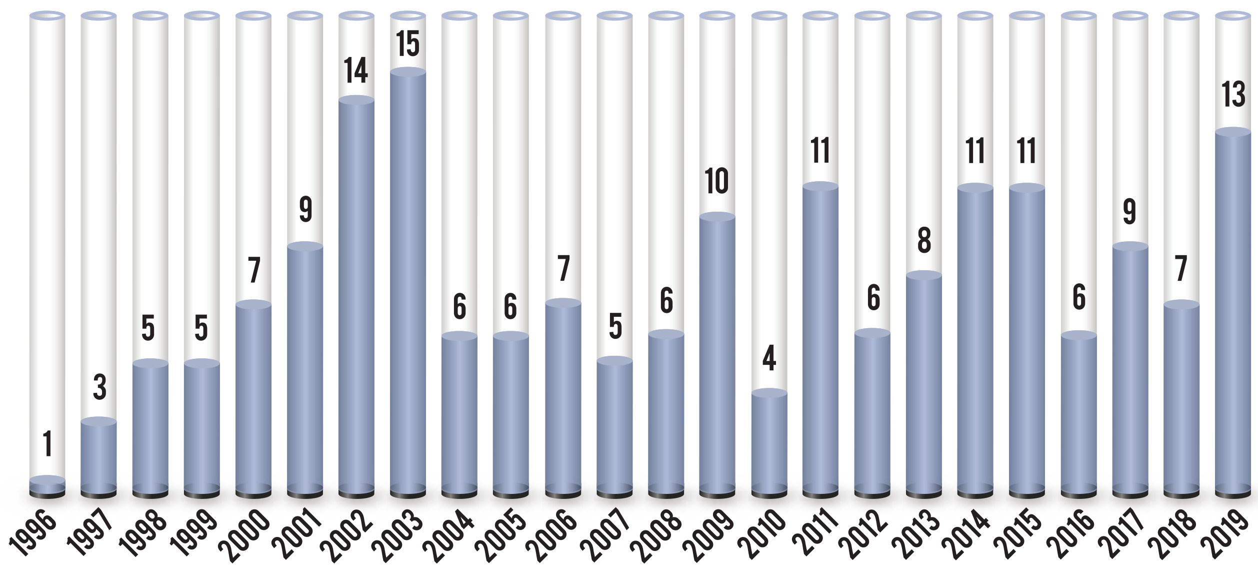

*Note: a - Data for 2019 relates to the January-June period*
*Source: WTO Statistics*

**Exhibit 2.6: Countervailing: Number of Measures by WTO Members (1995-2019[a])**




*Note: a - Data for 2019 relates to the January-June period*
*Source: WTO Statistics*

**Exhibit 2.7: Safeguards: Number of Measures by WTO Members (1996-2019)**




*Source: WTO Statistics*

In 2019, industries in Malaysia continued to face challenges in the wake of the weak global economic growth especially resulting from the US-PRC trade tension as well as the increasing imports of cheaper goods into Malaysia. Two anti-dumping measures were imposed by the Government on imports of galvanised iron originating or exported from the PRC and Viet Nam and cold rolled coils from the PRC, Japan, ROK and Viet Nam. The Government also reviewed and extended anti-dumping duties on imports of fibre cement board originating or exported from Thailand effective from 24 September 2019 to 23 September 2024.

The imposition of the affirmative anti-dumping duties was deemed necessary as the dumping of these goods had caused material injury to domestic producers of like products and that the dumping margins of these goods as well as the margin of such dumping were evident. Malaysia implemented these measures in accordance with domestic laws and regulations, namely, the Countervailing and Anti-dumping Duties Act 1993, Countervailing and Anti-dumping Duties Regulations 1994, Safeguards Act 2006 and the Safeguards Regulations 2007. These legislations were established in compliance with provisions of the WTO Agreements on the Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 as well as the Agreement on Safeguards.

## IMPACT OF TRADE TENSION

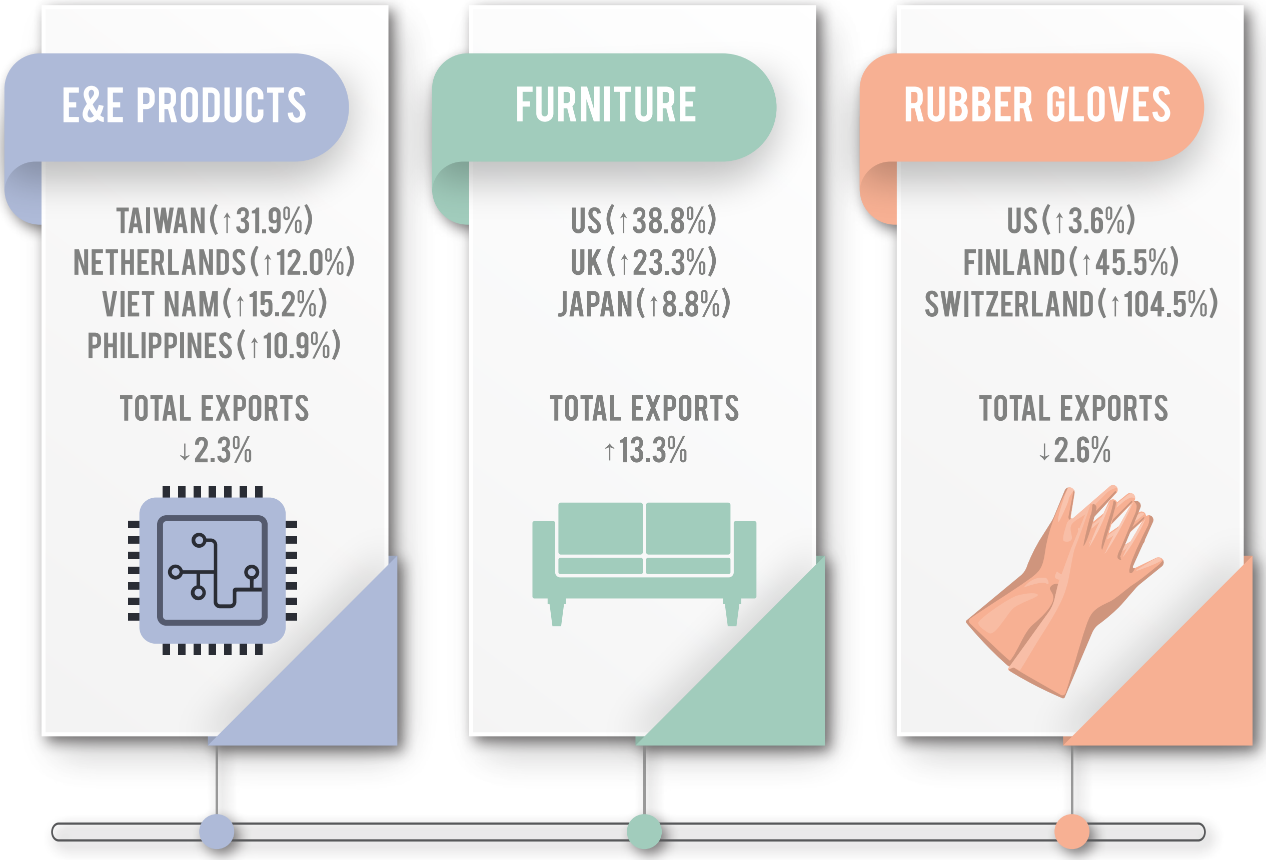
Since 2018, the trade tension between the US and PRC as well as with several other economies have remained unresolved and continued to cast uncertainty over global growth. What began as an imposition of tariffs on selected imports, namely steel, aluminium and solar products has since been expanded to encompass a broader range of goods thus causing an increasingly large spill-over effect on global trade and growth. The US and PRC were Malaysia's first and third largest export destinations respectively in 2019, with the two countries accounting for 23.9% of Malaysia's total exports.

Malaysian exports to the US, which has been on the uptrend for six consecutive years, rose by 5.5% in 2019 to RM95.78 billion, the highest since 2007. The growth in exports to the US was largely driven by higher shipments of E&E and wood products, plastic goods and processed food. Exports of E&E products accounted for 53.2% of Malaysia's exports to the US. Exports to the PRC, Malaysia's leading trade partner, totalled RM139.6 billion or 14.2% of the total export trade.

In 2019, exports to the PRC - comprising higher volumes of broad-based products particularly iron and steel products, LNG, paper and pulp products, palm oil and palm oil-based agriculture products and metal products - grew by 0.3%.

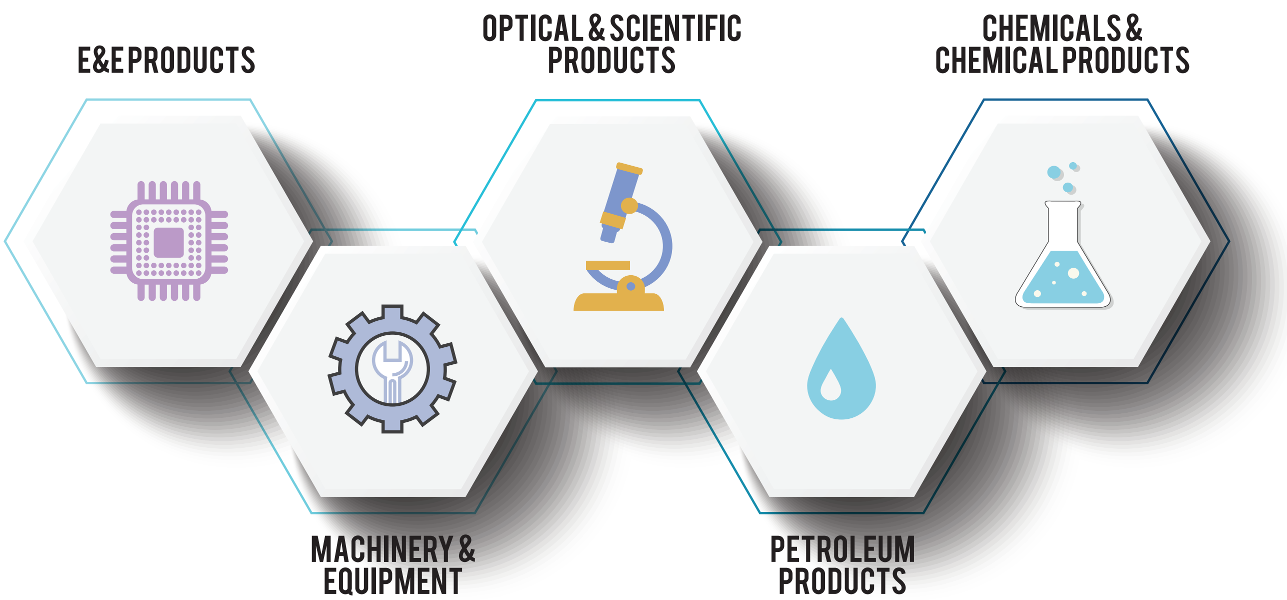
Potential trade diversion is evident amidst the trade tension, particularly in the double-digit growth of Malaysia's exports of E&E products, to markets like Taiwan, Netherlands, Viet Nam and the Philippines in 2019. Globally, however, exports of Malaysian E&E products have declined. Consequent to the import diversion strategy of foreign buyers, furniture exports to the US, UK and Japan had also registered significant increases. Against a backdrop of declining exports of rubber gloves worldwide, Malaysia bucked the trend by recording an increase in exports of rubber gloves including surgical gloves to the US, Finland and Switzerland in 2019. MATRADE has identified various products with the potential to fill in the gaps emerging from the trade tension and which could directly boost exports to the US and PRC.

**Exhibit 2.8: Malaysian Products with Significant Growth in Selected Markets 2019**




*Source: Department of Statistics Malaysia (DOSM)*

**Exhibit 2.9: Products with Potential to Boost Exports**




*Source: Malaysia External Trade Development Corporation (MATRADE)*

Developments in global trade such as the US-PRC trade tension has insignificant impact on Malaysia as the country has an open economy and trade ties with over 200 countries. Malaysia's strong economic fundamentals and resilience as well as the capability to reposition and widen trade relationships have served as a strong buffer against economic headwinds.

**Box Article 2.1**

## MALAYSIA AS A PARTNER OF ASEAN CIRCLE AND ASEAN +1

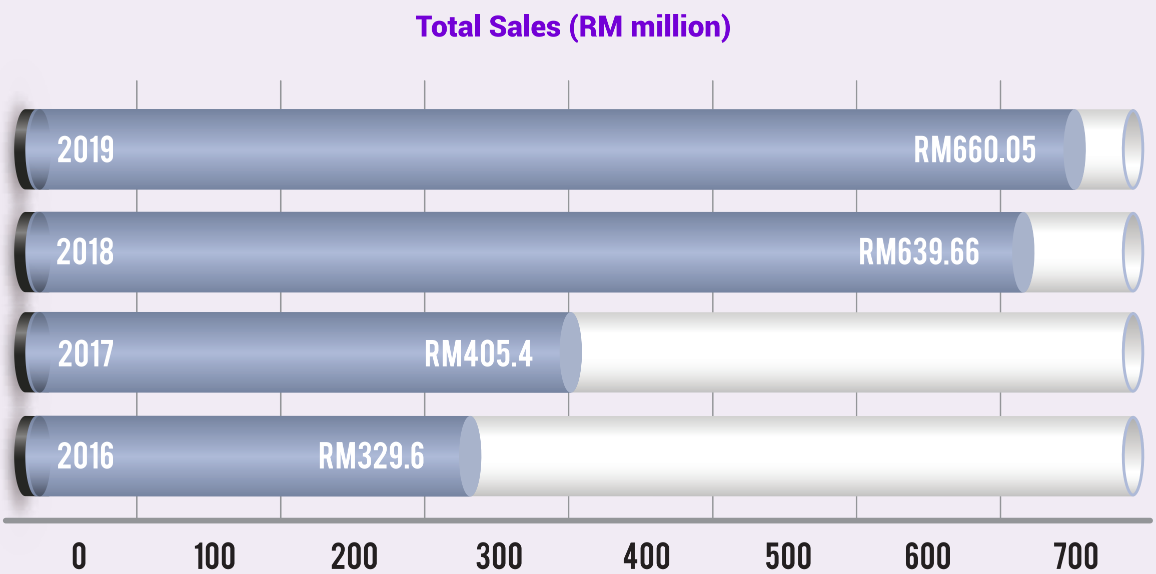
### CAEXPO: 19-21 SEPTEMBER 2019

Malaysia participated in the 16th China-ASEAN Expo (CAEXPO) which was held from 19 to 21 September in Nanning, PRC. The Malaysian delegation, which was led by the Minister of International Trade and Industry, included representatives from 167 SMEs and eleven Government agencies. The Malaysian goods and services on display at CAEXPO ranged from food, health, lifestyle, tourism to logistics products and services. CAEXPO generated sales valued at RM660 million for the Malaysian exhibitors.

Malaysia also won the Best Trade and Economy Outcome and Best Trade Visitor Organiser awards.

The Minister met with the governor of Guangxi Province H.E. Chen Wu, and exchanged views on the new land-sea corridor currently being developed by the PRC. He also attended the launching of the Malaysia, City of Charm Exhibition and the China-Malaysia Production Capacity and Investment Forum.

**Exhibit 2.10: Sales Value generated at CAEXPO 2016-2019**




*Source: Malaysia External Trade Development Corporation (MATRADE)*

## ASEAN-REPUBLIC OF KOREA COMMEMORATIVE SUMMIT 2019

The ASEAN-Republic of Korea Commemorative Summit was held in Busan on 26 November 2019 with the theme “Partnership for Peace, Prosperity for People” to commemorate the $30^{th}$ anniversary of ASEAN-ROK dialogue relations which began in November 1989.

A Malaysian delegation led by the Prime Minister attended the ASEAN-ROK Commemorative Summit, the ASEAN-ROK CEO Summit, Invest ASEAN 2019, ASEAN-ROK Start-up Summit 2019 and ASEAN-ROK Innovation Showcase 2019. The Minister of International Trade and Industry was with the delegation.

Sectoral dialogue relations between ASEAN and the ROK were established in 1989. Cooperation had expanded and deepened since then between ASEAN and the ROK through the promotion of regional peace and stability, facilitation of economic growth and cultural and people-to-people exchange. The ROK has committed to strengthen relations with ASEAN under the country’s New Southern Policy. In 2018, the ROK was ASEAN’s $5^{th}$ largest trading partner and $5^{th}$ largest source of FDI. Trade between ASEAN and the ROK dipped 2.17% to RM651.71 billion or 5.7\% of the region’s total trade

ASEAN-Republic of KOREA
Commemorative Summit
2019, Busan

Building Thrust, Bring Happiness

# CHAPTER 3
# INVESTMENT PERFORMANCE

# CHAPTER 3
# INVESTMENT PERFORMANCE

## OVERVIEW

Geopolitical and trade tensions continued to loom over the global investment landscape in 2019. However, despite the gloomy economic scenario, Malaysia continued to attract high-quality investments in the targeted high technology, high value-added, capital and knowledge-intensive industries as well as in research and development activities. The confidence of both foreign and domestic investors in Malaysia's competitiveness as an attractive destination in the region resulted in a robust investment performance for the year.

In 2019, Malaysia secured a total of 5,140 private investment projects amounting to RM207.9 billion (2018: RM204.4 billion). Sector-wise, services received the highest amount of approved investments with 4,087 projects valued at RM118.1 billion in 2019. The manufacturing sector had the second highest number of approved investments with 988 projects valued at RM82.7 billion followed by the primary sector with 65 projects at RM7 billion. These projects are expected to create about 124,443 jobs. Of the total investments approved, domestic direct investments (DDI) accounted for 60.4% valued at RM125.5 billion while foreign direct investments (FDI) made up 39.6% at RM82.4 billion. The ratio of DDI and FDI in 2019 was in tandem with the Government's strategic direction for domestic investments to assume a major role in driving Malaysia's development agenda. FDI, despite recording a lower share of total investments against DDI in 2019, increased by 2.9%, thus reaffirming Malaysia's position as a competitive investment destination for foreign investors.

**Exhibit 3.1: Approved Private Investments in Various Economic Sectors, 2019 and 2018**

| Sector | Number | | Potential Job Creation | | Domestic Investment (RM billion) | | Foreign Investment (RM billion) | | Total Investment (RM billion) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Services | 4,087 | 4,234 | 44,811 | 68,792 | 93.4 | 89.9 | 24.7 | 16.1 | 118.1 | 106.0 |
| Manufacturing | 988 | 721 | 78,606 | 59,294 | 28.8 | 29.4 | 53. 9 | 58.0 | 82.7 | 87.4 |
| Primary | 65 | 63 | 1,026 | 1,648 | 3.3 | 4.9 | 3.8 | 6.0 | 7.0 | 10.9 |
| **Total** | **5,140** | **5,018** | **124,443** | **129,734** | **125.5** | **124.2** | **82.4** | **80.1** | **207.9** | **204.4** |

*Source: Malaysian Investment Development Authority (MIDA)*

# POLICY INITIATIVES TO ATTRACT QUALITY INVESTMENTS

## Driving Investments via Catalytic Sub-Sectors

The catalytic sub-sectors namely electrical and electronics (E&E), machinery and equipment, and chemicals and chemical products remain as priority industries in the manufacturing sector. Focus will be also on aerospace and medical devices, two sub-sectors deemed as having high growth potential. These sub-sectors have been prioritised not only because of the strong inter-linkages with other sub-sectors but also the capacity to be the backbone for the development of the overall manufacturing industry. The Ministry of International Trade and Industry (MITI) will continue to target investments in the high-value services sector with particular emphasis on regional establishment, medical tourism, healthcare, information and communications technology services and green technology.

Technological advancement and convergence of technologies are integral to Malaysia's growth as a competitive nation. In the Association of Southeast Asian Nations (ASEAN) region, Malaysia is one of the most technologically developed countries amongst industrialising nations. In positioning Malaysia as a primary destination for smart manufacturing globally and to attract more high-tech investments, MITI continues to implement the National Policy on Industry 4.0 - Industry4WRD - which enhances the country's value propositions to investors, particularly in areas such as artificial intelligence, big data analytics, the Internet of Things, cloud computing and cybersecurity. Industry 4.0 is the driver of digital innovation, especially in products, processes and business models, to increase productivity and efficiency as well as to substantially reduce product time to market. The 2019 Budget announced in November 2018 further supported the implementation of the Industry4WRD policy with an allocation of RM210 million for the period 2019 to 2021 to assist industries to adopt Industry 4.0.

## Joint Ministerial Committee on Improving National Competitiveness

Parallel to Malaysia's priority on enhancing the country's competitiveness and business-friendly environment, a Joint Ministerial Meeting on Competitiveness (JMC) was jointly chaired for the first time by the Minister of Finance and Minister of International Trade and Industry on 12 June 2019. The establishment of the JMC is an important step towards addressing bureaucratic issues between the public and private sectors and for implementing ongoing oversight in the regulation of business. The JMC, which comprised senior public sector officials and captains of industry from the private sector, intends to drive the agenda for regulatory reform, especially in improving trade processes and tax administration as well as in enhancing competitiveness and facilitating business operations in Malaysia. Various matters related to the competitiveness of the nation were discussed, including issues reported by the Special Task Force to Facilitate Business (PEMUDAH), tax incentive recommendations as reported by the Tax Reform Committee and ways to strengthen the National Council on Investment.

## Regulatory Reforms via Restructured Special Task Force to Facilitate Business

Malaysia continues to undertake regulatory reform as well as strengthening competitiveness and ease of doing business through the restructuring of PEMUDAH as approved by the Cabinet on 15 March 2019. The restructuring included the reactivation of PEMUDAH by improving function, organisation and operation, rebranding of the Focus Group to Technical Working Group (TWG), creation of three new Technical Working Groups, namely, Contracting with Government (TWGCG), Employing Workers (TWGEW) and PEMUDAH Regional. A total of 14 TWGs were created and established under PEMUDAH to address issues related to service delivery efficiency as well as to improve Malaysia's performance in the global competitiveness report.

## New Industrial Master Plan

The Government's supportive policies and clear economic direction had been instrumental in attracting quality investments in Malaysia. In 2019, the government commenced the drafting of the New Industrial Master Plan 2021-2030 (NIMP) to set strategic directions for the national development agenda, which, among others, focuses on continuing to position Malaysia as an attractive destination for both foreign and domestic investments. The NIMP, to be launched in 2021, will undertake a comprehensive review of the investment and incentives framework in order to make it more future-proof, leverage on external challenges to make Malaysia the preferred investment destination, create high-quality jobs by attracting global multinational companies to locate their regional hubs in Malaysia and to nurture domestic enterprises to become international players in the next 10 years. MITI will also focus on remodelling projects towards ones that are high-technology, capital-intensive, high value-added, knowledge-intensive, skill-intensive, high-income, design and research and development (R&D)-intensive and export-oriented. Such projects would also have strong linkages with domestic industries and deliver high impact on Gross National Income (GNI).

## Mid-Term Review of Eleventh Malaysia Plan

The mid-term review of the Eleventh Malaysia Plan (MTR-11MP) underscored the need to encourage investment in machinery and equipment, especially in automation, to enhance the capacity and productivity of enterprises. The Government has, accordingly, allocated RM2 billion in Budget 2019 under the Business Loan Guarantee Scheme (*Skim Jaminan Pembiayaan Perniagaan*) as an incentive for small and medium size enterprises (SMEs) - the backbone of the economy - to invest in automation and modernisation. A further RM3 billion was allocated under Budget 2019 for the Industry Digitalisation Transformation Fund to accelerate the adoption of smart technology that is driving automation such as robotics and artificial intelligence. MITI will continue to pursue quality FDI in high value-added products and services which utilise frontier technologies and promote technology transfer to local companies.

## Other Measures to Promote Investments

In 2019, a series of initiatives and enhancement measures were introduced to promote investments, among which were:

- The Cabinet on 8 May 2019 enhanced the effectiveness of the National Committee on Investment (NCI) by making it the sole approving committee for incentives; and MITI and the Ministry of Finance as co-chairs. The enhanced NCI is intended to cut red tape and remove sources of confusion encountered by potential investors as well as to expedite the processing and issuance of approvals. From 8 May to 31 December 2019, a total of 937 projects were evaluated at the NCI meetings (NCI I and NCI II) and 892 projects valued at RM109.1 billion were expeditiously approved. These projects will be undertaken in various sectors including E&E; machinery and equipment; chemicals and green technology; and life sciences and medical technology;

- The Investment Committee Meeting (ICM), chaired by the Minister of International Trade and Industry, was revived. The ICM aims at not only serving as a dialogue platform but also to better engage with all federal and regional investment promotion agencies as well as to assess and address investment gaps, strategic issues and impediments to investment implementation at ground level;

- Since May 2019, MITI has undertaken continuous engagements through meetings, discussions and workshops with key Ministries and agencies at the federal, regional and state level to deliberate on proposals to enhance the investment approval process, the monitoring and enforcement of investment projects as well as on improving the experience of investors;

- MITI held a series of consultation and dialogue sessions with various segments of the business community, with these sessions serving as platforms for better understanding of cross-cutting issues, challenges and opportunities for the parties concerned; and

- MITI held close consultations with potential and existing investors through various platforms, including one-on-one meetings, roundtable discussions, dialogues as well as trade and investment missions, to better understand their current challenges and opportunities for investment partnership.

# APPROVED INVESTMENTS

## Manufacturing Sector

In 2019, a total of 988 projects with investments valued at RM82.7 billion (2018: 721 projects/ RM87.4 billion) were approved for the manufacturing sector. These investments are expected to create 78,606 jobs (2018: 59,294 jobs). Foreign investments made up 65.2% or RM53.9 billion (2018: RM58 billion) of total approvals while domestic investments accounted for RM28.8 billion or 34.8%. Of the total investments approved for manufacturing, 535 or 54.1% were for new projects valued at RM45.2 billion, an indication that despite a softening global economy, Malaysia still continued to attract a significant amount of new investments.

The confidence that foreign investors have in Malaysia's economy was further reflected in the RM37.5 billion, or 45.3% of total manufacturing approvals in value terms, pumped into expansion or diversification projects. The E&E industry attracted the largest amount with RM21.8 billion. Other industries with high levels of foreign investments were paper, printing and publishing with RM9.7 billion; non-metallic mineral products with RM4.3 billion; rubber products with RM3 billion; and machinery and equipment products with RM2.9 billion.

**Exhibit 3.2: Approved Projects in the Manufacturing Sector, 2019 and 2018**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | New | Expansion / Diversification | Total | New | Expansion / Diversification | Total |
| Number | 535 | 453 | 988 | 386 | 335 | 721 |
| Potential Job Creation | 47,000 | 31,606 | 78,606 | 36,455 | 22,839 | 59,294 |
| Total Investment (RM billion) | 45.2 | 37.5 | 82.7 | 61.8 | 25.6 | 87.4 |
| Domestic (RM billion) | 17.9 | 10.9 | 28.8 | 21.5 | 7.9 | 29.4 |
| Foreign (RM billion) | 27.2 | 26.7 | 53.9 | 40.3 | 17.7 | 58.0 |

*Source: Malaysia Investment Development Authority (MIDA)*

Domestic investments in the manufacturing sector in 2019 were valued at RM28.8 billion (2018: RM29.4 billion). Investments in new projects totalled RM18 billion or 62.3% of total domestic investments while RM10.9 billion or 37.7% was for expansion or diversification projects. Domestic investments were mainly in transport equipment with RM6.5 billion; E&E products with RM3.9 billion; non-metallic mineral products with RM2.6 billion; food manufacturing with RM2.5 billion; chemical and chemical products with RM2.1 billion; and petroleum products including petrochemicals with RM2.1 billion.

**Exhibit 3.3: Projects Approved in the Manufacturing Sector by Industries, 2019 and 2018**

| Industry | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number | Domestic Investment (RM billion) | Foreign Investment (RM billion) | Total Investment (RM billion) | Number | Domestic Investment (RM billion) | Foreign Investment (RM billion) | Total Investment (RM billion) |
| Electrical and Electronic Products | 157 | 3.9 | 21.8 | 25.7 | 56 | 0. 5 | 10.7 | 11.2 |
| Paper, Printing and Publishing | 47 | 1.1 | 9.7 | 10.8 | 30 | 0.4 | 5.0 | 5.4 |
| Transport Equipment | 66 | 6.5 | 1.5 | 8.0 | 61 | 1.2 | 0.7 | 1.9 |
| Non-Metallic Mineral Products | 44 | 2.6 | 4.3 | 6.9 | 39 | 0.7 | 1.7 | 2.4 |
| Chemicals and Chemical Products | 88 | 2.1 | 2.6 | 4.8 | 68 | 0.6 | 4.4 | 5.0 |
| Rubber Products | 27 | 1.6 | 3.0 | 4.6 | 21 | 1.5 | 3.1 | 4.6 |
| Machinery and Equipment | 103 | 1.6 | 2.9 | 4.5 | 88 | 1.5 | 0.9 | 2.4 |
| Food Manufacturing | 98 | 2.5 | 1.3 | 3.8 | 63 | 1.3 | 0.5 | 1.8 |
| Petroleum Products (Including Petrochemicals) | 19 | 2.1 | 1.1 | 3.2 | 23 | 13.8 | 19.1 | 32.9 |
| Scientific and Measuring Equipment | 14 | 0.1 | 2.4 | 2.5 | 22 | 0.08 | 0.5 | 0.6 |
| Plastic Products | 90 | 1.5 | 0.9 | 2.5 | 61 | 0.7 | 1.2 | 1.9 |
| Fabricated Metal Products | 104 | 1.3 | 0.6 | 1.9 | 86 | 1.2 | 0.6 | 1.8 |
| Wood and Wood Products | 34 | 0.3 | 0.4 | 0.7 | 31 | 0.3 | 0. 2 | 0.5 |
| Basic Metal Products | 10 | 0.3 | 0.4 | 0.7 | 25 | 4.7 | 8.5 | 13.1 |
| Natural Gas | 1 | 0.5 | 0.1 | 0.6 | - | - | - | - |
| Furniture and Fixtures | 40 | 0.2 | 0.4 | 0.6 | 20 | 0.1 | 0.4 | 0.5 |
| Textiles and Textile Products | 28 | 0.2 | 0.2 | 0.4 | 18 | 0.6 | 0.3 | 0.9 |

| Industry | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number | Domestic Investment (RM billion) | Foreign Investment (RM billion) | Total Investment (RM billion) | Number | Domestic Investment (RM billion) | Foreign Investment (RM billion) | Total Investment (RM billion) |
| Beverages and Tobacco | 6 | 0.3 | 0.0 | 0.3 | 5 | 0.1 | 0.04 | 0.2 |
| Miscellaneous | 12 | 0.3 | 0.02 | 0.3 | 4 | 0.06 | 0.1 | 0.2 |
| **Total** | **988** | **28.8** | **53.9** | **82.7** | **721** | **29.4** | **58.0** | **87.4** |

*Note: Due to rounding, numbers presented may not add up precisely to the totals provided.*
*Source: Malaysia Investment Development Authority (MIDA)*

## Services Sector

The services sector received the highest number of investment approvals in 2019. A total of RM118.1 billion was invested into 4,087 projects or 56.8% of the total (2018: RM106.1 billion / 4,234 projects). These projects are expected to generate 44,811 jobs. Domestic investments accounted for 79.1% or RM93.4 billion of the total for services while foreign investments were at RM24.7 billion or 20.9% of the total. The real estate sub-sector continued to lead with investments valued at RM40.9 billion followed by utilities at RM32.6 billion, global establishments at RM11.7 billion, distributive trade at RM11.7 billion and support services at RM5.7 billion.

**Exhibit 3.4: Approved Private Investments in the Services Sector, 2019 and 2018**

| Services Sector | Number | | Potential Job Creation | | Domestic Investment (RM billion) | | Foreign Investment (RM billion) | | Total Investment (RM billion) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Real Estate | 1,279 | 968 | - | n/a | 40.9 | 45.1 | - | 2.7 | 40.9 | 47.9 |
| Utilities | n/a | n/a | 3 | 10 | 32.6 | 9.8 | - | - | 32.6 | 9.8 |
| Global Establishments | 169 | 204 | 1,058 | 2,010 | - | 3.1 | 11.7 | 4.4 | 11.7 | 7.5 |
| Distributive Trade | 1,136 | 1,263 | 30,379 | 43,676 | 1.2 | 2.5 | 10.5 | 4.8 | 11.7 | 7.3 |
| Support Services | 536 | 346 | 4,065 | 4,278 | 4.7 | 4.4 | 0.9 | 0.7 | 5.7 | 5.0 |
| Hotel and Tourism | 71 | 63 | 5,625 | 4,135 | 4.8 | 3.9 | 0.3 | 0.7 | 5.1 | 4.6 |
| Telecommunications | 402 | 508 | - | n/a | 5.0 | 8.6 | - | - | 5.0 | 8.6 |

| Services Sector | Number | | Potential Job Creation | | Domestic Investment (RM billion) | | Foreign Investment (RM billion) | | Total Investment (RM billion) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Financial Services | 24 | 47 | 119 | 105 | 3.4 | 8.9 | 0.7 | 0.7 | 4.1 | 9.7 |
| Transport | 8 | 12 | 410 | - | 0.4 | 0.6 | 0.07 | 0.2 | 0.5 | 0.8 |
| Education Services | 453 | 704 | 2,320 | 6,837 | 0.3 | 0.7 | 0.1 | 0.4 | 0.5 | 1.1 |
| Health Services | 7 | 11 | 772 | 4,374 | 0.1 | 1.6 | 0.2 | 0.9 | 0.3 | 2.6 |
| MSC Status | - | 107 | - | 3,339 | - | 0.7 | - | 0.3 | - | 1.1 |
| Other Services | 2 | 1 | 60 | 28 | 0.003 | 0.01 | 0.04 | - | 0.04 | 0.01 |
| **Total** | **4,087** | **4,234** | **44,811** | **68,792** | **93.4** | **89,993.5** | **24.7** | **16.1** | **118.1** | **106.0** |

*Note: n/a – data not available*
*Source: Malaysia Investment Development Authority (MIDA)*

## Primary Sector

The primary sector comprises the three major sub-sectors namely agriculture, mining and, plantation and commodities. A total of 65 projects valued at RM7 billion were approved for the primary sector in 2019. Foreign investments in the sector, valued at RM3.8 billion, accounted for 54.3% of the total while domestic investments were at RM3.2 billion. The mining sub-sector registered the highest number of approved investments with 38 projects valued at RM6.6 billion, followed by plantation and commodities with RM291.4 million and agriculture with RM138.6 million.

**Exhibit 3.5: Approved Private Investments in the Primary Sector, 2019 and 2018**

| Primary Sector | Number | | Potential Job Creation | | Domestic Investment (RM billion) | | Foreign Investment (RM billion) | | Total Investment (RM billion) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Mining | 38 | 26 | 106 | 59 | 2.8 | 4.2 | 3.8 | 6.0 | 6.6 | 10.2 |
| Plantation and Commodities | 18 | 23 | 513 | 1,302 | 0.3 | 0.6 | - | - | 0.3 | 0.6 |
| Agriculture | 9 | 14 | 407 | 287 | 0.1 | 0.07 | - | - | 0.1 | 0.07 |
| **Total** | **65** | **63** | **1,026** | **1,648** | **3.2** | **4.9** | **3.8** | **6.0** | **7.0** | **10.9** |

*Source: Malaysia Investment Development Authority (MIDA)*

## OWNERSHIP AND LOCATION OF APPROVED MANUFACTURING PROJECTS

Malaysia continued to attract a significant amount of foreign investments in the manufacturing sector in 2019. The high level of foreign investments approved in 2019 attested to Malaysia's attractiveness as an investment destination even in the midst of sluggish global growth. The People's Republic of China (PRC), with 79 projects valued at RM15.3 billion approved, was the leading investor in Malaysia. The United States of America (US) was second with RM14.2 billion for 37 projects, followed by Singapore with RM5.6 billion for 118 projects, Taiwan with RM5.2 billion for 28 projects; and Japan with RM3.8 billion for 53 projects. The total investments from these five nations accounted for 82.0% of foreign investments approved in 2019. Of the total of RM28.8 billion approved for domestic investment in manufacturing in 2019, RM18 billion was for new projects and RM10.9 billion for expansion or diversification. Domestic investments were mainly in transport equipment at RM6.5 billion; E&E products at RM3.9 billion; non-metallic mineral products at RM2.6 billion; food manufacturing at RM2.5 billion; chemical and chemical products at RM2.1 billion; and petroleum products (including petrochemicals) at RM2.1 billion.

**Exhibit 3.6: Projects Approved for Main Investor-Countries, 2019 and 2018**

| Country | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number | Foreign Investment (RM billion) | Number | Foreign Investment (RM billion) |
| PRC | 79 | 15.3 | 40 | 19.7 |
| US | 37 | 14.2 | 18 | 3.2 |
| Singapore | 118 | 5.6 | 82 | 1.8 |
| Taiwan | 28 | 5.2 | 18 | 0.7 |
| Japan | 53 | 3.8 | 63 | 4.1 |
| UK | 8 | 1.8 | 10 | 0.4 |
| British Virgin Islands | 5 | 1.4 | 5 | 2.8 |
| Hong Kong | 24 | 1.2 | 10 | 1.3 |
| The Netherlands | 11 | 0.9 | 10 | 8.3 |
| ROK | 15 | 0.9 | 10 | 2.5 |

*Source: Malaysia Investment Development Authority (MIDA)*

A total of 690 projects or 69.8% of the total number of approved projects were proposed for location in three states, namely Selangor with 315 projects, Johor with 209 and Pulau Pinang with 166. Selangor recorded the highest amount of investments with RM17 billion, followed by Pulau Pinang with RM16.9 billion, Kedah with RM11.5 billion, Johor with RM11.5 billion and Perak with RM6.6 billion. The five states collectively accounted for 76.8% of the total investments approved in 2019.

The higher level of investments in Selangor was attributed to a project valued at RM3.4 billion for the manufacture of E&E products and two other projects in the paper, printing and publishing industry worth RM2.5 billion. In Pulau Pinang, a major investment was for an expansion project for E&E products valued at RM5.1 billion, a new RM1.8 billion project for machinery and equipment valued at RM1.8 billion and another new project for scientific and measuring equipment with an investment of RM1.5 billion. Investments in Kedah was led by an expansion project in E&E products worth RM5.1 billion and a paper, printing and publishing project with RM2.3 billion in investments.

**Exhibit 3.7: Projects Approved by Location, 2019 and 2018**

| State | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number | Domestic (RM billion) | Foreign (RM billion) | Total (RM billion) | Number | Domestic (RM billion) | Foreign (RM billion) | Total (RM billion) |
| Selangor | 315 | 6.6 | 10.4 | 17.0 | 241 | 8.1 | 10.8 | 18.9 |
| Penang | 166 | 1.9 | 15.0 | 16.9 | 108 | 2.1 | 3.7 | 5.8 |
| Kedah | 54 | 3.4 | 8.1 | 11.5 | 41 | 0.8 | 1.6 | 2.4 |
| Johor | 209 | 4.9 | 6.5 | 11.5 | 144 | 6.5 | 24.0 | 30.5 |
| Perak | 72 | 4.9 | 1.6 | 6.6 | 37 | 0.9 | 0.9 | 1.9 |
| Sabah | 15 | 1.6 | 4.9 | 6.5 | 13 | 0.2 | 0.05 | 0.2 |
| Pahang | 34 | 1.0 | 3.9 | 4.9 | 15 | 0.5 | 7.6 | 8.0 |
| Negeri Sembilan | 44 | 2.3 | 1.3 | 3.6 | 40 | 0.8 | 1.6 | 2.4 |
| Sarawak | 18 | 0.8 | 1.7 | 2.6 | 11 | 6.4 | 2.3 | 8.7 |
| Malacca | 35 | 0.6 | 0.3 | 0.9 | 42 | 2.5 | 0.8 | 3.3 |
| Terengganu | 8 | 0.6 | 0.05 | 0.6 | 11 | 0.3 | 4.6 | 4.9 |
| Kuala Lumpur Federal Territory | 12 | 0.2 | 0.005 | 0.2 | 10 | 0.1 | 0.03 | 0.2 |
| Perlis | 1 | - | 0.05 | 0.05 | 1 | 0.008 | - | 0.008 |

| State | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number | Domestic (RM billion) | Foreign (RM billion) | Total (RM billion) | Number | Domestic (RM billion) | Foreign (RM billion) | Total (RM billion) |
| Kelantan | 5 | 0.01 | 0.006 | 0.02 | 6 | 0.08 | 0.02 | 0.1 |
| Labuan Federal Territory | - | - | - | - | 1 | 0.08 | - | 0.08 |
| **Total** | **988** | **28.8** | **53.9** | **82.7** | **721** | **29.3** | **58.0** | **87.4** |

*Source: Malaysia Investment Development Authority (MIDA)*

## IMPLEMENTATION OF APPROVED MANUFACTURING PROJECTS

A total of 2,794 manufacturing projects which were approved between 2015 and 2019 had been implemented in 2019, 2,593 projects were already in production and 201 were at factory construction and machinery installation stage. The total capital investment of the projects already implemented amounted to RM208.5 billion and had generated 214,969 jobs. Another 103 projects with RM26.1 billion in investments had acquired sites for factories while 729 projects valued at RM96.9 billion were in the active planning stage.

Most of the implemented projects were located mainly in five states. Selangor headed the list with 933 projects valued at RM38.6 billion; Johor with 575 valued at RM75.2 billion; Penang with 447 valued at RM28.7 billion; Perak with 170 valued at RM7.5 billion; and Kedah with 156 valued at RM11.2 billion. Most of the major projects implemented in 2019 were for E&E products, petroleum products (including petrochemicals), natural gas, non-metallic mineral products and food manufacturing.

**Exhibit 3.8: Implementation of Approved Manufacturing Projects, 2015 and 2019**

| Implementation Status | Number | Potential Job Creation | Domestic Investment (RM billion) | Foreign Investment (RM billion) | Total Investment (RM billion) |
|---|---|---|---|---|---|
| In Production | 2,593 | 191,045 | 68.7 | 71.9 | 140.6 |
| Machinery Installation | 201 | 23,924 | 39.4 | 28.5 | 67.9 |
| Site Acquired | 103 | 10,636 | 4.6 | 21.5 | 26.1 |
| Active Planning | 729 | 69,827 | 51.5 | 45.4 | 96.9 |
| Not implemented | 183 | 29,535 | 19.6 | 15.8 | 35.4 |
| **Total** | **3,809** | **324,967** | **183.8** | **183.2** | **366.9** |

*Source: Malaysia Investment Development Authority (MIDA) Implementation Survey*

# TRADE AND INVESTMENT FACILITATION

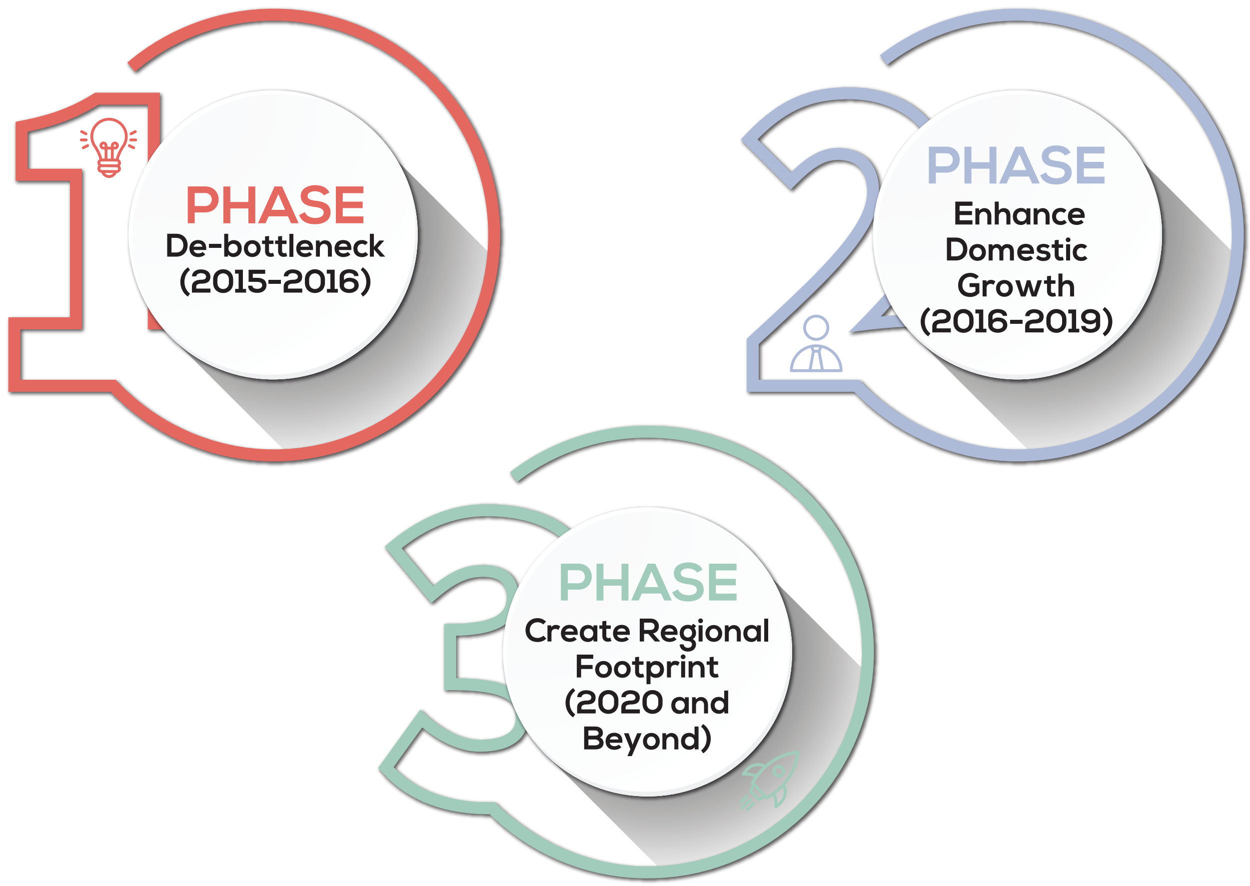
## Trade Facilitation Initiatives

MITI is one of the strategic partners of the Ministry of Transport in providing support to coordinate and ensure the implementation of measures under the Logistics and Trade Facilitation Masterplan (2015-2020), particularly for Strategic Shift II: Enhancing Trade Facilitation Mechanisms. This strategy is aimed at increasing the efficiency of trade facilitation mechanisms, particularly through improvements in cargo clearance systems, paperless trading and security of trade documents in order to boost trading activities, reduce the cost of business and enhancing ease of doing business. To achieve the objectives of the Masterplan, the National Logistics Taskforce (NLTF) was established to execute the Masterplan. The NLTF is a joint platform with all relevant stakeholders from both the public and private sectors, with the Ministry of Transport as the champion.

The Masterplan lays out the strategic framework and roadmap to advance Malaysia as the Preferred Logistics Gateway to Asia by 2020 and beyond through five strategic shifts. These are:

- Strengthening the institutional and regulatory framework;
- Enhancing trade facilitation;
- Internationalising logistics services;
- Developing infrastructure and freight demand; and
- Strengthening human capital.

The target of the Masterplan is to increase cargo volume to 880 million tonnes based on an annualised growth rate of 8% by 2020 and beyond. The Masterplan is being implemented in three phases:



In 2019, the five workstreams under Strategic Shift II continued to be expanded:

i. Reduce the time taken and complexity of processes: to enhance customs approval and clearance mechanisms with the objective of reducing the cost and time taken for export and import processes;

ii. Improve regulatory processes for landing permits for chartered flights: to improve regulatory measures for chartered flights as well as digitalising permit applications;

iii. Increase compliance levels with the market regulations of trade partners: to address the need for standards conformity to transform the manufacturing sector towards producing high-value, diverse and complex products;

iv. Enhance the capabilities of local logistics service providers: to increase the participation of logistics companies in integrated logistics activities by leveraging on certifying service providers for Integrated Logistics Services (ILS), International Integrated Logistics Services (IILS) and incentivising service providers through the Domestic Investment Strategic Fund (DISF) grant. MITI continues to collaborate with MIDA, Malaysia Productivity Corporation (MPC), Standards Malaysia and the Malaysia Institute of Transport towards raising the participation of both local and foreign services providers; and

v. Establish a virtual selling platform and leverage on the potential of e-commerce: to improve and expand the scope of current initiatives on e-commerce by increasing the number of marketplaces and leveraging on the postal network to grow online low-value transactions.

The workstreams are monitored under the Trade Facilitation Cluster Working Group (TFCWG) which also assumes the role of National Committee on Trade Facilitation (NCTF) as required by the World Trade Organisation Trade Facilitation Agreement. The TFCWG, which is co-chaired by the Deputy Secretary-General of MITI and the Deputy Director-General of the Royal Malaysian Customs Department, is made up of representatives from the public and private sectors.

The TFCWG, which serves as a platform for closer cooperation between the government and the private sectors, has been very successful as an avenue for the former to receive industry feedback. Various efforts were undertaken by the TFCWG to strengthen Malaysia's position as a preferred regional logistics hub in line with the emergence of digital trade and recent developments in the maritime ports sector. To ensure certainty of implementation, initiatives proposed under the Masterplan have also been incorporated into the 11MP (2016-2020). These initiatives were designed to enhance trade facilitation activities to improve Malaysia's ranking in the World Bank's Ease of Doing Business Report and Logistics Performance Index Report as well as to reinforce Malaysia's compliance with international obligations. MITI, together with the Federation of Malaysian Manufacturers (FMM), also co-chairs the Technical Working Group on Trading Across Borders (TWGTAB) under PEMUDAH to address gaps and barriers in order to improve the efficiency of international trade through effective export and import processes. These include formulating as well as re-engineering processes to reduce time taken, minimising documentation and reducing the costs of export and import activities in Malaysia.

## Initiatives on Non-Tariff Measures

The initiative to review non-tariff measures (NTMs) has been assigned to the Malaysia Productivity Corporation (MPC) under the Malaysia Productivity Blueprint (MPB). The MPB was designed to support and accelerate productivity improvement strategies, initiatives and programmes at the national, sectoral and enterprise levels through five strategic thrusts, namely:

- Building a Workforce of the Future;
- Driving Digitalisation and Innovation;
- Making Industry Accountable for Productivity;
- Forging a Robust Ecosystem; and
- Securing a Strong Implementation Mechanism.

The removal of NTMs that impede business growth is one of the key activities under the "Forging a Robust Ecosystem" thrust. The MPC has, from 2018 to 2019, reviewed 786 NTMs across 16 Ministries and 51 agencies. Upon completion of the review process, the Ministries concerned will improve further and streamline the identified NTMs towards the ultimate aim of reducing compliance cost to businesses. As a means to coordinate and monitor Malaysia's efforts in implementing the NTMs effectively at all levels, MITI is holding consultations with domestic stakeholders to establish the National Committee on Non-Tariff Measures (NCNTM) as required by the ASEAN Trade Facilitation Joint Consultative Committee (ATF-JCC). The NCNTM is designated as a platform to discuss policy and implementation issues related to NTMs and emphasises the role of relevant agencies in providing advice or decision on such matters at regional and international levels.

## ASEAN Single Window

Cross-border trade requires the submission of a variety of paper-based documents to a bewildering number of authorities in different countries. The documentation process is an impediment to the business community in an era where speed of delivery for goods and services is pivotal for success. Paperless transactions by means of electronic document submission are now deemed essential for greater ease of doing business.

At the country level, Malaysia's National Single Window (NSW) - with six core services comprising eManifest, ePCO, ePermitSTA, eDeclare, ePermit and ePayment - has been in operation since 2009. At the regional level, the ASEAN Single Window (ASW) initiative was first mooted in 2003 to connect and integrate the National Single Windows of ASEAN member states to expedite cargo clearance and reduce paperwork for traders via electronic transmission of documents. The ASW enables data to be transmitted in a single submission, a single synchronous processing of information and single decision-making for customs release and clearance among ASEAN member states and participating countries.

The ASW, as set by the ASEAN Economic Ministers in 2017, supports the target of a 10% reduction in trade transactions costs by 2020. Since going live in 2018, more than one million electronic certificates of origin (ATIGA e-Form D) have been exchanged by participating ASEAN member states. As at 31 December 2019, the exchange of ATIGA e-Form D is in operation among all 10 ASEAN member states, namely, Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

## Structure of ASEAN Single Window

The protocol on the Legal Framework to Implement the ASW has created a robust legal basis for the regional exchange of trade documents, including provisions for data protection, confidentiality and acceptance of electronic signatures. The messaging architecture further strengthens the operability of the ASW which is a flexible yet secure system for exchange of documents that guarantees and tracks the delivery as well as the authenticity of messages among NSWs. Ultimately, the ASW significantly fast-tracks the trade process while reducing opportunities for fraud and abuse. ASEAN has also agreed on regional document exchange standards that enable inter-operability of documents in the NSW systems throughout the region.

## Benefits of ASEAN Single Window

The ASW benefits businesses not only by reducing reliance on hard copy documentation but also by facilitating customs clearance as well, in the process of which, the cost of doing business is lowered. Nearly 500,000 trade transactions are made annually through the system. From a government's perspective, the inter-operability of the ASW and NSWs supports risk management and other intelligence systems so as to better target inspection resources among its agencies as well as in reducing opportunities for fraud and misrepresentation. Plans have been made to expand the ASW in 2020 and beyond. The documents to be included under the expansion plans are:

- ASEAN Customs Declaration Document (ACDD) with Export Declaration Information to support risk management in importing countries and potentially reduce clearance times;
- Electronic Phytosanitary (e-Phyto) certificates to support trade in plants and plant products;
- Electronic Animal Health (e-AH) certificates to support trade in animals and animal products; and
- Electronic Food Safety (e-FS) certificates to support trade in prepared food.

# INVESTMENT ENGAGEMENTS, COOPERATION AND AGREEMENTS IN INTERNATIONAL FORUMS

The ASEAN Comprehensive Investment Agreement (ACIA), signed by ASEAN Economic Ministers on 26 February 2009 in Cha-Am, Thailand, entered into force on 29 March 2012. The ACIA calls for the revision, combination and enhancement of the Framework Agreement on the ASEAN Investment Area (AIA) signed in 1998 and the ASEAN Agreement for the Promotion and Protection of Investments (ASEAN IGA) signed in 1987. The objective of the ACIA is to create a free and open investment regime to ensure that ASEAN remains an attractive destination for all investors, whether domestic or foreign.

In replacing the earlier AIA Framework and the ASEAN IGA, the more comprehensive ACIA further enhances ASEAN's effectiveness in attracting investments amidst the challenges emerging as well as the need to meet the objectives of the ASEAN Economic Community. As the ACIA is based on international best practices, the agreement also includes a provision that allows ASEAN member states to make amendments or modifications through the Protocol to Amend the ACIA. The provision was signed during the ASEAN Economic Ministers - 17th ASEAN Investment Area Council Meeting on 26 August 2014 in Nay Pyi Taw, Myanmar, and entered into force on 12 September 2016.

## COMPETITIVE INVESTMENT DESTINATION

Malaysia continued to be recognised as an attractive investment destination as an outcome of the Government's efforts in investment promotion as well as the introduction of initiatives to increase productivity and innovation through political, economic and regulatory reforms. These efforts have received worldwide recognition as reflected in Malaysia's improved rankings in the reports of various international institutions, including:

- In CEO World Magazine's World's Best Countries to Invest in or Do Business, Malaysia was ranked first among 67 economies in 2019;
- In the 2019 World Economic Forum's Global Competitiveness Report, Malaysia was ranked 27th out of 140 countries;
- In the Switzerland-based Institute for Management Development's World Competitiveness Rankings 2019, Malaysia's ranking among 63 economies rose to 22nd from the previous 24th; and
- In the World Bank's Doing Business Report 2020, Malaysia's ranking among 190 economies improved from 15th position to 12th.

## ISSUES, CHALLENGES AND WAY FORWARD

Malaysia's economy faces serious downside risks in 2020 from a combination of threats, including the COVID-19 pandemic, geopolitical uncertainties, trade tensions and a global shift towards more protectionist policies. The government is committed to strengthen the domestic business environment to ensure that Malaysia remains as an attractive investment destination. Greater emphasis will be given to reform of critical areas, particularly regulatory reforms on investment, the delivery system at federal and state levels, facilitation and ease of doing business, reducing the cost of doing business, provision of tax incentives, infrastructure improvement as well as the availability of a skilled and knowledgeable workforce.

The government is committed to creating opportunities for the people in the new economy as indicated in the Industry4WRD policy. The ecosystem approach will continue to be adapted and enhanced for the manufacturing and services sectors in order to raise the profile of investments in these areas. The approach leverages on developments emerging from megatrends and smart manufacturing so as to focus on products and services with technological advancements and new applications as well as prioritising on high-value research and development activities and the Internet of Things.

The Government will also pursue proactive measures to ensure that the economy is able to tap into opportunities emerging from changing global trade and investment patterns. To maintain Malaysia's standing as a profit centre in Asia, the Government will accelerate efforts to boost investments by leveraging on the country's well-diversified economy, solid economic fundamentals as well as pro-business and pragmatic policies.

## Box Article 3.1

### Enhancement of National Committee on Investments

Malaysia offers over 130 types of investment incentives, the approval of which are given by four federal level committees. There are also about 32 investment promotion agencies (IPAs) at federal, regional and state levels, each with varying roles and responsibilities. Such a structure has, to a large extent, contributed to wastage of resources and efforts, confusion among investors and unhealthy competition among IPAs. To remove this obstacle to a better investor experience, the Cabinet had, on 8 May 2019, elevated the National Committee on Investment (NCI) to the role of sole approving committee for investment incentives; with Ministry of International Trade and Industry (MITI) and the Ministry of Finance as the co-chairs. The enhanced NCI, which harmonises the various incentive offers of Ministries and IPAs, is a pivotal move by the Government, particularly in facilitating and driving the growth of high-quality and high-value investments. With the NCI now acting as a one-stop platform, bureaucratic red tape and confusing information encountered by potential investors is reduced substantially and applications are processed and approvals issued expeditiously.

On 28 August 2019, the Minister of International Trade and Industry and the Minister of Finance co-chaired the inaugural NCI I Meeting. Other permanent NCI members who attended the meeting were representatives from MITI, Ministry of Finance, Ministry of Economic Affairs, Ministry of Agriculture and Agro-based Industry, Inland Revenue Board and Bank Negara Malaysia. Also in attendance were representatives from Malaysia Digital Economy Corporation, Bioeconomy Corporation, East Coast Economic Region Development Council, Iskandar Regional Development Authority, Northern Corridor Implementation Authority, Sabah Economic Development and Investment Authority and Halal Development Corporation. The meeting endorsed the new terms of reference for the NCI which aims essentially to expedite the approval process for applications of investment incentives.

The Malaysian Investment Development Authority (MIDA), an agency under MITI, is the key IPA while other IPAs throughout Malaysia will continue to facilitate investments as well as monitoring and assessing compliance of incentive conditions. From 28 August to 31 December 2019, a total of 937 projects were evaluated at the NCI I and NCI II meetings. Of the total, 892 projects - valued at RM109.1 billion – were approved for various sectors including electrical and electronics (E&E) products, machinery and equipment, chemical and green technology and life sciences and medical technology.

## Box Article 3.2

### Investment Facilitation by Malaysian Investment Development Authority

The establishment of the Malaysian Investment Development Authority (MIDA) as a statutory corporation in 1967 was hailed by the World Bank as "the necessary impetus for purposeful, positive and coordinated promotional action" for Malaysia's industrial development. MIDA, an agency of Ministry of International Trade and Industry (MITI), is Malaysia's principal investment promotion agency and serves as a facilitator for domestic and foreign investments. The agency champions investment promotion, evaluate incentives, initiates implementation of investments to ensure approval conditions are complied with as well as monitoring and hand-holding investors in project implementation.

MIDA provides assistance to companies up to the successful implementation stage through:

- Direct consultation and co-operation with relevant agencies at both federal and state level in matters such as securing infrastructure facilities such as factory sites, electricity and water supplies, telecommunication as well as in expediting approvals for building plans, Certificate of Fitness and business licences;
- Assisting investors to obtain all necessary approvals for project execution;
- Extending support to existing companies in planning expansion, diversification and other reinvestment of their projects;
- Facilitating visits, site investigations and supply chain infrastructures; and
- Undertaking periodic reviews of issues and formulating appropriate measures for the smooth implementation and operation of industrial projects.

MIDA functions as a one-stop centre at the federal level to expedite approvals from various Ministries and agencies. Senior officials from the Royal Malaysian Customs, Tenaga Nasional Berhad, Telekom Malaysia Berhad and the Department of Labour as well as liaison officers from other relevant agencies such as the Department of Environment and the Department of Occupational Safety and Health, are permanently stationed at MIDA's Advisory Service Centre (ASC) to ensure that implementation issues and enquiries from investors are addressed fast and efficiently. An immigration unit is also based in MIDA headquarters to expedite immigration matters and the issuance of work permits and visas for expatriates. MIDA is working towards enhancing the ASC by having a more extensive representation of government agencies related to investment approvals to be attached at its headquarters.

The National Committee on Investment (NCI) which was established under MIDA in May 2010 is a single platform to approve investments in the manufacturing and selected services sector in Malaysia. The NCI's main functions are to deliberate on investment projects proposals and make decisions in real-time thus reducing red tape and bureaucracy to secure targeted projects speedily. In line with the NCI objectives, the

Incentives Coordination and Collaboration Office (ICCO) in MIDA aims at enhancing the effectiveness of the Government's incentive mechanism through central coordination of all incentive offerings to ensure they are aligned with the national investment agenda.

The incentives coverage is a dynamic one with a list of incentives offered by all Ministries and agencies being updated periodically. To ensure that current information is available at all times for investors, MIDA has established the i-Incentives Portal under ICCO to provide information on investment incentives offered by the federal government to the manufacturing, services and primary sectors. To enhance investors' experience, MIDA, in October 2018, launched the i-Services portal to link local services providers to potential clients and investors. The portal, which carries an impressive database on cost-efficient local services providers functions as a one-stop gateway for domestic and international companies to source for a wide range of home-grown services, thus reducing reliance on foreign suppliers.

**Box Article 3.3**

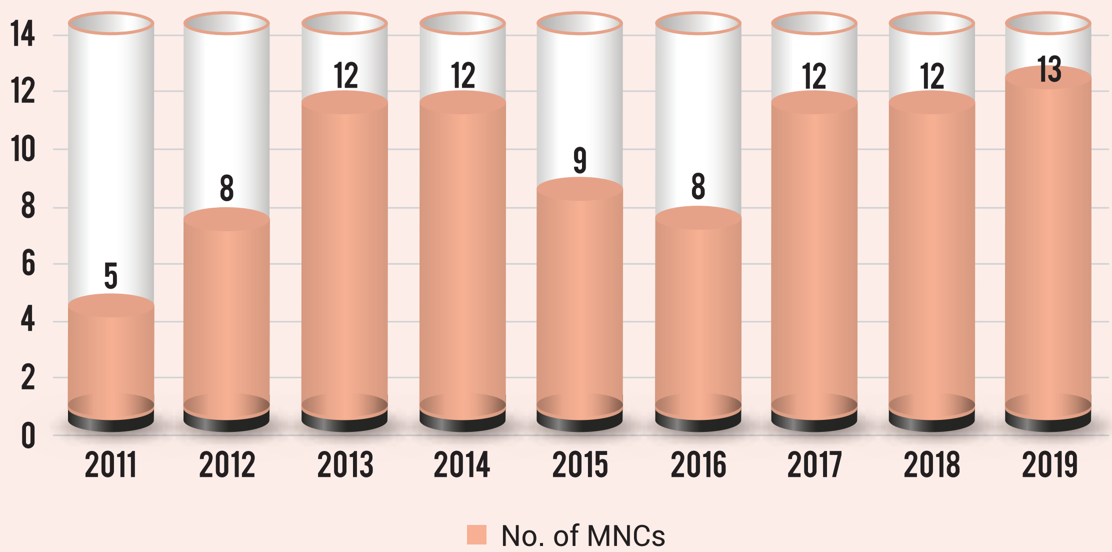
**Investment Facilitation by InvestKL Corporation**

InvestKL Corporation (InvestKL) is a government investment promotion agency established in 2011 to support Malaysia's ambition to be the preferred regional hub for business and investment. High-quality investments have a multiplier effect in not only driving innovation but also in creating a highly skilled workforce that will transform the economic landscape of Malaysia in line with the Government's development agenda. InvestKL's mandate is to attract Fortune 500 and Forbes 2000 type of multinational companies (MNCs) and to facilitate and expedite the setting up of high-tech, high-value and high-impact investments in the Greater Kuala Lumpur (KL) region.

Greater KL, Malaysia's most economically and commercially vibrant metropolis, offers a business- and investor-friendly environment, facilitative business-friendly policies, attractive tax incentives, well-developed infrastructure and a robust talent pool, making the region the ideal hub for MNCs to locate their investments in. Greater KL is the preferred hub for investors in six key sectors, namely, smart technologies, e-commerce, consumer technologies, medical devices, industrial automation and energy and renewables.

Between 2015 and 2019, InvestKL has attracted ninety-one MNCs, with approved and committed investments of RM13.95 billion, to set up operations in Greater KL. A total of 12,584 high-skilled jobs were created from these investments. In 2019, InvestKL brought in investments valued at RM2.2 billion from thirteen high-tech and high-value MNCs, with the resultant creation of 1,308 jobs.

Number of MNC Investors Brought in by InvestKL 2011 - 2019




*Source: InvestKL Corporation (InvestKL)*

InvestKL guides and facilitates the investor through the various stages of the investment process as well as offering aftercare services. Investment facilitation services offered by InvestKL include:

- Providing advisory services;
- Collaborating with MNCs to develop effective business strategies;
- Connecting investors to various specialised business hubs;
- Providing post-investment services;
- Proposing talent management programmes;
- Developing familiarisation programmes;
- Ensuring seamless transition of investments to their chosen locations;
- Advising on competitive fiscal packages; and
- Policy advocacy and clarifications.

InvestKL partners with various Government agencies such as Malaysian Investment Development Authority (MIDA) and Malaysian Digital Economy Corporation and economic corridor authorities to attract MNCs and chambers of business to set up regional business, innovation and talent hubs as well as high-value business services activities. InvestKL also works closely with relevant Ministries and Government agencies to provide feedback and recommendations in order to constantly assess and improve upon the investment process. Among the many other support programmes and initiatives for investment facilitation are collaboration with local educational institutions on talent upskilling and small and medium size enterprises (SME) collaboration with multinationals to support the operational value chain.

Another InvestKL initiative with special focus on attracting investments from the People's Republic of China (PRC) was the setting up of the China Special Channel (CSC) as announced in Budget 2020 in October 2019. The CSC is a single channel window to funnel all investment opportunities from the PRC as well as global MNCs that are considering setting up new businesses and regional hubs outside of the PRC or relocating their smart manufacturing and high value services. A component of the CSC enables InvestKL to assist PRC companies and MNCs to conduct business matching, industrial collaboration as well as exploring merger and acquisition or joint-venture opportunities.

To ensure seamless business transitions, the CSC also links investors to talent management programmes to fulfil human resource needs of expanding regional hubs. InvestKL spearheads the InvestKL Talent Programme (ITP) to enhance, develop and produce home-grown talents that can scale up the leadership ladder of corporate organisations. ITP also connects with local tertiary education institutions and multinational employers to ensure home-grown talents are not only developed across the leadership ladder but also given opportunities for skill enhancement in order to be on par with global standards. ITP also aims at ensuring that high-value and skilled talents are available to support the MNCs' regional growth ambitions in the long-term.


1.015
51.41%
149.16
23.30


# CHAPTER 4
# INDUSTRY PERFORMANCE: PRODUCTIVITY AND COMPETITIVENESS

# CHAPTER 4
# INDUSTRY PERFORMANCE: PRODUCTIVITY AND COMPETITIVENESS

## OVERVIEW

Malaysia's industrial development hinges on the macro policy direction of the Eleventh Malaysia Plan 2016-2020 (11MP) which will be reinforced through new priorities and emphases for the 2018-2020 period as outlined under the six pillars in the Mid-Term Review (MTR-11MP). The development strategies of MTR-11MP will be aligned with the objectives of the Shared Prosperity Vision (SPV) 2030. SPV 2030 is a longer-term commitment to making "Malaysia a nation that achieves sustainable growth along with fair and equitable distribution, across income groups, ethnicities, regions and supply chains".

The six pillars of MTR-11MP are designed to support inclusive growth and sustainable development. One of the strategies adopted under Pillar VI is to lay the foundation to strengthen economic growth across all sectors of the economy - particularly for small and medium size enterprises (SMEs) - by boosting productivity through capacity-building and enhancing capability in the business ecosystem. The strategies formulated under Pillar VI are designed to accelerate economic growth through robust development of high-value and knowledge-intensive economic activities within a five-year time frame.

Efforts are ongoing to enhance industrial capability by attracting quality investments in tandem with strengthening the business ecosystem through the adoption of advanced technology and innovation. The ultimate purpose of these plans is to ensure that Malaysia's industrial sector remain competitive and resilient to meet the challenges of Industry 4.0 as outlined in the Policy on Industry 4.0 (Industry4WRD) which, essentially, aims for the digital transformation of the domestic manufacturing industry and related services sectors. The measures and initiatives drawn up under Industry4WRD are intended to drive greater adoption of Industry 4.0 technologies, particularly by SME manufacturers.

In 2019, the focus of MITI was on implementing Industry4WRD measures and initiatives. Where the automotive industry is concerned, the Government through the recently concluded review of the National Automotive Policy (NAP) is targeting to promote new growth areas through the integration of Next Generation Vehicle (NxGV) and Mobility as a Service (MaaS) technologies with Industry 4.0 technologies. In line with the NAP is a major policy decision to formalise and ensure the orderly development of the re-manufacturing industry. Both policies were intended to be introduced in 2020.

The Services Sector Blueprint (SSB) continues to drive progress in the sector. The four policy levers of the SSB - Internationalisation, Investment Incentives, Human Capital Development and Sectoral Governance Reform – are designed to unlock the potential in services through attracting high quality investments and knowledge-based services, with the ultimate goal of transforming the sector into one that features knowledge-intensive activities and innovations.

Economic growth is driven not purely by investment and spending but also by the productivity of a country's workforce. Economies with high productivity levels are better equipped to adapt to changing macroeconomic challenges as well as fundamental shifts in technological trends. The Malaysia Productivity Blueprint (MPB) was conceived in recognition of productivity as a game-changer for sustainable economic growth. The goal of the MPB is to enhance the country's productivity level in order to move the economy from one that is input-driven to one that is productivity-driven for long-term economic growth as well as to empower Malaysia to become a developed and high-income nation.

Higher national productivity translates into greater competitiveness in the global marketplace. The Government, accordingly, is emphasising on enhancing Malaysia's competitiveness to attract high quality investments. Malaysia's recent favourable performance in key international competitiveness reports attests to the progress that has been made in this aspect of the country's economic development.

## PERFORMANCE OF THE MANUFACTURING SECTOR

In 2019, the manufacturing sector contributed 22.3% to gross domestic product (GDP) albeit at a slower pace of growth at 3.8% compared to the 5% recorded in 2018. Total exports of manufactured goods dipped marginally by 0.3% to RM834.1 billion (2018: RM837 billion). Imports declined by 4.7% to RM729.0 billion (2018: RM765.1 billion). The top three exports and imports comprised electrical and electronics (E&E), petroleum and chemicals and chemical products. A total of RM82.7 billion in investments was approved in 2019, of which 65.2% or RM53.9 billion was foreign direct investments. Domestic investments constituted the remaining 34.8% or RM28.8 billion.

**Exhibit 4.1: GDP Growth of Manufacturing Sector by Supply-Side Approach Performance (%)**

| | 2018p | 2019p |
|---|---|---|
| Manufacturing | 5.0 | 3.8 |
| Vegetable and Animal Oils and Fats | -0.1 | -1.0 |
| Food Processing | 7.0 | 7.1 |
| Beverages | 3.2 | 3.1 |
| Tobacco Products | 1.8 | 5.9 |
| Textile and Apparels | 4.4 | 5.6 |
| Leather and Related Products | 3.3 | 5.0 |
| Wood Products | 5.5 | 5.1 |
| Paper and Paper Products | 4.3 | 4.6 |
| Printing and Reproduction of Recorded Media | 3.9 | 4.2 |
| Refined Petroleum Products | 3.3 | 2.9 |
| Chemicals and Chemical Products and Pharmaceutical Products | 4.6 | 2.2 |
| Rubber Products | 5.1 | 6.9 |
| Plastic Products | 4.0 | 2.7 |
| Non-metallic Mineral Products | 5.5 | 4.3 |
| Basic Metals | 3.9 | 4.2 |
| Fabricated Metal Products | 5.0 | 3.6 |
| Machinery and Equipment | 5.3 | 4.0 |
| Computers and Peripheral Equipment | 4.1 | 4.8 |
| Electrical Equipment | 1.1 | 2.9 |
| Electronic Components and Boards, Communication Equipment and Consumer Electronics | 7.1 | 3.4 |
| Manufacture of Medical, Precision, and Optical Instruments, Watches, and Clocks | 7.5 | 0.7 |
| Motor Vehicles and Transport Equipment | 6.4 | 6.0 |
| Furniture | 4.2 | 8.2 |
| Other Manufacturing and Repair and Installation of Machinery and Equipment | 6.6 | 4.3 |

*Note: p - preliminary*
*Source: Department of Statistics Malaysia (DOSM)*

## Aerospace

The Government has identified aerospace as a strategic industry with great potential for Malaysia's industrialisation and technological development programmes. The importance of the industry is reflected in the 11MP in which aerospace is deemed as one of the key strategic focus sectors. Post-2020, the Government will implement more robust action plans under the Twelfth Malaysia Plan 2021-2025 (12MP) to further advance the domestic aerospace industry.

The industry has seen steady growth in revenue and exports since the implementation of the key initiatives of the Malaysian Aerospace Industry Blueprint 2030. The implementer for these initiatives is the National Aerospace Industry Coordinating Office (NAICO) under the Ministry of International Trade and Industry (MITI). The blueprint, which was launched in 2015 to advance Malaysia's aspiration to be an industry leader by 2030, targets to generate RM55.2 billion in revenue annually and create 32,000 jobs in the aerospace sub-sectors. NAICO, in partnership with other agencies such as Malaysian Investment Development Authority (MIDA), Malaysia External Trade Development Corporation (MATRADE), SME Corporation Malaysia, Aerospace Malaysia Innovation Centre (AMIC) and the Department of Skills Development, has implemented multiple aerospace development initiatives spanning industry facilitation, local supply chain development, competency development, research and technology, international collaboration and human capital development.

Quality investments combined with strong market demand have accelerated the development of the local aerospace supply chain thus making Malaysia one of the critical suppliers for aircraft structure components, particularly for Airbus and Boeing. In 2019, seven aerospace projects valued at RM2.07 billion were approved, of which RM226.57 million or 11% was foreign and RM1.85 billion or 89% was domestic. The projects are expected to generate 582 jobs.

The aerospace industry generated RM16.2 billion in revenue and employed more than 27,500 high-skilled workers in 2019. The manufacturing of aero-structure and engine component made up 47% of market activities while maintenance, repair and overhaul services accounted for 49%. Malaysia has acquired a global reputation for producing quality products for global aerospace leaders such as Airbus, Boeing, Rolls-Royce, Safran, Honeywell and Thales.

Malaysia has also become an important source for composite and metallic components for original equipment manufacturers (OEMs) led by local champions like Composites Technology Research Malaysia Sdn Bhd, SME Aerospace Sdn Bhd and UMW Aerospace Sdn Bhd. Aeronautical parts and components produced in Malaysia include A400M vertical and horizontal tailplanes, A320 spoiler panels and leading edge panels, A350 nose and fan cowls, B787 fixed leading edge and fan cowls and Trent 1000 and Trent 7000 fan cases. In 2019, the exports of aircrafts and associated equipment and parts increased by 4% year-on-year to RM8.81 billion. The main export destinations were the United States of America (US), Singapore, the United Kingdom (UK), the People's Republic of China (PRC), and France.

A stronger local supply chain is imperative to reinforce Malaysia's position in the global aerospace industry. Towards this end, NAICO and MIDA have conducted various supply chain conferences involving original equipment manufacturers (OEMs) and Tier 1 companies such as Embraer, Universal Alloy Corporation and Russian Aerospace Business Delegation with the participation of local companies. SME Corporation Malaysia, in the meantime, is continuing to focus on capacity-building for aerospace SMEs, with another ten companies having been enrolled under the Aerospace Manufacturing Initiative: Developing SMEs in The Global Aerospace Manufacturing Industry.

AMIC, with the support of NAICO, has also spearheaded aerospace research and technology activities under the banner of the High Value Added and Complex Products Initiative of the 11MP. For 2019, the research and technology (R&T) projects involved stakeholder collaboration with companies such as Airbus, Rolls-Royce, Composites Technology Research Malaysia, Spirit AeroSystems, Senior Aerospace UPECA and Sepang Aircraft Engineering as well as other industrial research collaborators, universities, and research institutions. Some of the key focus areas were advanced manufacturing processes such as automation within the aero-manufacturing supply chain and robotic processes for automated fibre placements to produce several large and complex prototypes such as the fan cowl. Another AMIC project in 2019 was the completion of a resin transfer mould project to produce a prototype for an A320 under wing panel and out of autoclave development for manufacturing airplane panels. Both projects were undertaken to meet demand for rapid and high-quality manufacturing of aerospace parts.

On the automation and digitalisation front, AMIC has developed robots for VR-robot control; drilling of aircraft products; paperless tracking and tracing of manufacturing components, logistics, and repair progression; transferring of semi-assembled components in warehouses; auto-painting of aircraft radomes; auto-non-destructive testing for radome inspection; dashboarding of repair process; and automatic jigs for transferring and repair processes. AMIC and NAICO are also collaborating with AirAsia, Malaysia Airlines, Malindo, Petronas and the Civil Aviation Authority of Malaysia to produce Malaysia's own bio-jet fuel before 2025. AMIC also launched the 1st National Aerospace Hackathon (called AVIATAR) together with MITI, NAICO, the Ministry of Education , AirAsia, and Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS) in collaboration with Invest Selangor, Airbus, Air France Industries, Daher, Safran, and Thales. The event was hosted by University of Nottingham (Malaysia) and Langkawi International Maritime and Aerospace Exhibition (LIMA) 2019.

To address the requirements for the next generation in human capital development, NAICO is collaborating with the Department of Skills Development (DSD) to review and develop a training syllabus that is aligned with new technology adaptation and skills as required by the industry. A joint NAICO-DSD study on Supply and Demand of Technical and Vocational Education and Training (TVET) Workforce in Malaysia's Aerospace Industry provided functional data to serve as a guide in the expansion of aerospace occupational prospects. The study indicated that 7,542 additional workers will be needed by the industry in the next five years, of which 84% would be TVET graduates. NAICO is also collaborating with the Malaysia Board of Technologists and the Technological Association Malaysia to develop continuous professional development programmes as well as advocating registration for aerospace professional technologists and certified technicians.

The long-term prospects are bright for the domestic aerospace industry given that the Asia Pacific Region is expected to have the highest growth in new aircraft deliveries over the next decade. Airbus has forecasted deliveries of 16,082 new aircrafts to the region by 2037. Boeing has projected that the region will become the largest market, with 17,390 aircraft deliveries by 2038. Against this backdrop, Malaysia's aerospace is seen as having immense potential to develop further and to maintain its competitiveness through research and technology, strategic partnerships with international and regional players and the adoption of Industry 4.0 and digital technologies.

To leverage on the country's existing advantage in the industry, the role of NAICO will be expanded through the establishment of a dedicated aerospace agency which will be known as the National Aerospace Industry Corporation Malaysia (NAICO Malaysia). NAICO Malaysia will champion the growth of the domestic aerospace industry beyond 2020 to achieve the targets of the Malaysian Aerospace Industry Blueprint 2030.

## Automotive

In 2019, Malaysia recorded sales of 513,826 units of energy efficient vehicles (EEV) across ninety-two models and 301 variants, or a penetration of 85.03% against the total industry volume of 604,287 for the year. The total production volume stood at 571,632 units or 94.6% of all vehicles sold in Malaysia. In terms of exports of motor vehicles, the value was RM1.03 billion, while imports were valued at RM 7.13 billion. Significant improvement in export performance was also recorded for the automotive industry, with shipments of automotive parts and components up by 13.2% to RM13.7 billion and re-manufactured parts by a hefty 38% to RM722 million. The mobility sector, bolstered by RM3.49 billion in approved investments, contributed 4.3% to GDP in 2019. This amount is in addition to the RM15.75 billion in realised investments since 2014.

MITI through the Automotive Industry Development Programme under the 11MP provided funding to the Malaysia Automotive Robotics and IoT Institute (MARii) to conduct programmes for capacity-building and technology adoption for the local automotive supply chain and for human capital development. In 2019, 423 vendors attained Supplier Competitiveness Level 3 which is the minimum standard required to supply to Tier 1 OEMs in the country. Of this number, 130 have reached Level 4, indicating possession of research and development (R&D) capabilities. 63 Malaysian vendors who have reached Supply Chain Learning Level 5 are now exporters in the global supply chain.

In 2019, 48 vendors participated in the Manufacturing Execution System programme which was created to enhance Industry 4.0 capabilities through real-time data monitoring. MITI and MARii have also provided cloud computing services to 649 vendors as well as training to 995 design and data analysts and 1,279 design validation and virtual realist specialists. MITI and MARii were also involved in enabling 4,301 job placements through human capital development programmes such as the Industry-Led Professional Certificate programme. The programme trains school leavers with Malaysian Certificate of Education qualification or graduates from technical institutions - mainly from the B40 group – to become semi-skilled and skilled workers specialising in automated production, maintenance, and quality control.

The National Emission Test Centre (NETC) in Rawang, which was launched in 2018, received ISO/IEC 17025:2017 certification in 2019. The centre's capability has also been enhanced to enable testing of Diesel Internal Combustion Engine (ICE) up to Euro 6D, thus making it one of the most advanced vehicle emission testing centres of its kind in Southeast Asia. NETC is the first full-fledged vehicle emissions testing facility in Malaysia.

The development of the Malaysia Driving Cycle (MDC) standard, which can accurately simulate local road conditions, was completed for Peninsular Malaysia in 2019. The MDC standard for Sabah and Sarawak will be completed in 2020.

### National Automotive Policy

The global automotive industry is trending towards Next Generation Vehicle (NxGV), MaaS and application of Industry 4.0 technologies as well as safer, more intelligent, and environmentally friendly vehicles. Automotive technology is moving towards autonomous vehicles, electrification, Internet of Things (IoT), artificial intelligence and alternative fuel powertrains. The concept of connected mobility will influence the direction and product development of the industry as it moves from powertrain-based designs to the inclusion of intelligent and connectivity features in vehicles.

The fourth edition of the NAP, which is expected to be launched in 2020, is designed to cater to these trends as well as to drive the transition of Malaysia's automotive industry into the era of digitalisation. NAP 2020 outlines the salient elements deemed essential to realise the targets, specifically, business facilitation, investment, advanced technology adoption, facility establishment through sharing of resources and expertise as well as talent development. The NAP 2020 initiatives will focus on research and development, design, and manufacturing, testing and value-added activities along the value chain of the automotive and mobility ecosystem.

## Chemicals and Petrochemicals

The chemicals and petrochemicals sector is the third largest contributor to Malaysia's export and import trade in manufactured goods and the second largest contributor to the value-added component of the manufacturing sector. The chemicals and petrochemicals industry, which is deemed a catalytic sector, includes basic chemicals, plastics, synthetic rubber, oleo-chemicals, and advanced materials products. The industry is highly regulated, capital-intensive and employs high-technology across the value chain as well as high-skilled workers. The industry is deemed a key driver in industrial development owing to its strong forward linkages to other sectors such as electrical and electronics, automotive, construction and pharmaceuticals.

In 2019, chemical industry recorded total sales of RM293.7 billion, of which Basic Industrial chemicals and other chemical products contributed RM72.9 billion sales, and Petroleum and Plastic Products contributed a total of RM220.8 billion sales. Exports of chemicals and chemical products declined by 1.2% year-on-year to RM57.01 billion while petroleum products dipped 6.1% to RM71.51 billion. Exports of plastic products grew 2.9% to RM14.96 billion. The same pattern was seen in the imports of chemicals and chemical products which fell by 1.7% to RM81.55 billion; petroleum products which dipped 9.9% to RM77.51 billion; and plastic products which grew 5.4% to RM11.89 billion.

In value terms, investments in chemical and chemical product projects declined by 28% year-on-year to RM3.6 billion in 2019. Investments in projects for plastic products grew 24.7% to RM2.5 billion. Investments in petroleum and petrochemical products also recorded a substantial decrease, from RM32.9 billion in 2018 to RM1.4 billion in 2019. The drop in investments for the year is attributed to the huge investment in 2018 for the Refinery and Petrochemical Integrated Development project in Pengerang, Johor.

The rapid acceleration of digital technologies in the chemical industry poses new challenges to businesses operating with traditional business models and systems. To balance the demands of environmental sustainability and economic growth, the utilisation of speciality chemicals and applications as green chemicals needs to be enhanced. The industry also needs to create a pool of experts in advanced materials and nanotechnology to meet market and R&D demands. To keep pace with innovative technologies in the chemical industry, Petronas has partnered with Telekom Malaysia to digitalise the company's oil and gas operations and maintenance solutions to enable better data management and workforce connectivity. Plastic product manufacturers have started to invest in automation such as the use of autonomous robots for pick-and-drop and conveyor belt activities.

The industry is also faced with cross-cutting issues such as minimum wage compliance, labour shortage and use of foreign workers, rising energy costs and compliance issues with environmental regulations. SMEs in oil and gas downstream activities face major hurdles such as high investment for R&D; compliance issues in meeting industry standards for quality, reliability, safety and certification; market volatility due to unstable crude oil and natural gas prices; and the need to raise global reputation and branding to enhance the profile of domestic firms in the world market.

Prospects for the industry, however, have brightened with the development of the Pengerang Integrated Petrochemical Complex (PIPC) in Johor. Opportunities are now available for local and international players in the downstream petrochemical sector to build facilities within the Refinery and Petrochemical Integrated Development (RAPID) area. The PIPC and RAPID projects cost about RM110 billion (USD27 billion) and RM66 billion (USD16 billion), respectively. When RAPID is commissioned in 2020, Malaysia's current annual petrochemical production capacity of 12.7 million tonnes will increase by 3.3 million tonnes.

One of the action plans in the 12MP will include a roadmap for the development of the chemical industry. The roadmap, which will also be part of the input for the New Industrial Master Plan (NIMP), will serve as a guide to grow the domestic chemical industry into one that is agile and sustainable through leverage on technology and innovation and supported by a robust ecosystem that would attract high-value investments. Also, to be assessed are the current performance of the industry such as infrastructure readiness, feedstock and availability of a skilled workforce, R&D capability as well as identification of best international practices for adoption. Existing policies and incentives on investment promotion will be reviewed to boost the development of the petrochemical industry.

## Electrical and Electronics Industry

The electrical and electronics (E&E) industry, a key sub-sector of the manufacturing sector, has grown exponentially since the first semiconductor plant was established in Malaysia in the 1970s. The sub-sector comprises two main industries: computer, electronics and optical products and electrical equipment. The export-oriented industry is now one of Malaysia's main manufacturing sub-sectors and a key contributor to the country's economy.

In 2019, the E&E sector recorded a production index of 120.1 points and total sales of RM1.4 billion. In the same year, the Government approved investments valued at RM25.66 billion for 157 E&E projects. The total comprised RM7.09 billion in new investments for 34 projects and RM18.6 billion for expansion or diversification projects. Domestic investments accounted for RM3.87 billion while foreign investments totalled RM21.79 billion. Foreign investments – for both new and expansion projects - were largely from the US with RM11.5 billion, Taiwan with RM3.6 billion and Singapore with RM2.1 billion.

Malaysia's E&E trade declined by 4% in 2019 to RM618.13 billion compared with RM644.17 billion in 2018. The industry, which accounted for 37.8% of the country's total export volume in 2019, is the biggest contributor to Malaysia's export trade. Exports of E&E fell 2.3% year-on-year to RM372.67 billion while imports were also down, by 6.5% to RM245.46 billion, thus generating a trade surplus of RM127.21 billion.

**BOX ARTICLE 4.1**

**MIMOS – Transforming the Electrical and Electronics Industry**

Since 2012, MIMOS has been contributing to the growth of the E&E industry in Malaysia by providing strategic support for the industry's ecosystem through talent development and complementary technical services. In 2019, MIMOS provided 1,360 analytical and design services to various companies, organisations and research communities involved in semiconductor, microelectronics system and integrated circuit design. These services have enabled the organisations concerned to improve performance cycle time and production quality as well as reducing downtime associated with manufacturing and design defects. Prior to MIMOS' involvement in this area, such services were only available from sources outside Malaysia, with the resultant high costs in transportation, analysis and of high manufacturing downtime.

MIMOS provided training in advanced skills in semiconductor wafer fabrication processes, failure and material analysis, design thinking methodology and IoT technologies for 1,426 participants in 2019. MIMOS, as the only local agency that has full semiconductor value chain capabilities and state-of-the-art facilities on par with international manufacturing standards, can offer and support advanced skills training not only for university students but also engineers and lecturers. Eleven local technical training institutions have also benefited from the addition of the MIMOS 3D and Additive Manufacturing Training Syllabus into their curriculum. The teaching staff of these institutions received syllabus content and delivery enhancement training to enable them to train more students to acquire Industry 4.0 skills set.

In 2019, MIMOS, in collaboration with other agencies, was also engaged in implementing key strategies for the E&E Productivity Nexus. These strategies are targeted to increase value-added activities for the sector by providing support to the MIDA Post-School Finishing Programmes for Integrated Circuit Design, MIDA Structured Industry Apprenticeship Programme for Integrated Circuit Design and Embedded Systems and Mechanical Design.

## Food Processing

The food processing sector, which contributes approximately 10% to Malaysia's manufacturing output, has been identified as one of the critical industries for the economy. The sector is one of the areas to be reviewed under the NIMP. The Government is also drafting the Agro-Food Policy 2.0 (2021 - 2030) to spur the sector to align with technological development and Industry 4.0.

In 2019, food processing accounted for 2.7% or RM42.04 billion of Malaysia's total trade value of RM1.56 trillion. The food processing trade grew 6.8% to RM42.04 billion as compared with RM39.36 billion in 2018. The leading processed food sub-sectors are edible products and preparations with revenue valued at RM12.8 billion; cocoa and cocoa preparations at RM6.7 billion; dairy products at RM5.47 billion; and prepared cereals and flour preparations at RM5.49 billion.

Exports of processed food grew 12.1% to RM21.77 billion in 2019 (2018: RM19.41 billion). Exports comprised largely of edible products and preparations valued at RM7.03 billion; cocoa and cocoa preparations at RM5.52 billion; and prepared cereals and flour preparations at RM3.54 billion. Imports of processed food increased by 1.6% to RM20.28 billion in 2019 (2018: RM19.95 billion). The main imports were edible products and preparations valued at RM5.86 billion; dairy products at RM4.14 billion; and sugar and sugar confectionery at RM3.38 billion.

Of the manufacturing sector's total sales value of RM866.02 billion, RM50.41 billion came from the food and beverage sub-sector. Of that total, the biggest portion, at RM6.39 billion, came from sales of crude and refined vegetable oil and compound cooking fats. Cocoa products, with sales valued at RM5.73 billion, were the second largest contributor to the sub-sector's total sales volume.

Investments valued at RM3.37 billion were approved for 87 food processing projects in 2019 (2018: RM1.8 billion). Sixty-one were new projects and 26 for expansion or diversification. Of the total investments, RM754.78 million (2018: RM514.8 million) was foreign while RM2.62 billion (2018: RM1.3 billion) was domestic. These investments are expected to create 5,139 new jobs.

As a net food importer, Malaysia's food import bill has been rising by an average of 6.5% annually, from RM30 billion in 2010 to RM50 billion in 2018. In response, the Government is placing greater emphasis on rejuvenating the agriculture sector which traditionally consists of rubber, palm oil and crops like rice, fruits, and vegetables. Also being investigated is the potential that can be unlocked from the production of high value crops. Coupled with the country's food security concerns are market uncertainties in the form of changes in food consumption patterns and shortage of youth participation in agriculture.

These issues are being addressed by the Industry4WRD policy which targets to accelerate the modernisation of the Agro-food sector via the adoption of Industry 4.0 technologies along its value chain. MIDA is also engaging with the sector through offering of incentives to firms involved in the processing of agricultural produce such as chocolate and chocolate confectionery, food supplements and additives, flavours, colouring, and functional ingredients. Such incentives are intended to spur industry players to raise their competitiveness against their regional counterparts in Indonesia, Thailand, and Viet Nam.

## Iron and Steel

Global crude steel production increased by 5.1% during the first half of 2019 but the outlook remains pessimistic especially with the continuing trade tension between the US and PRC. The domestic steel market saw a marked downturn in the first half of 2019, with steel prices declining and prices of raw materials rising. Exports of iron and steel products – comprising semi-finished products, wire rods and ferro alloys – grew 28.3% year-on-year to contribute RM19.89 billion to Malaysia's total export volume in 2019. Meanwhile, total import volume amount to RM31.19 billion for the same period. Seventy-one investment projects for iron and steel valued at RM1.8 billion were approved in the year, from which 4,204 jobs are expected to be created.

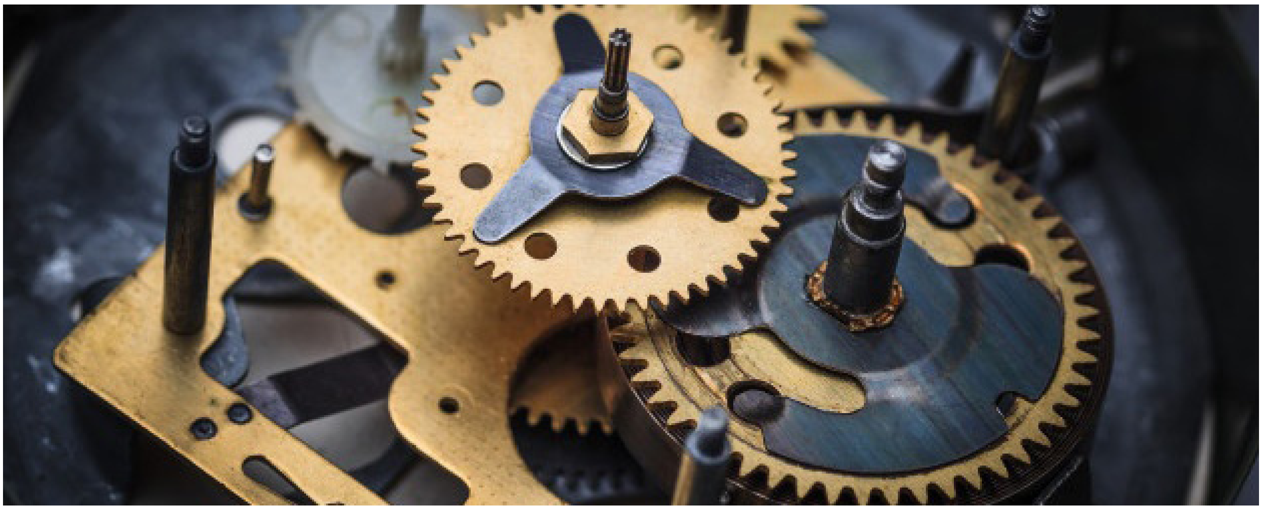
The domestic iron and steel industry faces challenges on multiple fronts such as the influx of imports, over-capacity, under-utilisation, and technological stagnation. To provide an insight into the steel industry landscape, a White Paper was submitted by stakeholders to the Government in 2019. The White Paper outlined recommendations on the way forward through leverage on the strength of existing players and provided a forecast of the demand and needs of the industry. The recommendations will be carried through 2020 and beyond in policy reviews and in the drafting of long-term strategic directions to create a more resilient, competitive, and sustainable industry.

## Machinery and Equipment

The Machinery and Equipment (M&E) industry is a strategic component of the country's economic transformation agenda due to its cross-cutting linkages with all – primary, manufacturing and services - economic segments. Under the 11MP, the industry contributed 5.3% to the growth rate of the manufacturing sector. In 2019, the industry continued to expand with the approval of 99 new projects valued at RM3.6 billion, an increase of 71% year-on-year. The growth of the Malaysian M&E industry is driven by the continuous inflow of foreign direct investments as well as domestic investments, particularly in the semiconductor, E&E, automotive, aerospace, and medical sectors.

M&E exports are of high value and the industry has a 4.4% share of the country's total export in manufactured goods. Exports were up by 1.8% to RM41.4 billion in 2019, with growth largely derived from exports of specialised and general machineries. As the specialised and general machineries sub-sector grew and served as import substitutes, there was a corresponding decline of such imports, from RM73.8 million in 2018 to RM69.6 million in 2019.

To keep pace with global trends and rising competition, the industry has been encouraged to enter into higher specialisation segments as well as investing in new technologies along with developing a talent pool. Where talent development is concerned, the Machinery and Equipment Productivity Nexus (MEPN) 2019-2020 has set four sectoral initiatives under the M&E Skills Framework and Career Pathway to upskill existing and new employees. All projects under the MEPN implementation plan will proceed as planned to ensure the continuing progress of the industry.



## Medical Devices

The growth of Malaysia's medical device industry, one of the biggest in the healthcare sub-sector, has been propelled by the unprecedented pace of innovation and improved technologies over the last decade. A medical device is defined by the Medical Device Authority as any instrument, apparatus, implement, machine, appliance, implant, in-vitro reagent or calibrator, software, material or other similar or related article for human beings for the purpose of diagnosis, prevention, monitoring, treatment or alleviation of disease. Medical devices range from simple tongue depressors to complex programmable pacemakers and computerised tomography (CT) scanners.

In 2019, Malaysia's trade in medical devices was valued at RM30.3 billion, of which 78% were exports and 21% imports. Exports of medical devices grew 3.6% to RM23.89 billion (2018: RM23.05 billion). The strong export trade performance of Malaysian-made medical devices reflects a significant global presence for the local industry. The Medical Devices Investment Advisory Panel (MDIAP) has proposed strategies and action plans to reinforce Malaysia's standing in the global medical devices industry.

In 2019, investments valued at RM3.66 billion for 21 medical device projects were approved.

Of the total, 80% or RM2.9 billion was foreign investments and 20% or RM732 million was domestic. These projects to manufacture high-end and high value-added medical devices are expected to generate 6,348 new jobs.

Penang is an important medical device manufacturing hub particularly for the manufacturing of components, assembly, and production, with many companies - like Flex, Sanmina, Celestica, Jabil, Plexus, UWC, Venture, Epsilon - that are involved in electronics development within the component manufacturing segment. Over the years, several medical device manufacturers in the state have upgraded their capabilities with R&D function, including one with a Centre of Excellence. Companies such as B. Braun have established a Centre of Excellence while Ambu and Vigilenz have established R&D capacities for high-value segments. There is further potential to be unlocked from the strong industrial linkages between the medical device and E&E industry which also has a large concentration of manufacturers in Penang.

## Pharmaceuticals

The pharmaceutical industry is a lucrative but highly competitive field. A robust local pharmaceutical industry is vital to maintain the country's healthcare structure and to ensure supply of affordable medicine. Malaysia's pharmaceutical trade has seen steady growth over the past decades and growth is accelerating owing primarily to the production of generic and imports of patented medicines.

The domestic industry has the capability to produce different types of pharmaceutical dosage forms, including sterile products, small volume injectables such as ampoules and vials, large volume infusions and dry powder for reconstitution and standard oral formulations. Many leading local pharmaceutical firms have been upgraded to comply with international Good Manufacturing Practice (GMP) standards as well as Good Laboratory Practice (GLP) and ISO17025 accreditation. The production of generic products in Malaysia is mainly for domestic consumption and the country relies heavily on the import of medicaments especially for lifestyle diseases such as high cholesterol, diabetes, cardiovascular and cancer. The industry obtain all of its pharmaceutical ingredients for generics from foreign sources – mostly from the PRC and India - and needs to explore manufacturing its own pharmaceutical intermediates and active ingredients as well as pursuing transfer of information and technology with suppliers.

Malaysia's pharmaceutical trade in 2019 was valued at RM9.7 billion, an increase of 12.9% compared to RM8.59 billion in 2018. Exports grew 16.2% to RM1.94 billion (2018: RM1.67 billion) and imports by 12.4% to RM7.76 billion (2018: RM6.9 billion). Eight projects with investments valued at RM202.2 million were approved in the year, of which 62% were foreign investments valued at RM124.9 million and 38% were domestic valued at RM77.9 million. The projects, which are expected to generate 158 new jobs, are in line with the Government's aspiration to accelerate the development of the local biopharmaceutical industry as well as in enabling technology transfer and upskilling of local pharmaceutical expertise.

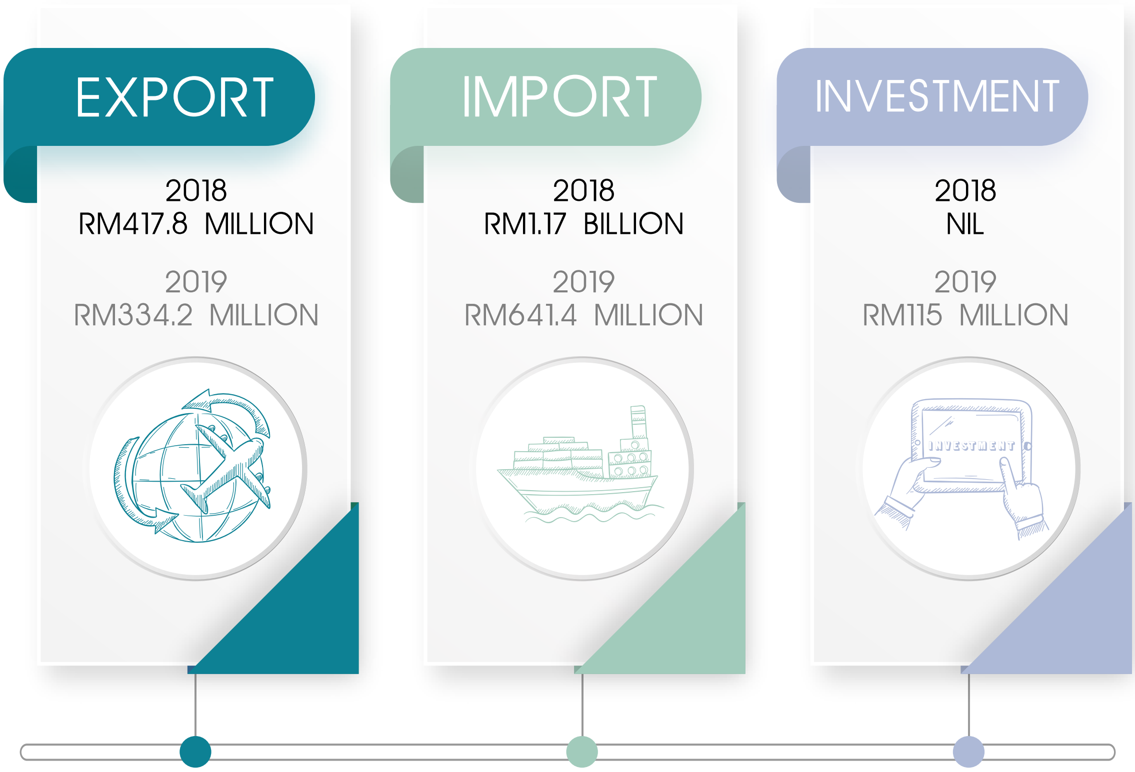
Some of the leading domestic pharmaceutical companies are Pharmaniaga, CCM Pharmaceuticals, Kotra Pharma, Hovid and Xepa-Soul Pattinson. The leading foreign-owned manufacturers are Oncogen Pharma, Y.S.P. Industries, GlaxoSmithKline, Ranbaxy and Biocon. In response to the growing demand for such products in Southeast Asia, Malaysia's leading pharmaceutical companies are moving into the production of biologics, oncology drugs and high value-added generic compounds.

Strong Government support has been catalytic for the growth of the industry and in attracting foreign and domestic investments. Robust growth for the industry is seen in the years ahead. To support the industry's development, MIDA has established the Pharmaceutical Investment Advisory Panel (PharmIAP) to engage stakeholders in formulating a strategic policy direction for the industry. PharmIAP will review existing policies and develop new strategies to enhance the capability of the domestic industry in strengthening the domestic supply chain and to gain greater access to the global market.

## Rail

In 2019, Malaysia's exports of railway parts and components – consisting mostly of signalling devices, rolling stock parts and components, axles, and wheel parts - were valued at RM334.2 million. The main export destinations were the US, PRC, Singapore, Indonesia and Cambodia.

**Exhibit 4.2: Rail Trade Performance 2018 – 2019**



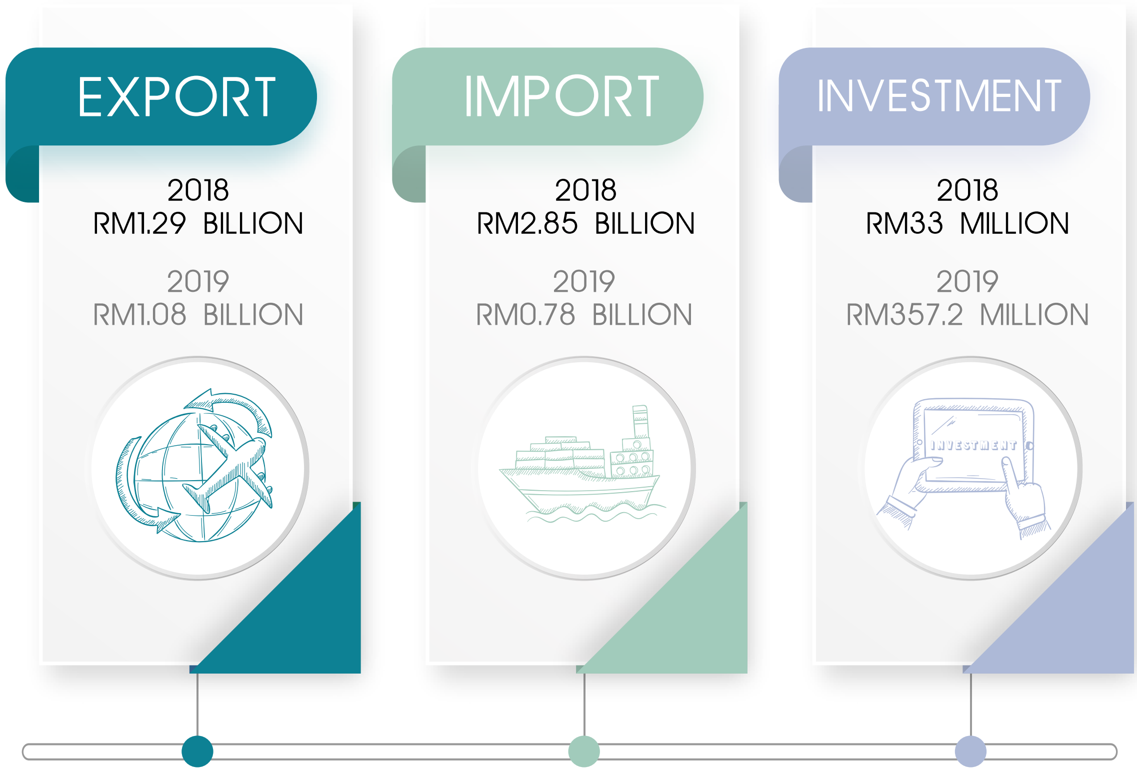

*Source: Malaysia Investment Development Authority (MIDA); Malaysia External Trade Development Corporation (MATRADE)*

Rail imports dropped to RM641.4 million in 2019 (2018: RM1.17 billion) partly as a result of the postponement of several high-profile projects like the East Coast Rail Link, Malaysia-Singapore High Speed Rail and the Klang Valley Mass Rapid Transit 2. Rail imports which comprised self-propelled railcars, locomotive and rolling stock parts, signalling devices and air brakes parts - are sourced mostly from the PRC, the Republic of Korea (ROK), Austria, Germany, and India. Two rail investment projects valued at RM115 million were approved in the year.

## Shipbuilding and Ship Repair

Shipbuilding and ship repair (SBSR) is a sub-sector of the larger marine transport industry. SBSR covers activities related to shipbuilding, production of vessels and marine equipment as well as services such as designing, repairing, maintaining, conversion and upgrading of vessels and marine equipment. Malaysia has more than 100 shipyards which focus primarily on building of small to medium sized vessels. The SBSR industry is designated as a strategic industry in the Third Industrial Master Plan and a promoted manufacturing activity in the 11MP.

**Exhibit 4.3: Trade Performance of Shipbuilding and Ship Repair Industry 2018-2019**




*Source: Malaysia Investment Development Authority (MIDA); Malaysia External Trade Development Corporation (MATRADE)*

In 2019, Malaysia's exports of ships, boats and floating structures dipped 16.3% to RM1.08 billion (2018: RM1.29 billion). The main export destinations for products like floating platforms, tugs and pusher crafts, floating docks, vessels, and motorboats were Thailand, Singapore, Qatar, Indonesia, and the United Arab Emirates. Imports declined by 72.6% to RM0.78 billion (2018: RM2.85 billion). Malaysia's main import sources for products like floating platforms, cruise ships, tankers, buoys, beacons, and pontoons were Singapore, Japan, the PRC, the ROK, and Indonesia.

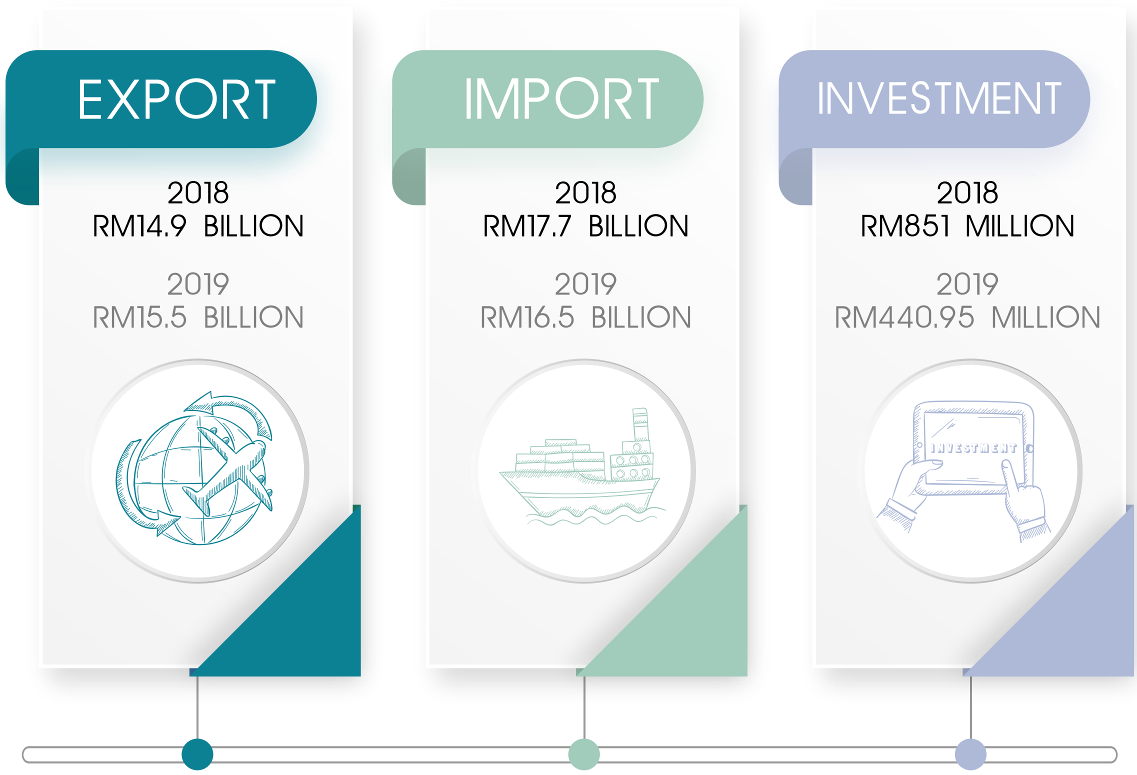
Four projects with investments valued at RM357.2 million were approved in 2019. Two were new projects valued at RM303 million while the other two were expansion projects. All these projects are wholly Malaysian owned.

The domestic SBSR industry faces challenges related to high capital investments for business expansion and adoption of new technologies as well as stiff competition from more established players in the region. However, the industry has an inherent geographical advantage as Malaysia's coastlines are along the strategic Straits of Malacca and the South China Sea. Local industry players have been encouraged to not only leverage on the geographical advantage but also the initiatives under Industry4WRD.

## Textile, Apparels and Footwear

Malaysia's textile and apparel industry are targeting the higher end of the global value chain with the production of a diversified range of higher value-added products. Such efforts are underpinned by the adoption of automation and relevant technologies in the industry's manufacturing and distribution value chains. The industry is also seeking business collaboration with foreign companies and undertaking R&D activities to enhance their global competitiveness.

**Exhibit 4.4: Trade Performance of Textile, Apparels and Footwear**




*Source: Malaysia Investment Development Authority (MIDA); Malaysia External Trade Development Corporation (MATRADE)*

In 2019, exports from the industry increased by 4.2% to RM15.5 billion in 2019 (2018: RM14.9 billion). The US was the largest export destination with RM2.1 billion or 13.5% of total exports; followed by Japan with RM1.6 billion or 10.3% of the total; Turkey with RM1.3 billion or 8.4%; and Singapore with RM1.2 billion or 7.7%. Imports - sourced mostly from the PRC - decreased by 7.1% to RM16.5 billion. For the year, investments valued at RM440.95 million were approved for 28 projects. Of the total, domestic investments made up 54.9% or RM242.08 million while foreign investments accounted for 45% or RM198.87 million.

## MANUFACTURING SECTOR OUTLOOK 2020

The Government is expected to announce the outcome of the review of the NAP 2014 as well as the launching of the new National Remanufacturing Policy in 2020. Remanufacturing is seen as a new source of economic growth. The work focus will include outreach and monitoring of the implementation of these policies. The New Industrial Master Plan (NIMP) would also be formulated to drive the transformation of the manufacturing sector into one that is agile, smart and sustainable, driven by technology and local innovations and underpinned by strong network enablers and which will, in turn, attract more investments in the production of high value-added goods.

## PERFORMANCE OF SERVICES SECTOR

In 2019, despite growth moderating marginally to 6.1% (2018: 6.8%), the services sector remained the leading economic growth engine, with a 57.7% or RM819.22 billion contribution to GDP (2018: RM771.86 billion). Growth was mainly driven by domestic demand led by the wholesale and retail, food and beverage and accommodation and business services segments.

**Exhibit 4.5: GDP Growth of Services Sector by Supply-Side Approach Performance (%)**

| | 20 18p | 2019p |
|---|---|---|
| Services | 6.8 | 6.1 |
| Utilities | 4.9 | 6.0 |
| Wholesale and Retail Trade | 8.2 | 6.7 |
| Food and Beverage and Accommodation | 9.0 | 9.6 |
| Transportation and Storage | 6.4 | 6.8 |
| Information and Communication | 8.3 | 6.6 |
| Finance | 3.9 | 4.5 |
| Insurance | 9.9 | 5.0 |
| Real Estate | 4.6 | 4.7 |
| Business Services | 9.0 | 9.2 |
| Owner Occupied Dwelling | 4.6 | 4.6 |
| Community, Social and Personal Services | 6.4 | 6.5 |
| Government Services | 4.5 | 3.7 |
| Non-profit Institutions Serving Households | 3.8 | 4.4 |
| Domestic Household Services | 2.3 | 3.4 |

*Note: p – preliminary, base year 2015=100*
*Source: Department of Statistics Malaysia (DOSM)*

## Investments in Services Sector

The services sector recorded higher investments in 2019, with the total reaching RM118.1 billion or 56.8% of the total investments approved for the year (2018: RM106.1 billion / 51.9%). Of the total, domestic investments made up RM93.4 billion or 79.1% (2018: RM90.0 billion / 84.8%) while foreign investments totalled RM24.7 billion or 20.9% (2018: RM16.1 billion / 15.2%). The top five areas of investments in the year were real estate with RM40.85 billion; utilities with RM32.58 billion; global establishments with RM11.75 billion; distributive trade with RM11.70 billion; and support services with RM5.66 billion. Collectively, these five sub-sectors accounted for 86.8 per cent of total approved investments in the services sector in the year. The highest investment growth rate was recorded in the utilities, distributive trade, and global establishment sub-sectors.

A significant development observed during the year was the 20.9% contribution by foreign investment in services, which rose to RM24.7 billion in 2019 compared with RM16.1 billion in 2018. Foreign investments from five countries - the US, PRC, Singapore, Japan, and Mauritius – collectively made up 89.6% of the total foreign investments approved for the sector in 2019.

## Trade Performance of Services Sector

In 2019, Malaysia's services trade grew by 2.3% to RM349.6 billion (2018: RM341.9 billion). Exports of services reached an all-time high of RM169.4 billion (2018: RM162.1 billion) while imports increased marginally to RM180.2 billion (2018: RM179.8 billion). Exports were boosted largely by favourable performance in travel, air transport and professional services. Travel, which made up almost half of total exports, remained the largest component of the sector. Growth was also supported by tourist expenditure mainly in shopping, accommodation and food and beverages. Exports of transport services grew 5.6%, led largely by an increase in air and sea transport. The export numbers were also boosted by other business services comprising largely professional and management consulting, architectural, engineering, and technical and accounting services.

Strong expansion was seen in the import of services in 2019. The growth was attributed to higher payments for travel, transport, and construction as well as for payments to foreign freight forwarders and insurers arising from the increase in imports of semi-finished goods. Several oil and gas and high-value infrastructure projects also contributed to the growth in services imports.

Imports of construction services, however, fell by a hefty 52% to RM5.6 billion (2018:RM11.6 billion). This was attributed to the slowdown in construction activities following the completion of oil and gas and civil engineering mega projects as well as the absence of new mega projects which had led to a substantial drop in imports of construction materials and services.

## Revenue and Employment in Services Sector

The services sector generated RM1.78 billion in revenue in 2019, an increase of 6.6% compared with RM1.67 billion in 2018. The highest contributors were the wholesale and retail, food and beverages and accommodation sub-sectors which collectively grew 6.2% and generated RM1.41 billion in revenue (2018: RM1.33 billion). The sector employed 3.8 million persons in 2019, an increase of 96,752 compared with 3.7 million in 2018.

## Information and Communications and Transportation and Storage

Revenue grew at a slower pace in the information and communications technology (ICT) and transportation and storage segments in 2019, rising by 6.9% to RM262.5 billion compared with a 7.9% year-on-year growth of RM245.5 billion in 2018. The number of people employed in this segment grew 1.2% to 477,056 (2018: 471,203 people) while the payment of salaries and wages increased 3% to RM21.1 billion (2018: RM20.6 billion).

## Health, Education and Arts, Entertainment and Recreation

Revenue in the health, education and arts, entertainment and recreation segment grew 7.3% to RM68 billion in 2019 (2018: RM63.4 billion). The number of persons engaged in the segment increased by 1.8% to 288,223 persons (2018: 283,244 persons) while the amount in salaries and wages paid was up by 5% to RM9.7 billion (2018: RM9.2 billion).

## Professional Services and Real Estate Agents

Revenue in the professional services and real estate agents segment grew 9.8% to RM38.6 billion compared with RM35.1 billion in 2018. The number of people employed was up by 1.3% to 179,913 (2018:177,532). Salaries and wages paid increased by 7.4% to RM10.1 billion (2018: RM9.5 billion).

# PROGRESS UNDER SERVICES SECTOR BLUEPRINT

The SSB, which was launched in 2015, introduced 29 action plans to support four policy levers – Internationalisation, Investment Incentives, Human Capital Development and Sectoral Governance Reform - with the objective of raising the sector's annual growth rate to 6.8% as well as a 56.5% contribution to GDP by 2020. The target, however, was achieved a year in advance in 2019 when the contribution of services to GDP reached 57.7%.

The following is a snapshot of the achievements made in 2019 under some of the action plans:

- MATRADE established the Consortium Promotion Programme to foster symbiotic partnerships to collectively build internal capabilities and ensure external readiness. Its mission to Kazakhstan is ongoing.

- MATRADE provided aid in the form of grants, soft loans, and funds to 81 firms to conduct feasibility studies under the Services Export Fund.

- The system development and integration of the Incentive Coordination and Collaboration Office – to improve incentive coordination - by MIDA was 55% completed.

- The Ministry of Human Resources established eleven new centres and created 209 new Single Tier Certification programmes based on the National Occupational Skills Standard in order to raise the profile of the TVET Pathway project which is designed to meet the human capital needs of the services sector.

- The Malaysia Digital Economy Corporation's Research Incentives Scheme for Enterprises (RISE) Programme attracted RM12.1 million in investments. Five centres of excellence were established under the programme and 51 innovative commercial products were created. 18 knowledge workers, who are paid an average monthly salary of RM7,000, were trained for research and development.

- Reducing Unnecessary Regulatory Burden Initiative by the Malaysia Productivity Corporation (MPC):
    - » Publication of four handbooks on the establishment of private hospitals in Malaysia, with the focus on submission processes, harmonisation of technical requirements and procedures under the Private Healthcare Facilities and Services, 1998, (Act 586); and
    - » Development of a guideline on Short Term Residential Accommodation (STRA) to provide a broad regulatory framework for policy makers and regulators to respond to issues relating to STRA. The guidelines aim at delivering the following benefits: safety and security; consumer protection; economic benefits via tax payments; existence of clear and transparent regulations; promotion of competition; better accountability; and ensuring a peaceful neighbourhood, with less or zero nuisance and absence of other criminal activities.

# SERVICES SECTOR OUTLOOK

The services sector is expected to continue its upward trajectory due to the readiness of the sector to adopt and adapt to disruptive technologies and emerging trends. To ensure that the sector would continue to progress, a new SSB 2021-2025 is now being drafted. The new edition of the SSB will be more comprehensive in its coverage and will address growth barriers such as low productivity, slow regulatory reforms as well as technological advancements and human capital mismatch in order to align it with the proposed NIMP 2021-2030.

# FUTURE GROWTH AREAS

## Remanufacturing

The Government will be drafting a National Remanufacturing Policy to formalise and facilitate an orderly development of the remanufacturing industry in Malaysia. The policy will also emphasise the safeguarding of consumers interests. The policy will focus on five sectors - automotive, E&E, aerospace, machinery and marine – and introduce compliance standards for recognition as a remanufacturing company. MITI will be drafting a roadmap to ensure that the policy is implemented in a holistic manner.

Two Malaysian standards - MS 2696: 2018 Motor Vehicle Aftermarket – Service and Spare Parts (2S) and MS 2697: 2018 Motor Vehicle Aftermarket – Recovery, Reuse, Recycle, Remanufacture" (4R) - have been formulated for the automotive sector. SIRIM has gazetted a remanufacturing process standard known as SIRIM 23:2018 - Requirements for Key Processes for Organisations (Remanufacturing and Key Process Areas) - which will also serve as the basic testing parameter for 4R2S activities as well as for manufacturing sub-sectors other than automotive.

Remanufacturing is a fast-growing industry that has assumed increasing importance in economic growth and gaining recognition as an economically viable activity with the tied-in benefits of a circular economy. The potential for the industry is huge and has yet to be tapped in the domestic and global market. The global market for remanufactured products was estimated to be worth more than RM100 billion in 2018.

## Future Industry

Future Industry refers to advanced technologies – such as artificial intelligence - that evolved into industries. Future Industry, leveraging on technology and innovation, can act as a catalyst for the digital economy.

MARii is planning for the establishment of a Centre of Excellence for Future Industry (CoEFI) to achieve the following:

- Development of local technology in artificial intelligence, Internet of things and robotics;
- Development and verification of standards and regulations for Future Industries; and
- Harmonisation of test procedures for Future Industry technology.

The CoEFI will consist of several technology centres:

- Manufacturing Innovation Centre – Advanced E&E;
- Mobility Test Bed;
- Electric Vehicle Interoperability Centre;
- Big Data Analytics Centre;
- Robotics and Artificial Intelligence Centre; and
- Artificial Intelligence Park.

## Gaming Industry

The Gaming Industry evolved from a group of young developers into a billion-dollar industry. With the exponential growth of technology, playing games on personal computers has trended towards gaming on mobiles to consoles and virtual reality as giant technology companies such as Microsoft, Facebook, Warner Bros, Google, Razer and many others entered the industry. Newzoo, a leading games market intelligence firm highlighted in its 2019 Global Games Market Report that the global market will grow to USD196 billion with a compounded annual growth rate (2018-2022) of 9% by 2022. The Asia-Pacific region is projected to produce game revenues of USD71.5 billion or 48% of the global total.

Southeast Asia is recognised as the world's fastest growing region for all online games revenue, personal computer (PC) and mobile included. According to Niko Partners, a leading industry market research firm, the PC online and mobile game revenue in Southeast Asia is projected to reach USD4.4 billion by 2021, driven by the strength of e-sports and popular international games entering the regional market. The number of PC online and mobile gamers in Southeast Asia is projected to rise to more than 400 million by 2021.

The Malaysian National Creative Industry Policy of the Ministry of Communications and Multimedia has identified the gaming industry as one of the ten main categories in the creative industry. In 2019, the gaming industry alone contributed RM584.86 million to Malaysia's revenue. With the massive growth of the creative industries, Malaysians are also jumping onto the virtual world bandwagon to kick-start their careers as game developers.

## E-Sports

Competitive computer gaming, known as e-sports, has become a huge spectator sport, and attracting a growing number of games as well as an increasingly bigger prize pool. Of the estimated 9.5 million e-sports enthusiasts in Southeast Asia, 2.4 million are said to be in Malaysia. Under Budget 2019, RM10 million was allocated to the Malaysian Digital Economy Corporation (MDEC) to drive growth in this fast-growing segment of the economy. An additional RM20 million has also been allocated to MDEC under Budget 2020 for the further development of e-sports.

## Halal Tourism

The global halal travel market is projected to contribute up to USD300 billion to the global economy by 2026. The market has undergone significant changes in recent years and businesses, hotels and tour operators have responded by providing functional services such as halal food options and prayer facilities for Muslim tourists. Technological and digital transformation has also introduced a new element in Muslim travel, one that is defined by experience and connectivity. Halal travel is leveraging on technologies such as artificial intelligence, augmented reality, and virtual reality to better engage Muslim travellers.

Malaysia, with its rich Islamic heritage together with an abundance of halal food, prayer facilities and Islamic attractions, has proven to be an ideal destination for Muslim travellers. As reported in recent surveys conducted by Singapore's Crescent Rating and the Dinar Standard of the US, Malaysia was picked as the world's top destination for Muslim travellers for three consecutive years. The Global Muslim Travel Index 2019 ranked Malaysia and Indonesia first among the members of the Organisation of Islamic Countries for halal tourism.

The Islamic Tourism Centre (ITC) plays a pivotal role in bringing Malaysia to the forefront of Islamic tourism. Over the years, ITC has been working with industry players to build their capacity for Islamic tourism as well as enhancing the experience of Muslim visitors. ITC has also implemented several initiatives to standardise the industry's best practices through research, seminars, outreach programmes and workshops to boost Malaysia's branding as a top Islamic tourism destination.

## Construction 4.0

The construction sub-sector - with its multiplier effect on other economic sectors including manufacturing, transportation, connectivity, and services - is one of the key drivers of economic development. In 2019, construction activities grew 4.7% year-on-year to RM66.3 billion (2018: RM66.2 billion). With the resumption of several major infrastructure projects, the industry is expected to expand further to support economic growth beyond 2020.

Construction 4.0 is about the digitalisation of the industry. A Construction 4.0 work site would be digitally controlled and equipped with an array of technologies such as Building Information Modelling, cloud computing, augmented reality, virtual reality, mix reality, IoT, 3D scanning, unmanned aerial vehicles, smart sensors, prefabrication, modularisation, 3D/4D printing, radio-frequency identification, robots and cyber security. Technology adoption would not only create more high-skilled and high-income jobs but also attract more locals to work in an industry that is generally perceived as dirty, dangerous, and difficult.

The Construction Industry Development Board (CIDB) has proposed a Digital Construction Industry 4.0 Roadmap 2020-2025 to guide the industry in adapting to new economic ecosystems to meet market and future needs. Adoption of technologies will have significant positive impact on construction productivity as this would bring about the development of future-proof talents with new skillsets as well as transforming construction workers from labourers to technicians. This would also lead to reducing dependency on foreign workers which, in the second quarter of 2019, made up 3.2% of the total construction workforce. Raising productivity in construction would also support the Government's efforts to provide affordable housing as well as in improving the quality of physical infrastructure.

## Manufacturing-Related Services

The importance of manufacturing-related services (MRS) as a key component of Malaysia's manufacturing value chain is increasingly being recognised, particularly with the development of the MRS guidelines and standards under the Industry4WRD policy. A dedicated topic on MRS will also be included in the NIMP (2021-2030). A precise definition of MRS activities will be established to assist the Government in formulating specific strategies and policies to develop the sub-sector. MRS has also been identified as one of the priority areas to be championed by Malaysia under the Asia-Pacific Economic Cooperation (APEC) initiative to share experience and best practices among partner economies in order to create awareness and for the further development of such activities.

MITI together with several agencies under its purview are collaborating with SIRIM to develop a MRS standard that would serve as a robust support system for the Industry4WRD policy framework. The initial work in the development of the standard is to assess the readiness of MRS industry players - particularly SMEs – in employing Industry 4.0 technologies. The future development of MRS will include activities in R&D, including product design and intellectual property development; conformity assessment services; transport and logistics; and global establishment. The selection of these activities was based on their importance in complementing the value chain of the manufacturing sector, including capability to offer high-value, knowledge-intensive, technology-based services and tradability along with the creation of high-income jobs.

### Professional Services

Digitalisation and emerging skills will drive the transformation of professional services in Malaysia, redefine workplaces and create new opportunities and ecosystems for professional services which are expected to see rapid growth in the consulting, legal, accounting, architectural, engineering and advertising services. The Twelfth Malaysia Plan targets the development of the country as a professional services hub by 2030. Malaysia, being strategically located in the heart of ASEAN, not only has the benefit of geographical advantage but also a growing multilingual talent pool, sophisticated business ecosystem, world-class infrastructure, and connectivity to offer competitive cost advantage in the region.

## ADOPTION OF INNOVATIVE TECHNOLOGIES

Since the launching of the Industry4WRD policy, the Government has committed RM210 million for the 2019-2021 period to support the transitioning of manufacturing and manufacturing-related services into Industry 4.0. Funding has been rolled out for human capital development, technology adoption and infrastructure upgrading to build the base for driving Industry 4.0 in Malaysia.

The Industry4WRD Readiness Assessment, launched in January 2019, is a flagship programme under the policy to help firms assess their capabilities and readiness to adopt Industry 4.0 technologies. The assessment also identifies the gaps and areas for improvement to facilitate adoption as well as offering recommendations of strategies to close these gaps. As of December 2019, 508 SMEs had received funding to conduct the assessment. Of the total, 146 SMEs have completed the on-site assessment and 64 have been approved to proceed to the Industry4WRD Intervention Programme. Twenty-eight companies which have completed the readiness assessment have applied to participate in the intervention programme which offers a 70:30 matching grant capped at RM500,000 for each company.

Attention was also focused on reshaping the job landscape and the development of talents needed in adopting Industry 4.0. Eighteen competency centres were established at 15 public universities to supplement existing facilities already equipped with Industry 4.0-enabling technologies. Fifteen workshops under the Train-the-Trainers programme were also conducted to advance curriculum development in Industry 4.0 fields to facilitate the immediate and future application of such training at polytechnics and community colleges. Reskilling programmes to equip the existing workforce with Industry 4.0-related skills and knowledge were also conducted nationwide for over 46,000 participants.

Digitalised and connected infrastructure across the supply and manufacturing value chains is the backbone of Industry 4.0 and fundamentally critical for the application of key technologies. High-speed broadband (HSBB) connectivity is a key enabler for scaling up to the adoption of Industry 4.0 technologies. To meet this need, 37 key industrial areas and training centres across Malaysia have been identified for last-mile HSBB connectivity. Biz4WRD, a collaborative industry facilitation platform, was also established to assist in connecting and matching companies intending to adopt Industry 4.0 solutions with providers of such products and services. The platform will facilitate commercial relationships and transactions among providers and pursuers of Industry 4.0 technology, solutions and training as well as acting as a gateway to a wide range of such products and services.

Access to advanced, cost-effective, and inter-operable Industry 4.0 technologies is critical to the growth of today's manufacturing and related services sector, especially for SMEs. To meet this need, MIMOS has developed the Smart Manufacturing Intelligent Service Platform (SMISP), a cloud service platform that empowers solution-finding processes for industrial activities and problems. SMISP is currently being used in Milling Machine Energy Consumption Monitoring, Material and Production Control, Manufacturing Critical Environmental Monitoring and Production and Equipment Monitoring on Cloud. MARii has also initiated three collaborative projects on Simulation and Analysis Centre, Smart Predictive Maintenance Data System and Digital Design Smart Collaborative Platform.

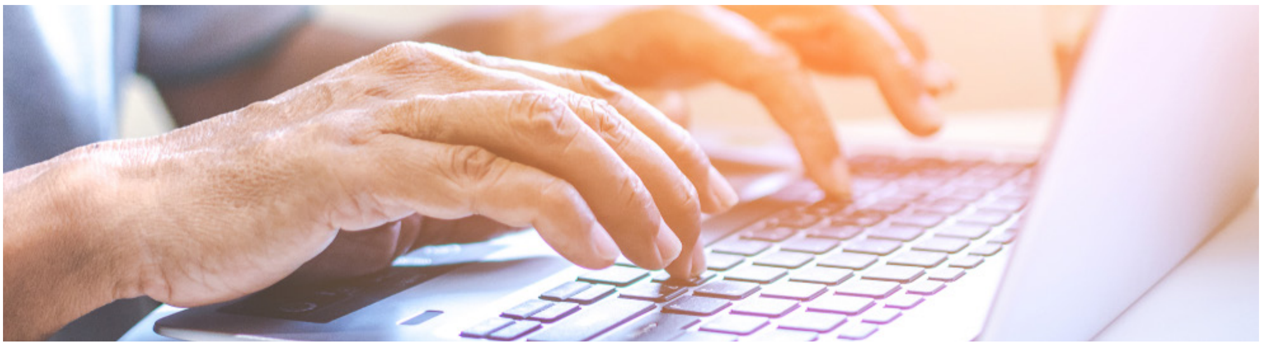
# MALAYSIA'S DIGITAL ECONOMY

## National eCommerce Strategic Roadmap 2016-2020

The Government is committed to harnessing the potential of digital transformation in Malaysia and has embarked on focused policy interventions, particularly in developing e-commerce as an enabler for industrial, commercial, and social development. Towards this end, the National eCommerce Council (NeCC) was established in December 2015 to act as the oversight body to coordinate the activities of 37 ministries and agencies to develop a robust e-commerce ecosystem. The NeCC, which is spearheaded by MITI and the Malaysia Digital Economy Corporation, is the implementer of the National eCommerce Strategic Roadmap (NeSR) 2016-2020 to accelerate the growth of a sustainable e-commerce ecosystem in Malaysia. The roadmap is reviewed annually through public-private consultations. In 2019, the main enhancements introduced were the inclusion of digital economy-related policies on cyber security, data protection and the adoption of standards and other technologies into the NeSR work streams.

That the NeSR has delivered results since its inception over four years ago is evident in the establishment of supporting infrastructure and policies for e-commerce as well as in the enabling of entrepreneurs to be more e-commerce ready. The following outcomes were achieved under the NeSR in 2019:

- More than 200,940 on-line businesses were registered with the Companies Commission of Malaysia;
- More than 20,000 SMEs have registered with 'Go-eCommerce', a platform that provides online training and education to guide SMEs in adopting e-commerce as well as in scaling up to being e-commerce exporters;
- More than 56,182 companies participated in consultation and information-sharing sessions conducted by MATRADE under the e-TRADE Programme held in collaboration with industry players such as Alibaba, DHL Express and AVANA;
- A total of RM143.5 million in investments were made under the programme to transform Malaysia into a regional fulfilment hub;
- A total of 154,773 new addresses were created in rural areas under the 'Address for All' programme undertaken by the Malaysian Communications and Multimedia Commission in collaboration with Pos Malaysia; and
- E-commerce activities accelerated with the implementation of the Digital Free Trade Zone (DFTZ) pilot project which attracted the participation of 9,007 SMEs. A mechanism for resolving commercial disputes was also created with the establishment of the DFTZ Implementation Coordination Council.



## e-Commerce Day 2019

e-Commerce Day 2019 was held from 9 to 10 December with the theme "From Local to Global Champion". The event was jointly organised by MITI, Ministry of Communications and Multimedia and MDEC with the support of MATRADE, SME Corporation and MARii. The event, a flagship programme of the NECC, is designed to connect online and offline businesses with digital service providers as well as to facilitate the journey of e-commerce entrepreneurs into the global export market.

The event featured 66 exhibitors from various e-commerce segments including e-marketplaces, payment solution providers and logistics and fulfilment providers and attracted more than 1,000 visitors. Also featured in the programme were technology showcases from nine well-known e-commerce-related companies and start-ups. The message of the event was:

- Entrepreneurs and technopreneurs alike are the backbone of the economy and possess the potential to contribute to socio-economic development;
- E-commerce is a pathway to greater business opportunities in the domestic and international market; and
- Technology is the game-changer for businesses to unleash their potential and capture opportunities.

MARii launched the "MARii Mobility as a Service (MaaS) and e-Commerce Solutions for Business" programme in conjunction with the event. The agency has partnered with ten local technopreneurs to use the MARii MaaS programme to enhance the development of the e-commerce technology ecosystem in relation to the various aspects of transportation services. The programme, one of several ongoing Government initiatives to catalyse technopreneurial development, targets to increase the adoption of MaaS-related technology in the domestic mobility industry. The goal is to leverage on e-commerce as a core business tool to digitally facilitate transactions, inventory, service records and value chain databases to capitalise on cross-border trade opportunities.

## International Engagement on Digital Economy and e-Commerce

Malaysia is supportive of all and any form of engagement on the digital economy and e-commerce aspects at the international front, including at the World Trade Organisation, APEC and ASEAN fora. Efforts were intensified in 2019 to deepen cooperation in the digital economy at regional level. The governance mechanisms at the ASEAN and APEC level were enhanced and work plans to intensify integration of the digital economy were formulated to cater to the expansion of the work plans into a wider array of e-commerce elements.

The implementation of the ASEAN Work Programme on Electronic Commerce (AWPEC) 2017-2025 to facilitate cross-border e-commerce in the grouping is ongoing. AWPEC covers multi-sectoral e-commerce initiatives related to infrastructure, education, consumer protection, modernisation of the legal framework, security of electronic transactions, payment systems, trade facilitation, competition and logistics. These initiatives are aligned with the areas of cooperation as outlined in the ASEAN e-Commerce Agreement signed on 12 November 2018. The agreement facilitates access into the greater ASEAN market which has a combined population of 620 million and 330 million internet users, the third largest market of internet users and potential online shoppers in the world.

The ASEAN Digital Integration Framework Action Plan (DIFAP) 2019-2025 was adopted as a blueprint to address critical barriers that impede the growth of the ASEAN digital economy. Six priority areas are listed in the DIFAP facilitation of seamless trade; data protection while supporting digital trade and innovation; enabling of seamless digital payments; broadening of the digital talent base; fostering of entrepreneurship; and coordinated actions.

In APEC, the Electronic Commerce Steering Group has morphed into the Digital Economy Steering Group (DESG), the terms of reference of which were finalised in August 2019 at the margins of the Third Senior Officials Meeting. The DESG, in line with the APEC Action Agenda for the Digital Economy as endorsed by the leaders in 2018, is to facilitate the development of the internet and digital economy, including e-commerce and digital trade. The objectives are to be achieved primarily through the implementation of the APEC Internet and Digital Economy Roadmap (AIDER) which was endorsed in 2017. Eleven key focus areas are spelt out in AIDER and APEC members have pledged to cooperate in facilitating technological and policy exchanges and promoting innovative, inclusive, and sustainable growth as well as in bridging the digital divide among member economies.

## DIGITAL ECONOMY OUTLOOK 2020

The NeSR, which will reach its final year of implementation in 2020, has been deemed a success judging by the benefits obtained from emerging trends and areas of growth since 2016. MITI made significant progress in 2019 to advance the e-commerce agenda and the digital economy nationally and regionally in tandem with the sustainable economic and socio-economic goals. The work was extensive, spanning the enhanced work streams under the NeSR at the national level to advancing regional integration and cooperation at the ASEAN and APEC platforms.

A substantive review of the NeSR will be conducted in 2020 to maintain momentum in accelerating e-commerce growth beyond its time frame. As Malaysia gears up to realise the Shared Prosperity Vision 2030, the next phase of the NeSR will emphasise inclusive, innovative, and intuitive developmental values. In conjunction with the hosting of the APEC 2020 meetings, Malaysia will link the importance of the digital economy in relation to technology for women empowerment, youth development, ageing population and the creation of an environment that is conducive for entrepreneurs, start-ups and social enterprises.

## CROSS-CUTTING ECOSYSTEM

### Industry Talent Requirements

Identifying the skills required by industry is vital to developing Malaysia's future workforce to meet the demands of the labour market. MITI is working with other ministries and agencies as well as industry to address gaps and mismatch of skills faced by employers. Agencies under MITI – MIDA, MARii, Malaysia Steel Institute (MSI), Standards Malaysia, SIRIM and MIMOS – are conducting sector-specific upskilling and reskilling programmes to enhance the capability and competence of the industrial workforce.

MITI also supports initiatives to streamline TVET and other training programmes to match the skills required by industry. One of such programmes is the Apprenticeship Programme conducted by MIDA in collaboration with the Federation of Malaysian Manufacturers and the Ministry of Education. Under the programme, manufacturing companies are invited to provide industrial training to students under the National Dual Training (NDT) System conducted by the Department of Skills Development. Upon completion of training, participants would have obtained a Level 3 Malaysian Skills Certificate and be ready for employment. To synchronise national efforts in TVET and industry skills development, MITI was invited to sit on the TVET Empowerment Cabinet Committee which reviews, oversees and drives the development and enhancement of such programmes.

The training and upskilling initiatives are aligned with the aspiration of the Industry4WRD policy for skills training programmes to be designed to match industry needs to keep pace with global industrial and technological trends.

**Exhibit 4.6: Key Talent Development Initiatives by MITI and Agencies**

**POLICY COORDINATION & FACILITATION**

- Industry Skills Committee
- MIDA Industry Environmental Scan
- MIDA Matchmaking Session Between Industry & Academia
- Curriculum Embedment Workshop (MIDA-Semiconductor Fabrication Association of Malaysia-MOE)

**STUDENT / GRADUATE EMPLOYMENT**

- MIDA Apprenticeship Programme
- MARii Graduate Apprenticeship
- InvestKL's Malaysia Global Talent

**UPSKILLING, COMPETENCY & PROFESSIONAL CERTIFICATION**

- MSI Industrial Upskilling Programme
- Automotive Industry Certification Engineering-MARii
- Accreditation of National Dual Training personnel-Standards Malaysia
- Personnel Certification Program in Quality & Technology (SIRIM)

*Source: Ministry of International Trade and Industry (MITI)*

## Sustainable Industry Practices

Sustainability is a high-priority agenda in many countries and, as a link in the global value chain, it is imperative for Malaysian industries to also embed a sustainability culture in their practices. The Government, as reflected in the 11MP, promotes inclusive and sustainable economic growth in line with the United Nation's Sustainable Development Goals (SDGs). MITI, in line with this agenda, has been advocating the adoption of sustainable practices by industry to ensure economic viability, social responsibility and environmental protection.

MATRADE has been championing sustainable practices among Malaysian exporters to facilitate greater penetration of the global market since the launching of the Sustainability Action Values for Exporters (SAVE) programme in October 2019. The SAVE programme focuses on capacity-building initiatives to increase awareness of sustainability and responsible business ethics among exporters to assist them in making strategic and responsible decisions. The need to demonstrate sustainability practices has become a requirement for businesses aiming to be players in the global supply chain. Compliance with sustainability practices is of crucial importance as they facilitate access to the global market while without them companies' risk being excluded from some markets.

## PRODUCTIVITY PERFORMANCE

Malaysia's labour productivity - as measured by real added value per person employed – improved 2.2% to RM93,909 in 2019$^{p}$ compared with RM91,932 in 2018. Employment was up by 2.1%. The increase in productivity contributed 4.3% to the country's GDP for the year. The Malaysian productivity growth rate has surpassed that of many developed countries including Singapore and the US and remains ahead of several other Asian countries.

## Sectoral Productivity Performance

In 2019$^{p}$, all the economic sectors except mining and quarrying registered a rise in labour productivity. Construction recorded the highest growth in productivity with 3.2%, followed by services with 2.9%, manufacturing with 1.7% and agriculture with 0.2%. Mining and quarrying recorded a productivity decline of 1.1%.

The productivity improvement in manufacturing contributed 3.8% to value-added growth in the sector while a 2.1% growth in employment in the sector contributed 16.9% to total employment. The higher productivity in services – the largest contributor to total GDP at 55.5% - contributed 6.1% to valued-added growth while a 3.2% growth in employment contributed 60.6% to total employment.

**Exhibit 4.7: Productivity Growth of Main Economic Sectors 2018-2019**


*Note: p - preliminary*
*Source: 4th Quarter 2019 - Labour Productivity, Department of Statistics Malaysia (DOSM)*

## Raising Productivity through Removal of Non-Tariff Measures

The MPC has been mandated to forge a robust business ecosystem as envisioned in one of the five national strategic thrusts under the MPB 2017. One of the main activities under this thrust is the removal of non-tariff measures (NTMs) that impede the growth of businesses and efficiency of trade facilitation. This activity, deemed a priority area, is earmarked for urgent implementation.

The reform of the NTM regimes will bring about good regulatory practices which in turn will lower the cost of doing business, raise productivity, increase investment, and foster innovation in line with the goals of the nine productivity nexuses. A good regulatory regime enhances economic productivity and helps the domestic industry to leverage on the gains of more free trade. This, in turns leads to greater job creation, higher level of business growth and ultimately not only facilitates the transition of domestic firms into the international marketplace but also makes the country more attractive to domestic and foreign investors.

The benefits to be gained from reviewing NTMs are:

- **Transparency and Openness**
  All stakeholders, including existing and new firms, potential entrants, foreign firms, government agencies and consumers, can gain easy access to information on regulations and procedures. Opportunities are also given to participate in regulatory consultations. Excessive discretionary power by field-level bureaucrats can also be avoided while mechanisms are established for stakeholders to appeal bureaucratic decisions;

- **Avoidance of Unnecessary Trade Restrictions**
  Overly restrictive regulations on trade and investment can be identified and removed after careful assessment of the potential impact of such regulations so that in neither design nor implementation would impediments to a free flow of goods, services and investments be created;

- **Administrative Simplification**
  Administrative burdens on firms can be minimised through the establishment of one-stop-centres, adoption of information

technology-driven mechanisms and integration, simplification and streamlining of license and/or permit procedures as well as establishing a reasonable timeline for decision-making;

- **Use of Internationally Harmonised Measures**
  To minimise the burden of firms having to comply with multiple standards and regulations for the same product in international trade, existing international standards for streamlining NTMs can be made use of to determine the appropriateness and effectiveness of a proposed regulation;

- **Conformity Assessment Procedures**
  Conformity assessment procedures facilitate trade by increasing consumer confidence through reasonable timeliness and cost limits. Conversely, these can also raise barriers due to duplication of costs for essentially identical tests against the same or equivalent standards in different markets. The options would be to include mutual recognition agreements, recognition of supplier's declaration of conformity, unilateral recognition of conformity assessment results from other countries and voluntary agreements between conformity assessment bodies of different countries; and

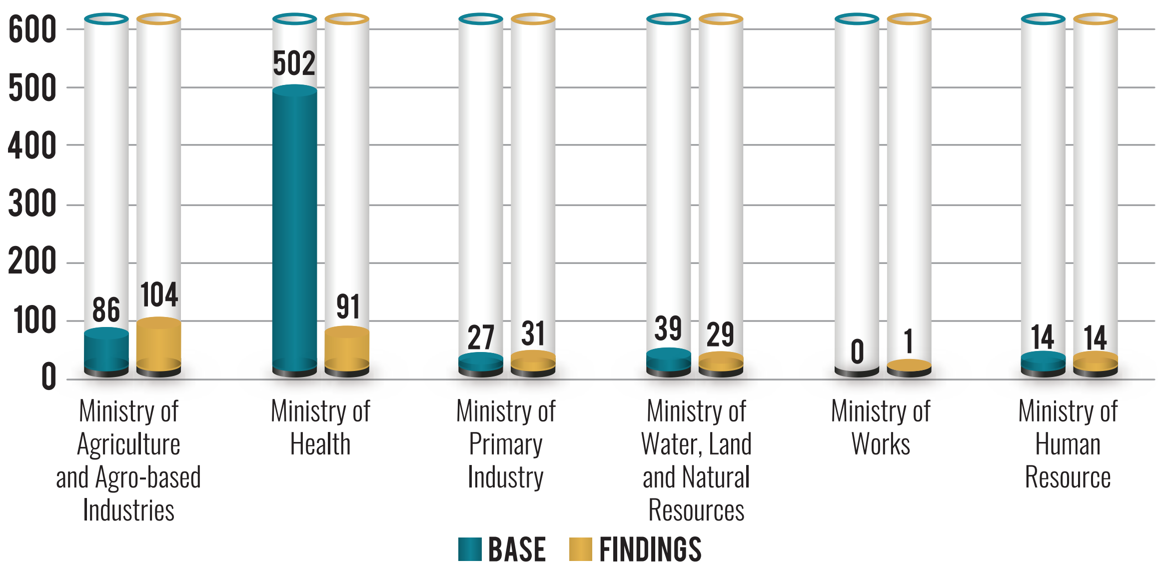
- **Reducing Cost of Doing Business**
  Obligations within legislations can require industries to comply with unnecessary requirements that contribute to delays in doing trade, which in turn increase costs. By simplifying and streamlining processes and reducing the number of requirements imposed by regulations, compliance costs could be reduced by 25%.

**Exhibit 4.8: Review of Legislations on NTMs 2018 – 2020**

| Phase | Year – Project | Legislations Reviewed | | Legislations Related to NTMs | |
|---|---|---|---|---|---|
| | | Primary | Subsidiary | Primary | Subsidiary |
| 1 | 2018: Six Ministries | 33 | 47 | 33 | 41 |
| 2 | 2019: Eight Ministries | 29 | 33 | 24 | 33 |
| 3 | 2020: Two Ministries and Sabah and Sarawak | - | - | - | - |
| **Total** | | **62** | **80** | **57** | **74** |

*Source: Malaysia Productivity Corporation (MPC)*

**Exhibit 4.9: Number of NTMs Phase 1**




*Source: Malaysia Productivity Corporation (MPC)*

## PRODUCTIVITY NEXUS

The 11MP identifies productivity as one of the six game-changers that will significantly boost economic growth. The Productivity Nexus - comprising nine sectors - was introduced under the MPB launched on 8 May 2017. The MPB was designed as an action plan to drive the country's productivity agenda and Vision 2020 aspirations.

The nine sub-sectors identified to boost productivity at sector level are:

- Retail and food and beverage;
- Electrical and electronics;
- Chemicals and chemical products;
- Machinery and equipment;
- Tourism;
- Agro-food;
- Digital;
- Professional services; and
- Private healthcare.

The selection of these sub-sectors was based on four criteria: contribution to GDP, share of workforce, opportunity for productivity improvement and readiness to implement productivity improvement. The selected sub-sectors collectively contributed 30% to GDP and 40% to total employment.

The role of a productivity nexus is to raise awareness and understanding of productivity improvement strategies through the implementation of sector-specific initiatives. Forty-three initiatives were drawn up for implementation under the nine productivity nexuses. A platform was also provided to strengthen collaboration, knowledge-sharing, and access to industry specialists in the respective sectors. The productivity nexus also escalates productivity implementation issues to the National Productivity Council which is chaired by the Prime Minister as well as to the National Oversight Productivity Council co-chaired by the Minister of International Trade and Industry and the Minister of Economic Affairs.

### Nexus 1: Tourism Productivity

The Tourism Productivity Nexus is led by the president of the Malaysian Inbound Tourism Association. The nexus addresses challenges such as high industry fragmentation with a large proportion of SMEs; price optimisation for attractions, sites, hotels and tours; marketing awareness; maintenance; and lack of industry engagement in the formulation of regulations. In 2019, the Malaysia Tourism Excellence Business Certification Programme was developed, under which six new industry-level standards were established to cater to travel agencies; adventure tourism operators event management companies; meetings, incentives, conferencing, exhibitions (MICE) and event venues; and product and site operators; and homestay and kampungstay operators. One such programme in 2019 was the Inbound Tourism Boot Camp which attracted 590 participants from twelve states. An outcome of the boot camp was the entry of 500 subscribers for the Tourplus, Showaround and Lokalocal online marketing platform as well as the development of ninety new and unique star tourism packages.

### Nexus 2: Private Healthcare Productivity

The Private Healthcare Productivity Nexus is led by a past president of the Association of Private Hospitals Malaysia (APHM). The nexus addresses challenges faced by the industry such as physical documents being required for the biennial license renewal; poor communication on changes in regulations; and the waiting period of 800 days to obtain all the required approvals for the construction of a private hospital. In 2019, a total of 800 professionals and hospital operators were trained on the compliance with the Private Healthcare Facilities and Services Act 1998.

The Minister of Health launched four handbooks on regulatory requirements for private hospitals at the opening ceremony of the APHM International Healthcare Conference on 29 July 2019. The four handbooks were:

- Handbook on Setting Up of Private Hospitals in Malaysia: Submission Process and Harmonisation of Technical Requirements;

- Handbook on Requirements and Procedures Under Act 586;

- Procedures for Application to Renew Licence for Private Hospitals; and

- Guidelines of Requirements for Submission of Form 1 for Extensive Extension or Modification of Private Hospitals.

## Nexus 3: Retail and Food and Beverage Productivity

The Retail and Food and Beverage Productivity Nexus is led by the vice chairman of the Malaysia Franchise Association. The nexus addresses challenges faced by the industry such as high reliance on low-skill and low-wage workers; low adoption of technology; and lack of operational efficiency tracking. Among the efforts undertaken by the nexus was the publication of the Guidance on Career Pathways in Retail and Food and Beverage Handbook to assist employers in the trade to recruit, retain and improve the quality of human capital in the sub-sector. The handbook was launched by the Deputy Minister of International Trade and Industry at the Retail Strikes Back conference on 19 July 2019. Another achievement was the certification of 200 workers with the Malaysia Skills Certificate Level 3 and the Malaysia Diploma Skills Level 4 based on assessment of their up-skilling and skill work experience.

## Nexus 4: Digital Productivity

The Digital Productivity Nexus is led by the Commissioner of the Malaysian Communications and Multimedia Commission and founder of Redtone International Berhad. The National Productivity Council at the first meeting of 2020 rebranded the ICT Productivity Nexus to its current name in order to focus on the adoption of Industry 4.0, leverage on pervasive connectivity and innovative technology to enable breakthrough and exponential results, strengthen integrity and empower Good Practices and values.

## Nexus 5: Professional Services Productivity

The Professional Services Productivity Nexus is led by the president of the Malaysia Service Providers Confederation. The nexus addresses challenges faced by the industry such as shortage of professionals; low adoption of ICT especially among smaller firms and sole practitioners; and inconsistent and contradictory regulations. In 2019, the nexus established the Building Information Modelling (BIM) Industry Knowledge Group, BIM Collaboration Framework and published the BIM toolkit on Request for Quotation Technical Reference.

## Nexus 6: Electrical and Electronics Productivity

The Electrical and Electronics Productivity Nexus (EEPN) is led by the chairman of the Malaysian American Electronics Industry Committee of the American-Malaysian Chamber of Commerce (AMCHAM-MAEI). The nexus addresses challenges faced by the industry such as shortage of engineers and limited focus on high-value activities as in product development and R&D especially among SMEs. The EEPN has developed a training module on leadership development and representatives from 100 enterprises have been trained on the Industrial IoT plugfest designed by Intel and Axiomtek. The nexus is also targeting to train 500 graduates annually on integrated circuit design beginning from August 2019.

## Nexus 7: Machinery and Equipment Productivity

The Machinery and Equipment Productivity Nexus is led by the president of the Machinery and Engineering Industries Federation. The nexus addresses challenges faced by the industry such as shortage of engineers; limited adoption of technology; and limited transfer of knowledge between multinational companies and local SMEs. In 2019, five Memoranda of

Understanding to enhance collaboration in the development of future talent were signed. The M&E Industrial Skills Framework has also been developed to provide a common reference for skills and competencies required in the industry while the review and updating of domestic product standards was completed.

## Nexus 8: Chemicals and Chemical Products Productivity

The Chemicals and Chemical Products Productivity Nexus is led by the chairman of the Chemical Industries Council of Malaysia. The nexus addresses challenges faced by the industry such as limited presence in high value-add segments; shortage of talent; inability of SMEs to adapt to technological changes; and SMEs being ill-equipped to effectively expand internationally. The primary agenda of the nexus is the Responsible Care programme. In 2019, a strategy paper on Safety of Road Transport Operation of Chemical Products - including for dangerous goods - was being developed in collaboration with the Chemical Industries Council of Malaysia. Sustainable initiatives to encourage SMEs to enter the biochemical cluster as well as the SME International Growth Programme to boost international expansion for Malaysian SMEs are being rolled out.

## Nexus 9: Agro-food Productivity

The Agro-food Productivity Nexus is led by the executive chairman of the Malaysian Aviation Commission. The nexus addresses challenges faced by the industry such as fragmented land ownership which restricts the scope for growth and mechanisation; obsolete processing facilities which resulted in post-harvest losses; limited sales and marketing capabilities which resulted in low prices from poor market access and excessive reliance on middlemen. In 2019, The Nexus Information Toolbox and guidelines and protocol for producers to fulfil manufacturers' requirements were in development.

# INTERNATIONAL COMPETITIVENESS

MITI closely monitors Malaysia's competitiveness ranking in three international reports to gauge Malaysia's standing in the global economy. The three reports are The Doing Business Report published by the World Bank, Global Competitiveness Report (GCR) by the World Economic Forum (WEF) and World Competitiveness Yearbook (WCY) by the Institute for Management Development (IMD). Malaysia's ranking has improved further in the Doing Business 2020 Report while its rankings in the GCR and WCY were maintained in 2019.

## The Doing Business Report 2020

The Doing Business Report is an annual World Bank Group publication that measures regulations which enhance or constrain business activity. The report measures the processes of business incorporation, getting a building permit, obtaining electricity connection, transferring property, accessing credit, protecting minority investors, paying taxes, engaging in international trade, enforcing contracts, and resolving insolvency. Surveys of regulations governing business activities in 190 economies are conducted and then ranked according to their ease of doing business scores based on quantitative indicators of the regulations.

Malaysia is ranked 12th among 190 economies in the Doing Business 2020 Report, an improvement over its 15th position in 2019. Malaysia has, therefore, maintained its position as one of the top 20 economies for ease of doing business. In the East Asia and Pacific Region, Malaysia is ranked 4th, behind leader Singapore, 2nd place Hong Kong and 3rd place ROK. Taiwan and Thailand took 5th and 6th position, respectively. Among ASEAN member states, Malaysia is ranked 2nd behind Singapore, followed by Thailand ranked at 21st, Brunei Darussalam at 66th, Viet Nam at 70th, Indonesia at 73rd and the Philippines at 95th. Cambodia was ranked 144th, Lao PDR at 154th and Myanmar 165th.

**Exhibit 4.10: Ranking of Top 20 Economies in Doing Business 2020**

| | Doing Business 2020 | |
|---|---|---|
| | Ranking | EODB Score |
| New Zealand | 1 | 86.8 |
| Singapore | 2 | 86.2 |
| Hong Kong | 3 | 85.3 |
| Denmark | 4 | 85.3 |
| ROK | 5 | 84.0 |
| US | 6 | 84.0 |
| Georgia | 7 | 83.7 |
| UK | 8 | 83.5 |
| Norway | 9 | 82.6 |
| Sweden | 10 | 82.0 |
| Lithuania | 11 | 81.6 |
| **Malaysia** | **12** | **81.5** |
| Mauritius | 13 | 81.5 |
| Australia | 14 | 81.2 |
| Taiwan | 15 | 80.9 |
| UAE | 16 | 80.9 |
| North Macedonia | 17 | 80.7 |
| Estonia | 18 | 80.6 |
| Latvia | 19 | 80.3 |
| Finland | 20 | 80.2 |

*Source: The Doing Business Report 2020*

The report also acknowledged the reforms instituted by Malaysia in dealing with construction permits, one of which was the streamlining of processes involved in construction by eliminating the road and drainage inspection conducted by Kuala Lumpur City Hall. It also identified areas in which Malaysia could improve upon, such as starting a business, paying taxes, enforcing contracts, and resolving insolvency. Further institutional reforms were recommended to strengthen competitiveness by making doing business in Malaysia easier, faster, and cheaper.

The Special Task Force to Facilitate Business (PEMUDAH), the membership of which comprise senior Government officials and private sector business leaders, has been tasked to initiate and drive regulatory reforms within the Doing Business indicator areas in Malaysia. PEMUDAH resolves regulatory issues and introduces reforms through its technical working groups to facilitate ease of doing business and enhance competitiveness and productivity. The MPC, an agency of MITI, acts as the PEMUDAH secretariat and works closely with the respective technical working groups to initiate and monitor the implementation of improvement initiatives.

## Global Competitiveness Report 2019

The Global Competitiveness Report (GCR) is a compilation of 103 indicators based on a combination of 54% data from international organisations and 46% from the WEF Executive Opinion Survey. The methodology used in the report is the Global Competitiveness Index (GCI) 4.0. Competitiveness performance is measured through 12 pillars: institutions, infrastructure, ICT adoption, macroeconomic stability, health, skills, product market, labour market, financial system, business dynamism, market size and innovation capability. The GCR is designed to help policymakers, business leaders and other stakeholders shape their economic strategies in the Industry 4.0 era.

In the 2019 GCR, Malaysia scored 74.6 and was ranked 27th out of 141 economies. Among APEC partners, Malaysia was ranked 10th out of 20 economies and 2nd among ASEAN member states, behind front runner Singapore. Of the 12 pillars measured in the GCI 4.0, Malaysia is ranked among the top 25 for six pillars: financial system, business dynamism, product market, labour market, market size and institution.

**Exhibit 4.11: Global Competitiveness Report 2019 - Malaysia's Ranking in APEC**

| No. | Economy | GCI 2019 | | GCI 2018 | |
|---|---|---|---|---|---|
| | | Ranking | Score | Ranking | Score |
| 1 | Singapore | 1 | 84.8 | 2 | 83.5 |
| 2 | US | 2 | 83.7 | 1 | 85.6 |
| 3 | Hong Kong | 3 | 83.1 | 7 | 82.3 |
| 4 | Japan | 6 | 82.3 | 5 | 82.5 |
| 5 | Taiwan | 12 | 80.2 | 13 | 79.3 |
| 6 | ROK | 13 | 79.6 | 15 | 78.8 |
| 7 | Canada | 14 | 79.6 | 12 | 79.9 |

| No. | Economy | GCI 2019 | | GCI 2018 | |
|---|---|---|---|---|---|
| | | Ranking | Score | Ranking | Score |
| 8 | Australia | 16 | 78.7 | 14 | 78.9 |
| 9 | New Zealand | 19 | 76.7 | 18 | 77.5 |
| **10** | **Malaysia** | **27** | **74.6** | **25** | **74.4** |
| 11 | PRC | 28 | 73.9 | 28 | 72.6 |
| 12 | Chile | 33 | 70.5 | 33 | 70.3 |
| 13 | Thailand | 40 | 68.1 | 38 | 67.5 |
| 14 | Russian Federation | 43 | 66.7 | 43 | 65.6 |
| 15 | Mexico | 48 | 64.9 | 46 | 64.6 |
| 16 | Indonesia | 50 | 64.6 | 45 | 64.9 |
| 17 | Brunei Darussalam | 56 | 62.8 | 62 | 61.4 |
| 18 | Philippines | 64 | 61.9 | 56 | 62.1 |
| 19 | Peru | 65 | 61.7 | 63 | 61.3 |
| 20 | Viet Nam | 67 | 61.5 | 77 | 58.1 |

*Source: Global Competitiveness Report 2019*

**Exhibit 4.12: Global Competitiveness Report 2019: Comparison of Malaysia's Ranking with ASEAN Members**

| Economy | Global | Score |
|---|---|---|
| Singapore | 1 | 84.8 |
| **Malaysia** | **27** | **74.6** |
| Thailand | 40 | 68.1 |
| Indonesia | 50 | 64.6 |
| Brunei | 56 | 62.8 |
| Philipines | 64 | 61.9 |
| Viet Nam | 67 | 61.5 |
| Cambodia | 106 | 52.1 |
| Lao People's Democratic Republic | 113 | 50.1 |

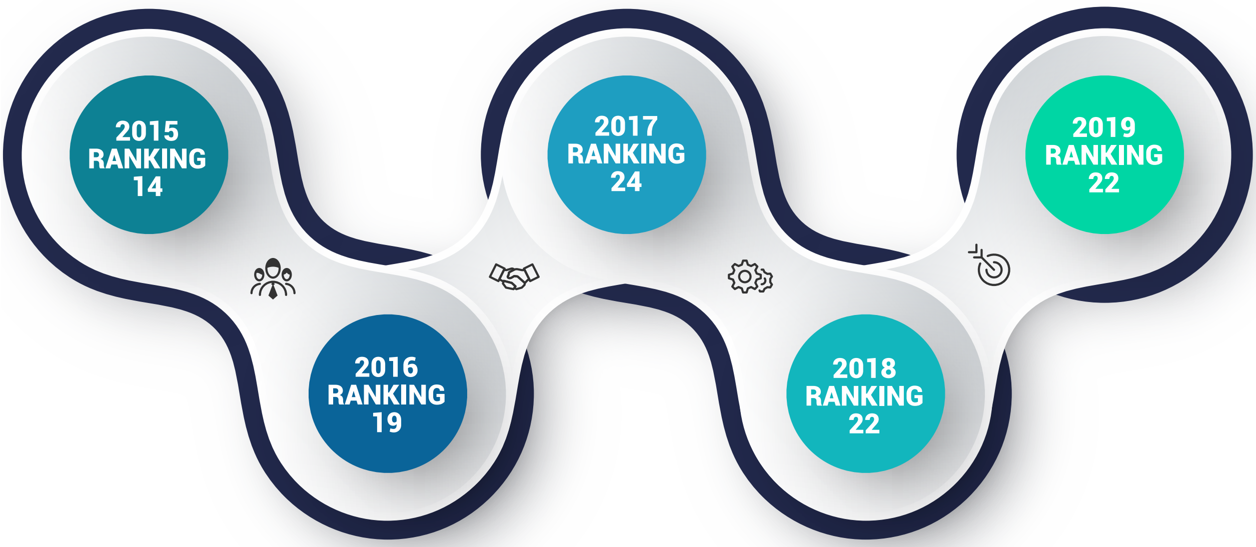
*Source: Global Competitiveness Report 2019*

To further boost Malaysia's competitiveness performance, the MPC has proposed strategic recommendations on issues pertaining to the pillars in the GCR report, particularly for institutions, infrastructure, skills, and innovation capability. Working group collaboration has been established between regulators and the private sector to address, recommend, and resolve any issues that would affect Malaysia's GCR ranking.

## World Competitiveness Yearbook 2019

The World Competitiveness Yearbook (WCY) 2019 highlighted the performance of 63 countries related to four factors - economic performance, government efficiency, business efficiency and infrastructure. In WCY 2019, Malaysia was ranked 22nd for a second consecutive year. In the Asia Pacific region, Malaysia was ranked 7th, ahead of the ROK and Japan. Within the ASEAN region, Malaysia remained in 2nd place behind Singapore.

**Exhibit 4.13: World Competitiveness Yearbook – Malaysia's Rankings 2015-2019**




*Source: World Competitiveness Yearbook, 2015 - 2019*

Malaysia's ranking under the infrastructure factor improved from 33rd to 28th position in 2019. The improvement was attributed to the basic, technological, scientific and health and environment sub-factors under infrastructure.

**Exhibit 4.14: World Competitiveness Yearbook 2019: Malaysia's Performance in Asia-Pacific and ASEAN**


| | | Value |
|---|---|---|
| 1st | SINGAPORE | 100.00 |
| 2nd | HONG KONG | 97.80 |
| 3rd | PRC | 88.78 |
| 4th | TAIWAN | 88.24 |
| 5th | AUSTRALIA | 85.51 |
| 6th | NEW ZEALAND | 83.10 |
| 7th | MALAYSIA | 82.54 |
| 8th | THAILAND | 77.23 |
| 9th | ROK | 76.50 |
| 10th | JAPAN | 74.63 |
| 11th | INDONESIA | 73.60 |
| 12th | INDIA | 67.18 |
| 13th | PHILIPPINES | 64.73 |
| 14th | MONGOLIA | 45.19 |

*Source: World Competitiveness Yearbook 2019*

## NATIONAL POLICY ON GOOD REGULATORY PRACTICES

Good Regulatory Practices (GRP) are internationally recognised processes, systems, tools and methods to improve the quality of regulations and to ensure that regulatory outcomes are effective, transparent, inclusive and sustainable. In 2013, the Government reinforced and formalised the mandate of the MPC for regulatory reform with the launching of the National Policy for the Development and Implementation of Regulations (NPDIR). The policy embedded GRP in the formulation of new regulations or amendments to regulations. The introduction of NPDIR was accomplished, in part, through collaboration between MPC and the Organisation for Economic Co-operation and Development.

The NPDIR was replaced in 2018 by the National Policy on Good Regulatory Practices (NPGRP) which focuses on improving the quality of both new and existing regulations. Under NPGRP, new regulations are subjected to the Regulatory Impact Analysis (RIA) which is used as a regulatory reform tool to improve the quality of policy and regulations through robust analysis including costs and benefits. Existing regulations are subjected to ex-post evaluation programmes such as Reducing Unnecessary Regulatory Burdens, Cutting Red Tape and Deregulation and Non-Tariff Measures.

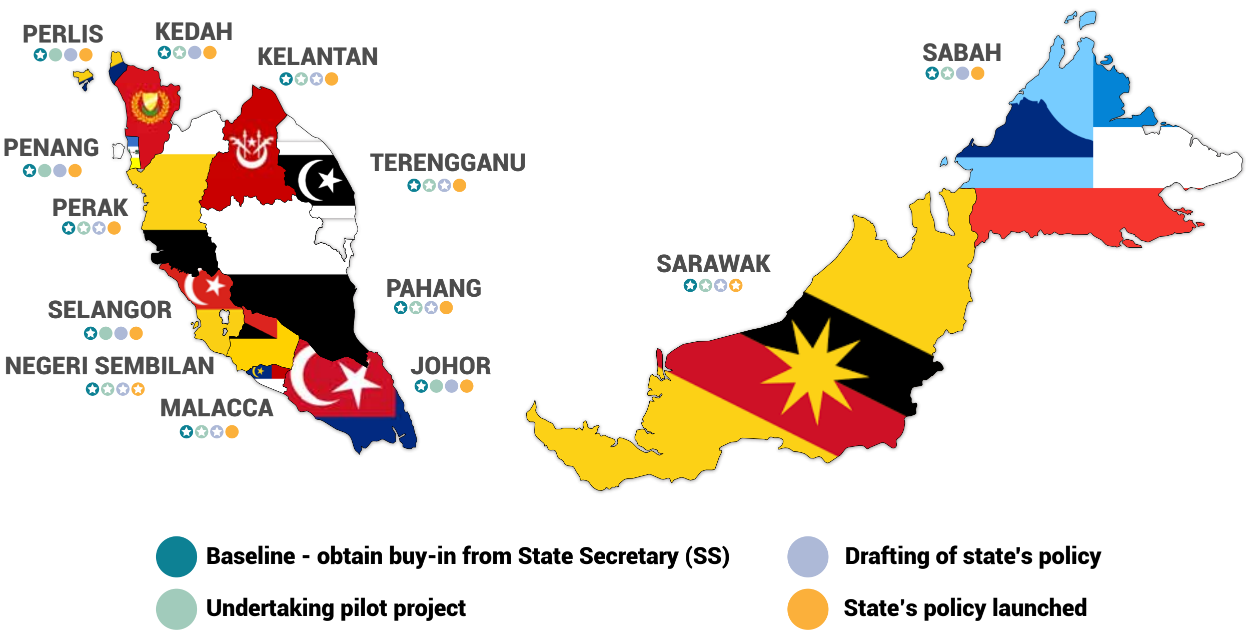
Between 2014 and 2019 at the federal level, 413 Regulatory Notifications (RN) were received, of which 149 were exempted from the RIA. In 2016, GRP outreach was extended to states and local authorities, with the initial engagement with state governments being in the form of workshops and seminars to create awareness of GRP and the NPDIR as well as to undertake baseline studies to better appreciate the rule-making process at each state.

**Exhibit 4.15: Regulatory Impact Analysis Implementation at Federal Level**

| No. | Activity | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | TOTAL |
|---|---|---|---|---|---|---|---|---|
| 1 | RN received | 40 | 55 | 75 | 70 | 75 | 98 | 413 |
| 2 | Proposal to undertaking RIA process | 27 | 33 | 30 | 55 | 46 | 67 | 258 |
| 3 | Exemption (RIA is not required/withdrawn/Post Implementation Review) | 13 | 22 | 45 | 15 | 23 | 31 | 149 |
| 4 | RIS received | 6 | 6 | 21 | 25 | 16 | 27 | 101 |
| 5 | Number of regulators submitting RN | 17 | 11 | 22 | 28 | 31 | 30 | Not Applicable |
| 6 | Number of regulators submitting RIS | 4 | 4 | 6 | 12 | 10 | 15 | Not Applicable |

*Source: Malaysia Productivity Corporation (MPC)*

**Exhibit 4.16 Status of RIA Implementation at State Level**




*Source: Malaysia Productivity Corporation (MPC)*

# STANDARDS AND ACCREDITATION

## Standards Malaysia

Standards Malaysia was elevated to a full-fledged and sole national standards and accreditation body in 2019. The agency serves as a platform to boost economic development through the implementation of standards and adoption of accredited conformity assessment by industry to enhance competitiveness in the domestic and international market. Standards Malaysia has a complement of 25 national standards committees and other technical committees and working groups. The agency has developed and published 20 new Malaysian Standards, revised or amended 51 others as well as conducted the maintenance of 466 withdrawn or confirmed ones.

As of 2019, 5,117 Malaysian Standards were developed across 25 economic sectors to support regulators and industry. Numerous promotional programmes - including seminars and workshops – on standards for the halal industry; anti-bribery management system; earthquake; road traffic safety; product safety and recall; and the Malaysian Sustainable Palm Oil (MSPO) were also conducted to assist firms in embedding excellence in their operations. Standards Malaysia is also active internationally as a regular participant in various gatherings on matters of national interests such as blockchain and distributed ledger technologies, intelligent transport systems, nanotechnologies, governance of organisations and standards for bamboo and rattan as structural materials.

The agency also acts as the secretariat for several technical committees and working groups of the International Organisation for Standardisation (ISO) such as ISO/PC 303 Guidelines on Consumer Warranties and Guarantees; ISO/TC 45 Rubber and Rubber Products; ISO/TC 45/SC 4 Products (Other Than Hoses); and ISO/TC 157 Non-Systemic Contraceptives and Sexually Transmitted Infections Barrier Prophylactics.

## Globally Recognised Accreditation

Globally recognised accreditation services by laboratories, certification and inspection bodies remove the need for duplicate testing, calibration, inspection, and certification thus facilitating and promoting the free trade goal of "accredited once, accepted everywhere". To strengthen the quality infrastructure, Standards Malaysia accredited 44 laboratories, 20 certification bodies, five inspection bodies and five Organisation for Economic Co-operation and Development (OECD) Good Laboratory Practice compliance test facilities in 2019. There are now 744 accredited laboratories, 123 certification bodies, five OECD Good Laboratory Practice compliance test facilities and 17 inspection bodies in Malaysia. A total of 3,190 organisations which have fulfilled the required standards for global market acceptance have received certification from local accreditation certification bodies.

Standards Malaysia launched two new accreditation programmes in 2019. The Anti-Bribery Management Systems (ABMS) – Requirements with Guidance for Use was based on MS ISO 37001:2016 while the MSPO Supply Chain Certification was based on MSPO Supply Chain Certification Standard (MSPO SCCS). The ABMS - designed to create a corruption-free business environment - is intended to support the corporate liability provision under the Malaysian Anti-Corruption Commission Act 2009 which will come into force in 2020.

The Malaysian Sustainable Palm Oil Supply Chain Certification is designed to deliver confidence and credibility to customers and end users by certifying that the palm oil used as ingredients in products originate from and are traceable to sustainably managed oil palm plantations. The purpose of the accreditation is to ensure that the certified products will contribute to the growth and development of a sustainable oil palm industry by broadening their market access as well as enhancing the producer's image as one that is socially and environmentally responsible.

## Globally Recognised Certification for Halal Industry

Standards Malaysia is supporting the growth of a comprehensive global halal ecosystem through the development of internationally accepted certification standards. In 2019, one such standard introduced was the MS 2636:2019 Halal Medical Device - General Requirements. The Malaysian medical devices industry has extensive inter-linkages with many other industries and RM15.8 billion worth of these devices were exported in 2016. The new standard for halal medical devices is to assist the domestic industry in obtaining halal certification and ultimately to enable manufacturers to gain access to a wider Islamic market, particularly in the Middle East, Indonesia as well as Japan.

At the Organisation of Islamic Cooperation level, Standards Malaysia is the chair and secretariat for TC10 Halal Supply Chain and TC16 Halal Pharmaceutical Issues under the Standards and Metrology Institute for Islamic Countries (SMIIC). At the national level, the agency chairs the Standards Development and Traceability Committee, one of the three technical working groups under the Halal Industry Development Council.

## Instilling a Culture of Quality

Standards Malaysia has also taken on the mission to instil a culture of quality in the younger generation. In 2019, the agency sponsored two school teams to participate in the 14th International Standards Olympiad in Anseong, Republic of Korea. The team from *Sekolah Berasrama Penuh Integrasi Tun Abdul Razak*, Pekan, Pahang, won the Prime Minister of the Republic of Korea Award, the top award for the best of the best teams in the competition, by defeating 48 other teams from nine participating countries comprising the PRC, Singapore, Japan, Indonesia, the ROK, Peru, Ecuador and Malaysia. Standards Malaysia is committed to creating more opportunities for the younger generation to explore the world of standards.

## Recognition of Standards Malaysia by US Environmental Agency

On 6 September 2019, Malaysia and the US Environmental Protection Agency signed an agreement by which Standards Malaysia was recognised as an accreditation body in compliance with the technical requirements of the United States Toxic Substances Control Act Title VI on the release of formaldehyde gas by composite wood products. With this agreement, Malaysia is better equipped to safeguard the competitiveness of the country's composite wood products in the US market.

## ISSUES AND CHALLENGES

Challenges abound for the domestic economy in 2019 as the global economy continued to face uncertainty. The depreciation of the Malaysian ringgit against foreign currencies, particularly the US dollar, has led to higher cost of production from more expensive raw materials and intermediary goods. The Government has also taken cognisance of the fundamental changes occurring in the industrial landscape due to disruptive technologies and has taken steps to address the issues thereof. However, as has been acknowledged in the Industry4WRD policy, there is no one-size-fits-all policy to meet the challenges faced in Malaysia's efforts to push the domestic industry higher up the value chain.

As Malaysia approaches the tail-end of the 11MP, focus have been redirected to strengthening the fundamentals - infrastructure, regulation, skills and technology – in order to close the gaps in the existing ecosystem and to realise the vision of sustainable industry. Pivotal to these efforts is the prioritisation of pilot projects in innovation or adoption of new technologies targeted to transform catalytic or new growth sectors. Despite the many challenges ahead, there is optimism that from the Government's commitment to undertaking a more holistic review of the NIPM and greater engagement between industry and the public sector, mutually beneficial solutions can be arrived at to remove bottlenecks and accelerate economic development in line with global trends.

# CHAPTER 5
# ECONOMIC OUTLOOK 2020 – MALAYSIA AND THE WORLD

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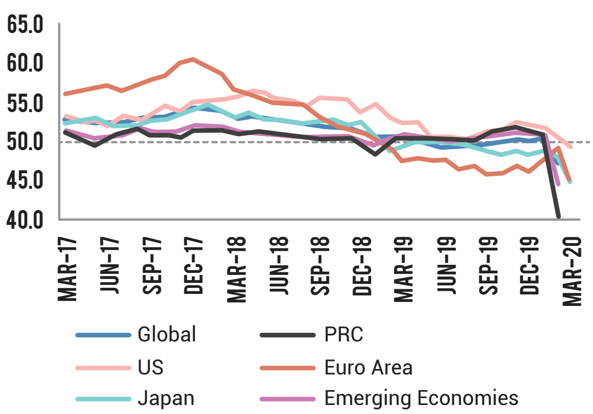
# ECONOMIC OUTLOOK 2020 – MALAYSIA AND THE WORLD

## GLOBAL OUTLOOK

The International Monetary Fund (IMF) has forecasted a recession for the global economy in 2020 that is expected to be worse than the Global Financial Crisis of 2009 (GFC'09). Global growth is projected to be at -3% owing to the combined impact of the prevailing economic uncertainties and COVID-19 pandemic which has caused many countries to impose national lockdowns. The disruption in the global supply chain amidst weak demand was further compounded by the oil price war between Saudi Arabia, Russia and the United States of America (US). To aggravate matters, the US oil prices turned negative for the first time in history amidst storage capacity and oversupply concerns. Though the Organization of Petroleum Exporting Countries (OPEC), Russia and the US had agreed to lower output to support prices, the price increase has been slower and more gradual than anticipated.

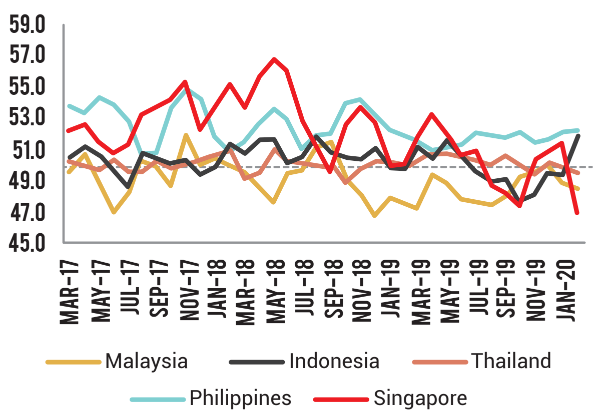
The plunge in the global manufacturing Purchasing Managers Index (PMI) to 39.8 points in April 2020 - its lowest level since March 2009 - lends credence to an imminent global recession. The fall, however, was softened by the recent relative economic resilience of the People's Republic of China (PRC). The global PMI excluding the PRC PMI reading was worse at 35.8. The PRC was the worst affected, with its manufacturing PMI dropping by almost 10 points to 40.3 in February 2020, the lowest in 16 years. However, it has since improved and stood at 49.4 as of April 2020. Meanwhile, Japan, Malaysia, Singapore and Thailand are among the adversely affected countries. With global demand expected to weaken further in the first half of 2020 (1H20) due to the surging COVID-19 pandemic, most of the affected economies are adopting monetary easing policies and launching economic stimulus packages to support their respective domestic-oriented sectors. There is optimism for a gradual recovery in global demand by 2H20 as the effects of the pandemic are expected to gradually subside by then. The PRC in the meantime has returned to normal operations after a two-month lockdown.

**Exhibit 5.1: Manufacturing PMI (Points)**




*Note: >50; Expansionary, <50; Contractionary*
*Source: Bloomberg; MIDF Research (MIDFR)*

**Exhibit 5.2: Regional Manufacturing PMI (Points)**




*Note: >50; Expansionary, <50; Contractionary*
*Source: Bloomberg; MIDF Research (MIDFR)*

## OIL PRICE VOLATILITY

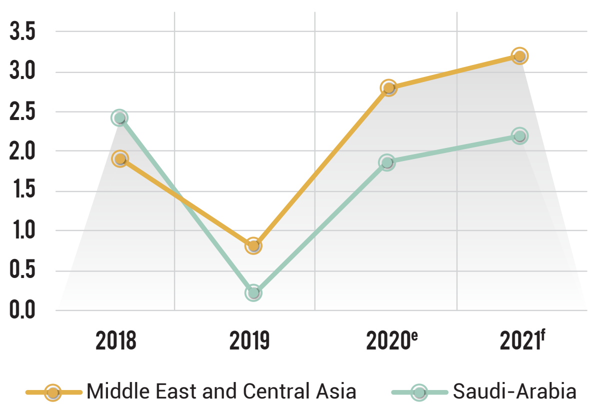
Brent crude prices rallied at the beginning of 2020, rising to around USD68 per barrel (RM289.68/b) per barrel on the back of market concerns on supply disruptions from major exporters in the Middle East. Prices, however, have since dropped to around USD29.38/b (RM125.16/b) in May 2020 on worries of a shortfall in demand from the PRC - the world's largest oil importer - as the COVID-19 crisis worsened. Such a substantial drop in demand would have severe repercussions on the crude oil market as the PRC's purchase represents 14% of total global demand.

The US Energy Information Administration forecast that oil prices will average USD33.04/b (RM140.75/b) in 2020, its lowest level in four years before recovering to USD45.62/b (RM194.34/b) in 2021. If these estimates materialise, it will mean that oil prices have plummeted to roughly half of its 2019 average of USD64/b (RM272.64/b). Likewise, the IMF expects oil price to be at USD35/b (RM149.10/b) in 2020 while the European Commission forecasts prices to be between USD38/b and USD40/b (RM161.88/b and RM170.40/b) in the 2020 to 2021 period due to the reduced economic activities caused by pandemic containment measures such as lockdowns and restrictions on trade and mobility. Oil demand from countries in Asia, such as Singapore, Thailand, Malaysia and the Philippines, has been revised lower reflecting weaker demand for industrial and transportation fuels due to substantially reduced economic activities after the imposition of the Movement Control Order (MCO). Given the latest developments, downward risks currently outweigh any positive indicators and indications are that further downward revisions in oil demand growth are likely should the current situation persist.

The market, however, is expected to improve as key oil producers, Saudi Arabia and Russia are close to inking a deal to extend oil production cuts for another two months until 1 September 2020. This development has sparked optimism and caused oil price to rally to nearly USD40/b (RM170.40/b) for Brent crude.

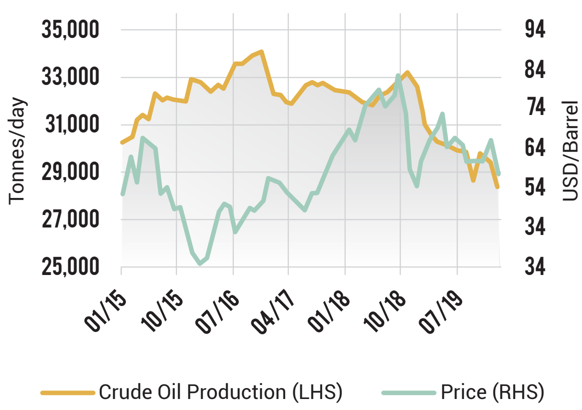
The oil market outlook nonetheless is expected to remain vulnerable due to weak demand from a global economy under siege by the COVID-19 pandemic, poor business sentiments and the switch towards renewable energy such as solar and wind as well as the growing electric vehicle segment. In November 2019, OPEC projected demand for oil to drop by 7% by 2023.

**Exhibit 5.3: Middle East and Central Asia Growth (%)**




*Note: e - estimation, f - forecast*
*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R); International Monetary Fund (IMF)*

**Exhibit 5.4: Oil Production and Brent Price**



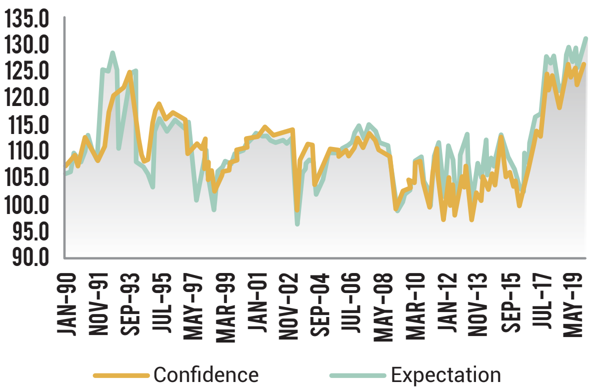

*Note: LHS - Left Hand Side, RHS - RIght Hand Side*
*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R); Bloomberg*

## OUTLOOK: PEOPLE'S REPUBLIC OF CHINA

The People's Republic of China (PRC)'s economy is projected to keep expanding though at a moderate pace amidst weak domestic demand and an uncertain external trade front. Growth in household spending and business expenditure has been stymied by the COVID-19 outbreak and the International Monetary Fund (IMF) foresee the PRC's Gross Domestic Product (GDP) to expand by only 1.2% in 2020. In the first quarter of 2020 (1Q20), the PRC's economy shrank 6.8% year-on-year (YoY), the first GDP contraction since records began in 1992. The plunge reflects the severe economic damage caused by the COVID-19 outbreak which had forced the government to impose a stringent two-month-long shutdown of economic activities, particularly of non-essential services.

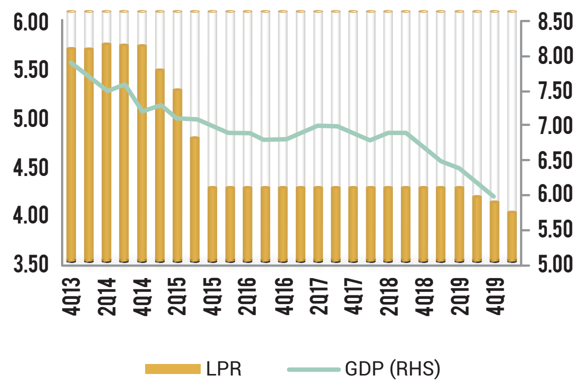
The bright spot in the otherwise gloomy scenario is the Chinese government's fiscal capacity to spend and invest to mitigate the impact of the COVID-19 outbreak given that its debt to GDP is only at around 50.5%. To support the virus-hit economy, the People's Bank of China (PBOC) has cut its one-year loan prime rate (LPR) twice so far this year for a total of 30 basis points (bps) to a record low of 3.85%, from 4.15% in the beginning of the year. The PBOC has also lowered its five-year LPR to 4.65% and could continue to ease monetary conditions not only because of COVID-19 but also to mitigate other downside risks such as the US-PRC trade spat and volatility in commodity prices.

**Exhibit 5.5: Consumer Confidence (Points)**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 5.6: Loan Prime Rate versus GDP Growth (%)**




*Note: RHS - Right Hand Side*
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

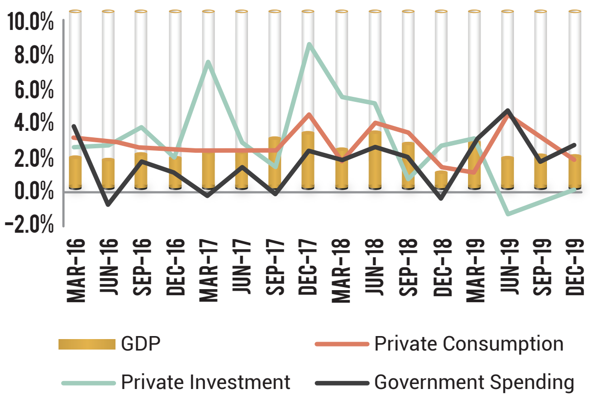
## OUTLOOK: UNITED STATES OF AMERICA

A negative policy rate may not be imminent as the US Federal Reserve could instead opt to inject additional liquidity through further quantitative easing. Both the domestic and external sector of the US economy is predicted to continue the weak side in 2020 due to the severity of the COVID-19 outbreak in the country. The IMF projected a -6.1% contraction for the US economy in 2020. The current 0-0.25% interest rate level, on top of the USD700 billion (RM2.99 trillion) asset purchase programme, would improve domestic demand as cost of credit for consumers and businesses would be very low. Such policy supports will likely cushion the negative impact of the COVID-19 pandemic and may provide an additional thrust when the economy begins to recover.

On top of the monetary easing policy, an expansionary fiscal plan which includes direct cash payments to Americans would encourage domestic spending and indirectly provides impetus for progress amidst expectations of a recovery in global demand in 2H20. Among other factors, support for domestic spending in the US is predicated on inflationary pressure remaining low as global oil prices plunge to the USD30 (RM128.31) per barrel level. However, with the COVID-19 pandemic having made millions jobless and the unemployment rate accelerating to a historic high of 14.7% in April 2020, domestic demand is expected to remain weak.

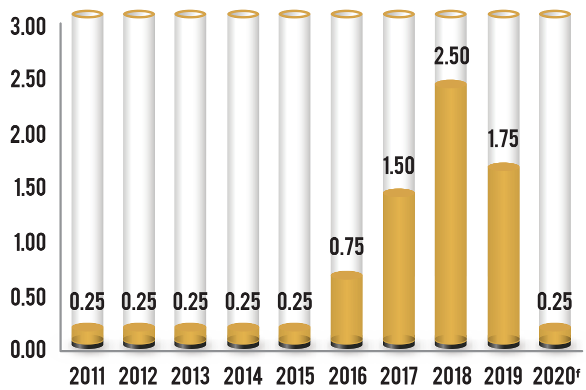
As the US continues to feel the impact of the economic fallout from the pandemic, consumer confidence moderated further in April 2020 as seen in the University of Michigan's Consumer Sentiment Index which fell to 71.8, the lowest since December 2011. Another indicator of a downward trend in consumer confidence is the Investor's Business Daily (IBD)/TechnoMetrica Institute of Policy and Politics (TTPP) Economic Optimism Index which has remained in negative territory for two consecutive months. Domestic consumption, supported by monetary easing in combination with the USD2 trillion (RM8.55 trillion) stimulus package, could bring about improvement in 2H20 on expectations of a global tapering from the effects of the pandemic by then.

**Exhibit 5.7: Annualised GDP Growth (%)**



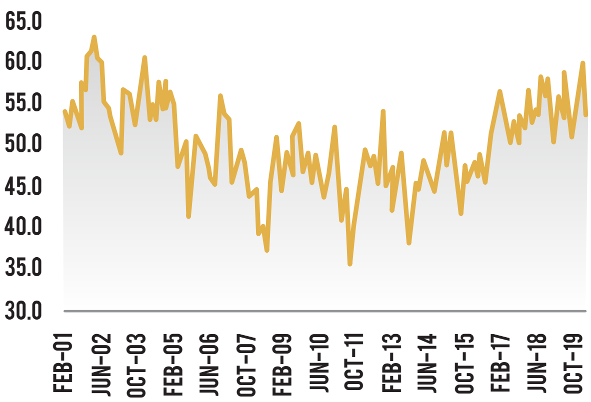

*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 5.8: Federal Funds Rate (%)**



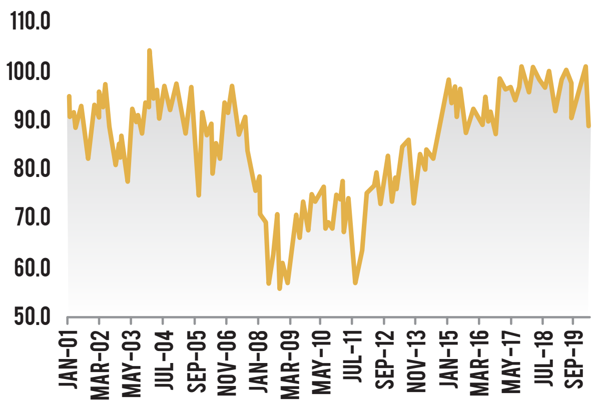

*Note: f - forecast*
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 5.9: IBD/TIPP Economic Optimism Index (Points)**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 5.10: Consumer Sentiments (Points)**



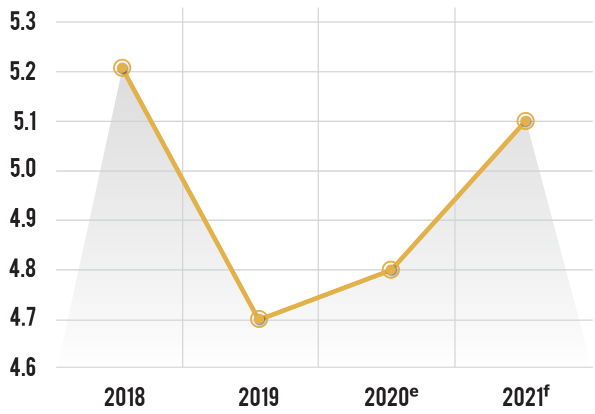

*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

## REGIONAL OUTLOOK

## Association of Southeast Asian Nations

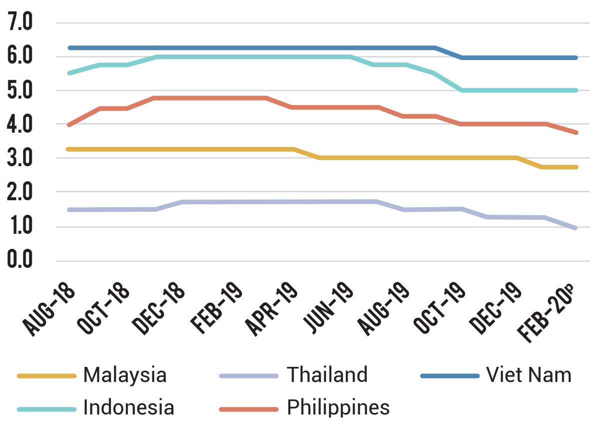
Economic growth in the Association of Southeast Asian Nations - 5 (ASEAN-5) fell sharply to 4.7% in 2019. The substantial decline was attributed to softer external demand and depressed investment confidence due to the ongoing US-PRC trade tension, weak manufacturing activities, credit tightening, higher tariffs, structural change, and stiff wage growth in several key economies. The region is also expected to be hit hard, particularly in manufacturing and tourism, by the COVID-19 outbreak as the lockdown in the PRC has put businesses on halt and subsequently lower import demand. Demand appetite for consumer and capital goods has been squeezed and most ASEAN central banks have resorted to slashing key rates. At the point of writing this report, key ASEAN countries have introduced cumulative rate cuts to as low as 125 bps and a high of 200 bps. Loose monetary policies in key economies are expected to continue to boost domestic consumption on the back of weak sentiments.

**Exhibit 5.11: ASEAN-5 Growth (%)**




*Note: e - estimation, f - forecast*
*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R);*
*International Monetary Fund (IMF)*

**Exhibit 5.12: Selected ASEAN Interest Rate**




*Note: p - preliminary*
*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R);*
*Bloomberg*

ASEAN has always had been attractive to investors owing to its lower labour cost together with robust export growth which has broadened employment opportunities and increased income level. ASEAN's per capita income has grown rapidly, with a Compound Annual Growth Rate (CAGR) of 5.4% achieved within a decade in the 2008 to 2018 period. The steady growth in per capita income has reduced the poverty level and brought about greater purchasing power for discretionary goods and leisure activities. Growth in ASEAN is expected to expand further in tandem with the growth in high value-added output through the digital economy.

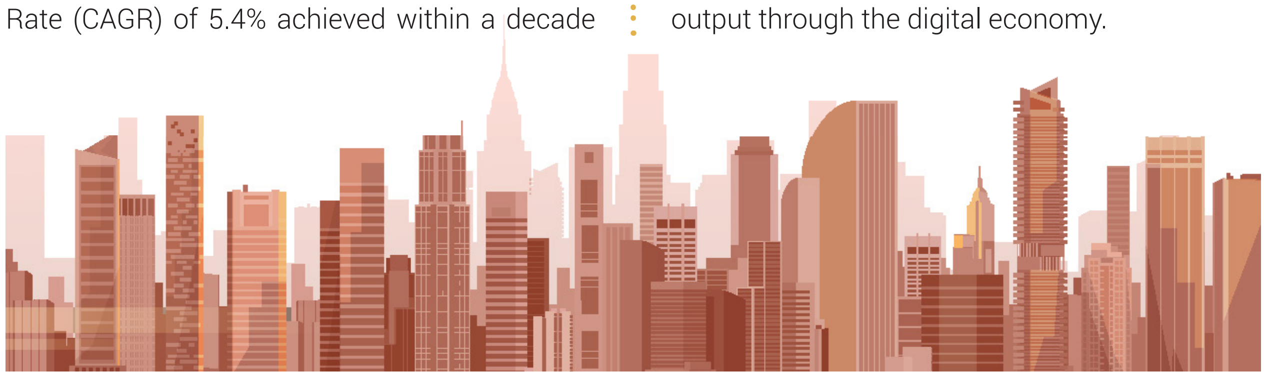
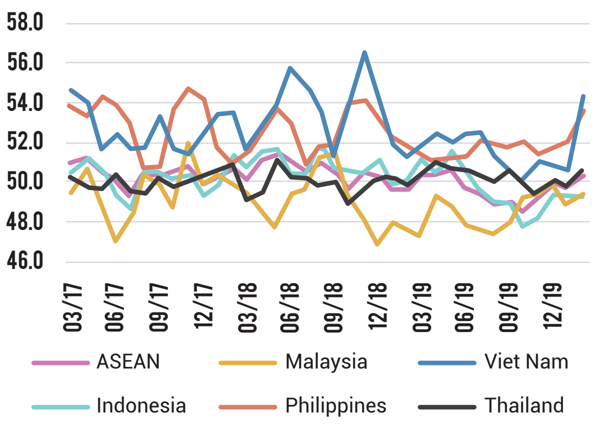
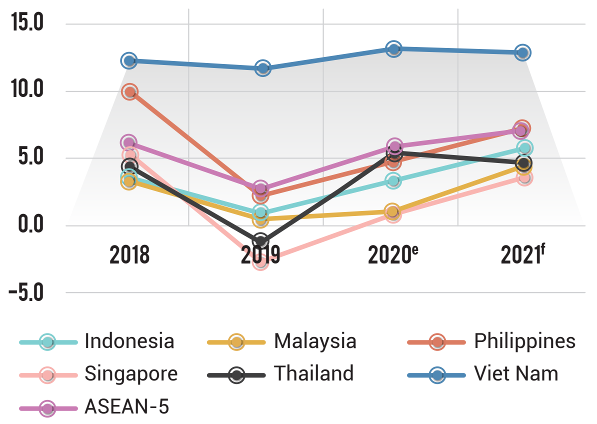


**Exhibit 5.13: Selected ASEAN PMI Index (%)**




*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R); Bloomberg*

**Exhibit 5.14: Malaysia-ASEAN Trade (%)**




*Note: e - estimation, f - forecast*
*Malaysia EXIM Bank Advisory & Research (MEXIM A&R); Department of Statistics Malaysia (DOSM)*

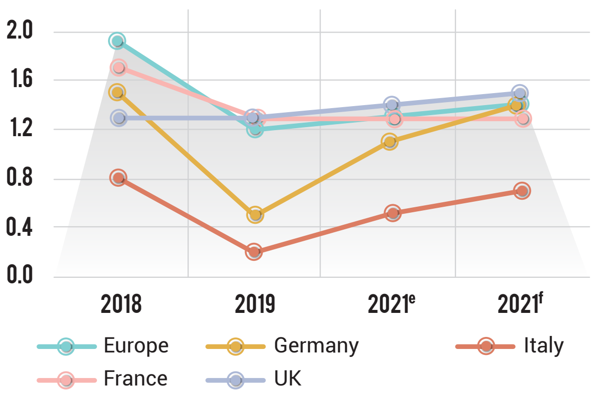
Foreign direct investment (FDI) inflow in ASEAN recorded a CAGR of 4.8% between 2013 and 2018. In 2018, FDI into ASEAN totalled USD152.8 billion (RM650.93 billion), with the bulk of the investments deployed in manufacturing, finance, and retail trade. The strong relationship among member states, combined with the introduction of rigorous policy reforms and improvement in the ease of doing business, has made ASEAN a favoured investment destination.

ASEAN, with its high labour and industrial capacity which are still at the developing stage, will maintain its position as a centre for global manufacturing as well as a key link in the global supply chain. The main sectors which are envisaged to be growth drivers for ASEAN are electronics, information and communications technology, finance and e-commerce, medical equipment, and chemicals.

## Europe

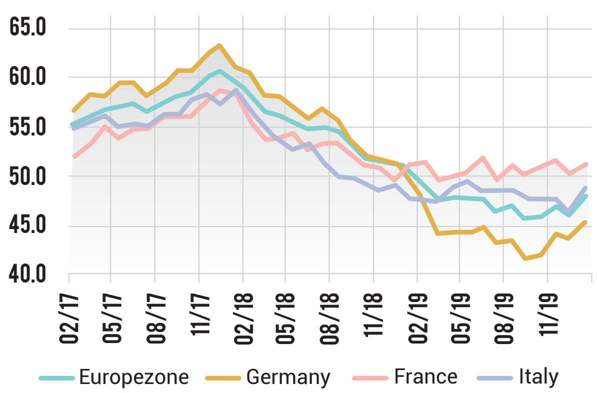
Europe is also facing multi-front economic uncertainties stemming from Brexit and the US-PRC trade tensions on top of the COVID-19 pandemic. While the region may be able to withstand the impact of these threats, Germany, France, and the United Kingdom (UK) are highly vulnerable to the Asian economic fallout due to their huge trade and investment exposure in the region. The European Union (EU) industries are expected to encounter major shocks from a disruption of the global supply chain caused by prolonged factory closures and delayed shipments from the PRC.

**Exhibit 5.15: Europe Growth (%)**




*Note: e - estimation, f - forecast*
*Malaysia EXIM Bank Advisory & Research (MEXIM A&R); International Monetary Fund (IMF)*

**Exhibit 5.16: Selected Europe PMI Index (%)**

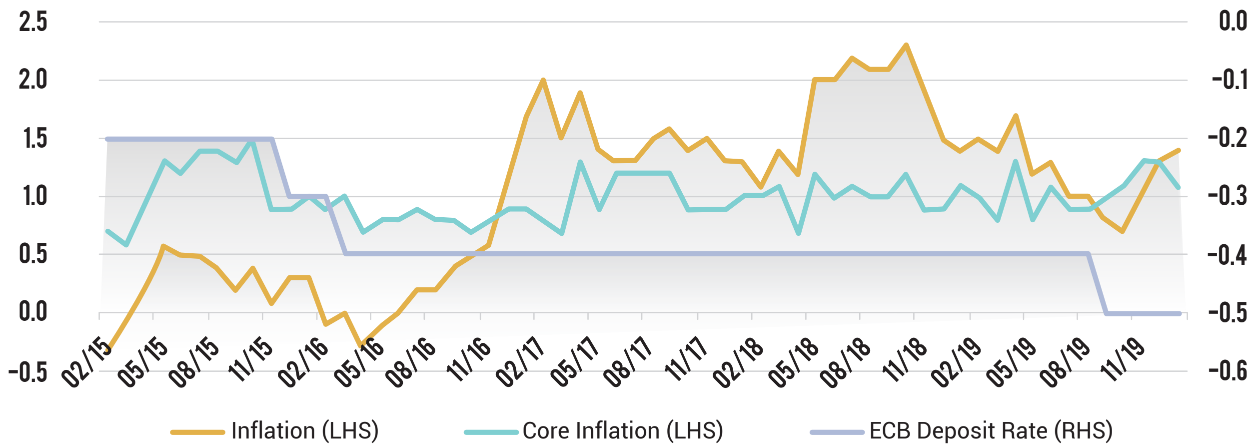



*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R); Bloomberg*

Negative interest rate, which was initiated by the European Central Bank (ECB) in June 2014, has since then moved further down to -0.5%. The unconventional measure was intended to stimulate spending as Europe is on the brink of disinflation amidst subdued economic growth. Except for a few months in 2018, the inflation rate - underpinned by higher spending on food, alcoholic and non-alcoholic beverages, restaurants and hotels - has never surpassed the ECB's targeted growth of 2%. In 2019, the average inflation rate growth in Europe was 1.2%.

An expansion in public investment and domestic demand is seen as the only the options to end economic stagnation as growing protectionism, a struggling auto industry and stagnating productivity combined with an aging population threaten to exacerbate economic woes and ultimately to push the region into a prolonged period of low growth.

**Exhibit 5.17: ECB Deposit Rate and Inflation Growth Rate (%)**




*Note: Core inflation excludes food, tobacco, alcohol and energy*
*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R); Bloomberg*

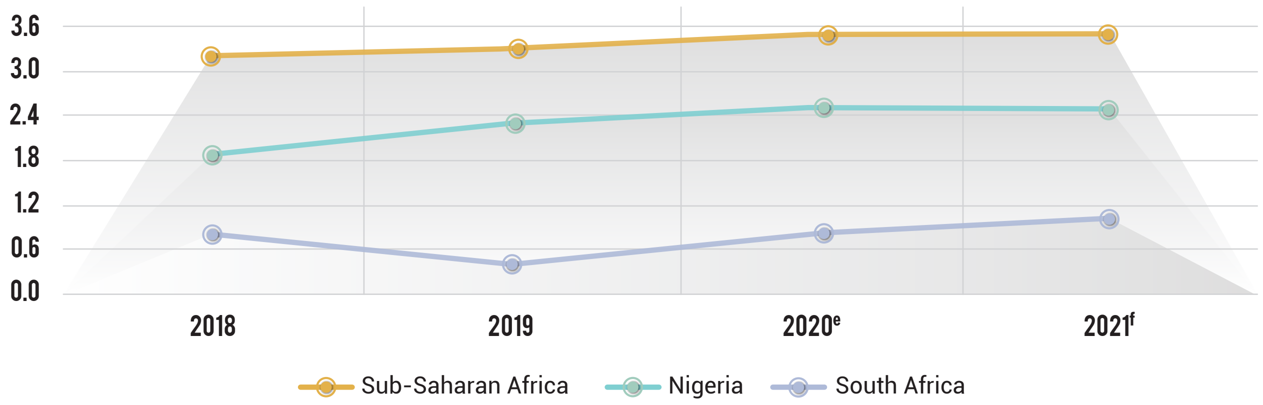
## Africa

Sub-Saharan Africa recorded a growth of 3.3% in 2019 and is projected to grow 1.6% in 2020 with the support of steady investments in various economic sectors, robust domestic consumption, and rising oil production, particularly from new field developments. Downside risks, however, remain in the form of debt vulnerabilities and subdued public finances. Another potential drag on growth would be a decline in exports to the PRC which is reeling from the COVID-19 outbreak. Exports to the PRC, comprising mainly natural resources, have been weak since 2018 and the country's economic slowdown may further squeeze investments in the region, especially in energy and infrastructure development.

The region also faces issues with regards to foreign exchange vulnerability. Most of the countries in the region are in double deficit and lacking economic diversification, thus causing high volatility of local currencies against world key currencies such as the US dollar and yen.

The IMF April 2020 Sub-Saharan Africa Regional Economic Outlook projects that the less diversified economies will be hit the hardest owing to a more challenging external environment, continued output disruptions in oil-exporting countries and weaker-than-anticipated growth in South Africa. Other downside risks are intensifying external headwinds as well as the threat of rising protectionism and a faster than expected slowdown in the PRC and the euro area.

**Exhibit 5.18: Sub-Saharan Africa Growth (%)**




*Note: e - estimation, f - forecast*
*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R); International Monetary Fund (IMF)*

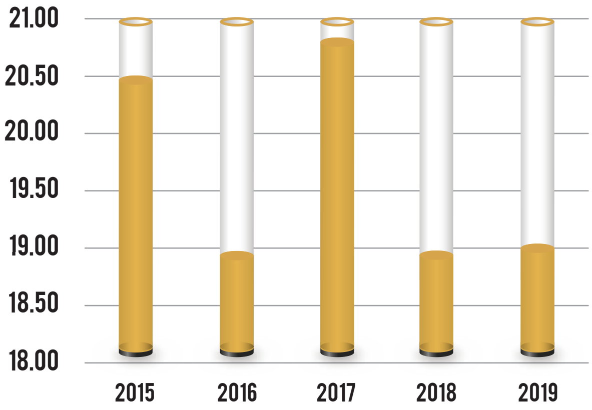
In 2018, Africa led the world as the region with the fastest FDI growth, having gained popularity and confidence among companies owing to the region's business reform initiatives. Of the top fifty countries listed by the World Bank as possessing environments conducive to ease of doing business, Mauritius is ranked 13th and Rwanda 38th. Togo and Nigeria are ranked in the top ten countries that have implemented the best regulatory reforms for ease of doing business. Based on their strategic geographical locations which support market accessibility, Kenya, Côte d'Ivoire, Rwanda, Ghana, Tanzania and Senegal, are expected to outperform in GDP growth.

The eighth edition of the Nielsen Africa Prospects Indicator shows Kenya remaining in top position, followed by Cote d'Ivoire and Tanzania. Ghana and Nigeria maintained their fourth and fifth places respectively while Uganda slips to sixth. South Africa is lower at seventh and Cameroon remains in eighth. The IMF expects Ghana to be one of the fastest growing economies in the world. Companies share this positive outlook and rate Ghana, with its improved country and own business expectations, as Africa's second-best business prospect.

Improved infrastructure, cheaper labour costs and abundance of raw materials in combination with ongoing reforms of business practices have bumped up investor confidence, particularly in construction, oil and gas and manufacturing. The establishment of the African Continental Free Trade Area (AFCFTA) will further boost intra-African trade by offering greater access to consumer goods, including halal food products, to a region which represents over 16.7% of global population.

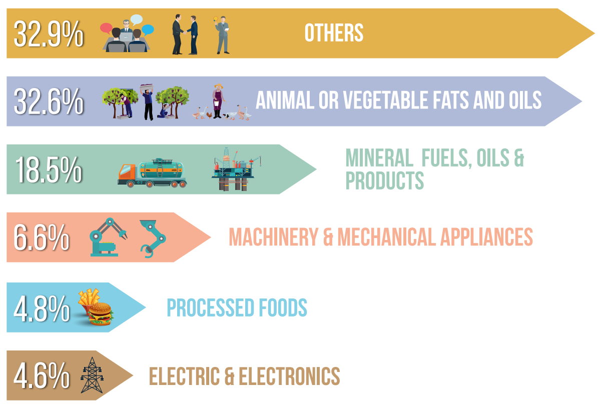
In 2019, Malaysia's exports to Africa – comprising mainly palm oil products, machinery and equipment, processed food, petroleum and electrical and electronic products - rose to RM19.04 billion (2018: RM18.97 billion). African imports into Malaysia are mainly of crude petroleum, ores and scrap metal, natural rubber and iron and steel products.

**Exhibit 5.19: Malaysian Exports to Africa**




*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R); Department of Statistics Malaysia (DOSM)*

**Exhibit 5.20: Main Malaysian Exports to Africa**




*Source: Malaysia EXIM Bank Advisory & Research (MEXIM A&R); Department of Statistics Malaysia (DOSM)*

## MALAYSIA: EXPANSION LIMITED BY CHALLENGING GLOBAL AND DOMESTIC ENVIRONMENT

Amidst a string of challenges emerging primarily from the COVID-19 outbreak, the Malaysian economy is projected to contract by -2.1% compared to the 4.3% growth in 2019. This is slightly higher than the IMF's forecast of a -1.7% contraction. The imposition of the Movement Control Order (MCO) and its subsequent extension to contain the spread of the virus is impacting private consumption and investment activities substantially though this has been cushioned somewhat by public consumption. Aside from the impact of the MCO on the domestic economy, the country's external trade performance has also been impacted as more countries worldwide impose full or partial lockdowns with adverse effect on private consumption and investment and, ultimately, import demand.

With activities limited under the MCO, private consumption growth is expected to decline marginally by 0.5% in 2020. Consumption will be limited as people stay home during the MCO and unemployment rises in badly affected sectors such as hotel and aviation. Post-MCO, the recovery of consumption is expected to drag as those who had lost their jobs would need time to return to the workforce while many employees are likely to continue working from home. Others would be postponing vacation plans due to fears of another wave of the pandemic. Similarly, growth prospects for the services sector, already dragged down by declining tourism activities, would falter further especially with the cancellation of Visit Malaysia 2020. The services sector is projected to contract by -1.6% (2019: 6.1%). However, public consumption via the provisions of the economic stimulus package could expand to 4.7% (2019: 2%).

Private investment in Malaysia, weighed down by weak business sentiments, is expected to plunge by 6.5% (2019: 1.6%). The global supply chain has been disrupted by lower Chinese and other Asian factory output. More countries are imposing lockdowns to contain the spread of COVID-19 while doubts have emerged as to the PRC's commitment to the US-PRC phase one trade deal, given that its economy has been considerably weakened. To add to the mix of negative sentiments, global oil prices have plunged, further dampening investment activities in the mining sector while political instability have also added to the uncertainties. Public investment could contract though at a softer pace of -9% (2019: -10.9%) following the resumption of mega projects. A recovery in public investment, however, would be minimal as the government's priority is on containing the spread of COVID-19.

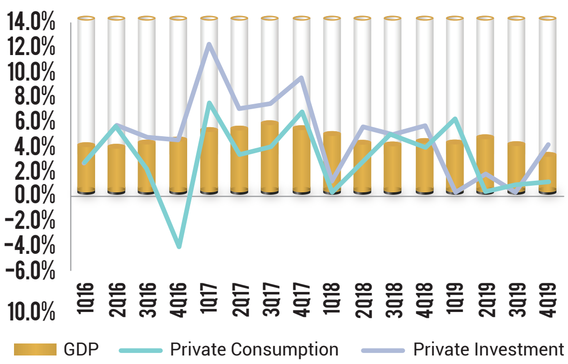
The negative economic effect of the imposition of the MCO will be obvious in the economic data for 1H20. A gradual recovery, however, is anticipated in 2H20 as COVID-19 fears abate. Overall economic growth will be influenced by various internal and external factors such as disruptions in global production and consumption consequent to the COVID-19 pandemic, recession fears, global financial stability, the oil price war, inflationary pressure, and labour market performance.

With investor confidence in the doldrums, companies have called a halt on expansion or new investment. More time will be needed to restore confidence despite the economic stimulus package provisions for businesses which include lower interest rates, a six-month moratorium on business loan payments and a Special Relief Facility Fund (SRFF) for Small and Medium Enterprises (SMEs). Malaysia's low import volume, particularly in the capital goods component, reflects manufacturers' pessimism of future demand for their products. It is similarly gloomy in the construction sector which had stagnated in 2019. Construction is expected to register a fall of -0.5% in 2020 in the wake of delays in many projects. Minor resumption of the East Coast Rail Link (ECRL) and the Light Rail Transit Line 3 (LRT3) projects would cushion the impact which is likely to be more evident by next year.

The performance of the commodity-based sectors, particularly mining, has been driven largely by price volatility. Mining and quarrying is forecast to contract further by -3% (2019: -2.0%). Similarly, agriculture is expected to slip to 1% despite an estimated higher average price of RM2,450 per metric ton (2019: RM2,079 per metric ton) for palm oil. Price pressure is likely to come more from the demand side from India, the PRC and EU.

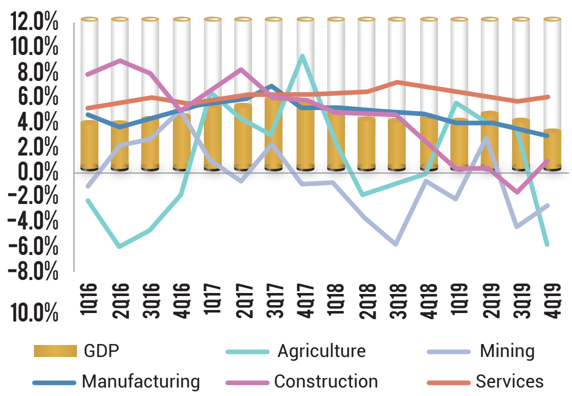
Crude oil prices have been on a downward trajectory from the beginning of 2020 owing to the COVID-19 pandemic and the consequent softer demand. The situation was aggravated by Saudi Arabia's offering of massive discounts on its official selling price and production ramp-up following the breakdown of talks with Russia. This has pushed the current Brent crude oil price to below USD30 (RM128.31) per barrel, with severe repercussions on Malaysia's oil revenue. The potential supply glut combined with a plunge in demand, particularly from the badly hit global aviation sector, will add more downward pressure on price. Where gas is concerned, the opening of the second Petronas floating natural gas facility in 2H20 would have positive effect for Malaysia though it might not sufficiently mitigate the damaging impact of the oil price war on the mining sector as a whole.

**Exhibit 5.21: GDP versus Private Sector (YoY%)**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

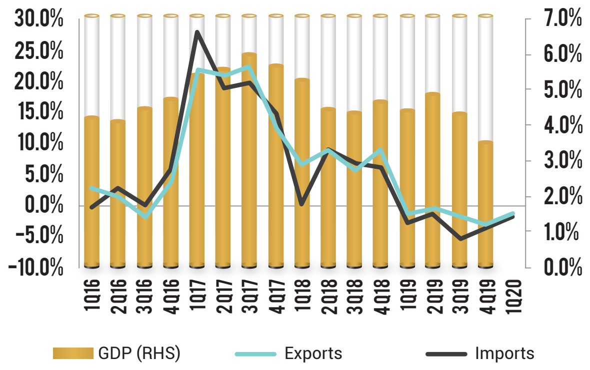
**Exhibit 5.22: GDP by Supply-Side (YoY%)**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

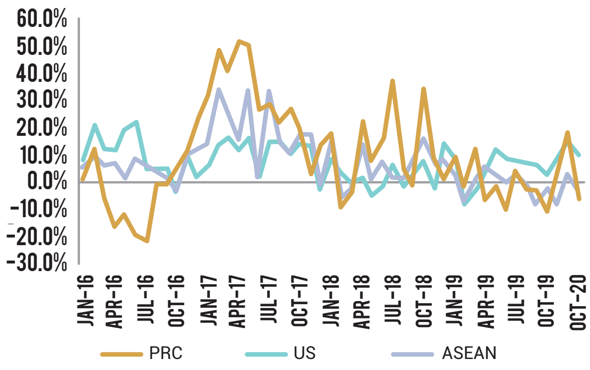
COVID-19 currently poses the greatest threat to global trade flows. The threat has deepened as the epidemic turned into a pandemic and hit hard at major economies such as the US and Europe. The MCO in Malaysia and lockdowns in several key countries have had damaging knock-on effects on export and import activities as closure of businesses, albeit temporarily, is enforced. Decisions to delay investments have exacerbated the situation as impetus for trade growth is chipped away by such actions. Amidst such a scenario, export and import growth is forecast to contract further by -8.3% in 2020 (2019: -1.7%) and -7.8% (2019: -3.5%) respectively. However, uncertainties in global trade will remain even after the pandemic is contained as the existing tariffs imposed between the PRC and US are still largely in place despite the signing of the phase one trade deal. With the US presidential election looming in November 2020, protectionism is likely to resurface during the election campaign while the Green Deal by the EU, Saudi-Russia oil war and other geopolitical tensions will also affect Malaysian exports.

**Exhibit 5.23: External Trade versus GDP, (YoY%)**




*Note: RHS - Right Hand Side*
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 5.24: Exports Growth (YoY%) by Major Destination**

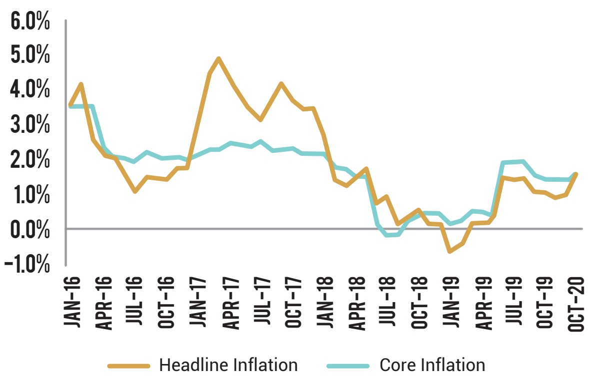



*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

The recent oil war has caused global crude oil prices to nosedive, with Brent's price currently hovering at USD30 (RM128.31) per barrel. With oil price being so low, a further reduction in RON95 petrol prices to levels far below that seen in 2019 is a strong possibility. The toll rates for all Projek Lebuhraya Utara Selatan Berhad (PLUS) highways have also been reduced by 18% with effect from February 2020. As transport is the third biggest component in the overall Consumer Price Index (CPI) basket, such developments deliver significant impact on overall inflation.

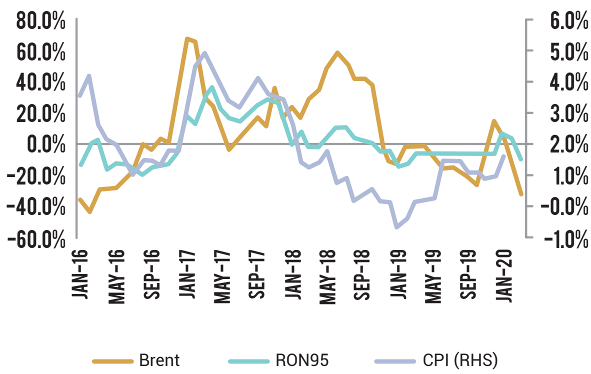
Furthermore, as there might not be any major demand-pull inflation due to the COVID-19 outbreak, purchases of big-ticket items such as houses, and cars could be postponed as consumers prioritise essential items. Some upward inflationary pressure could be expected in the food component through imported inflation as Malaysia is a net importer of food and the weaker ringgit will result in goods becoming more expensive. Inflation could moderate further to 0.5% compared with 0.7% in 2019.

**Exhibit 5.25: CPI: Headline versus Core (YoY%)**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

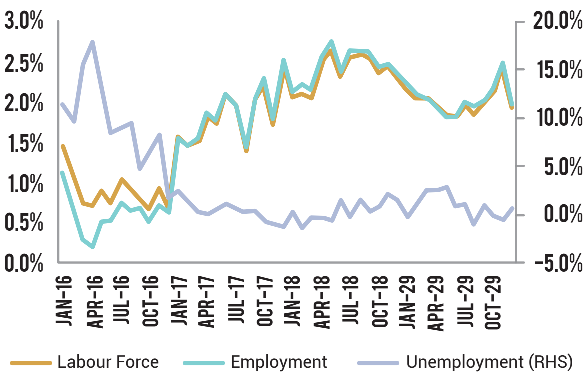
**Exhibit 5.26: CPI versus Crude & Retail Fuel Prices (YoY%)**




*Note: RHS - Right Hand Side*
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

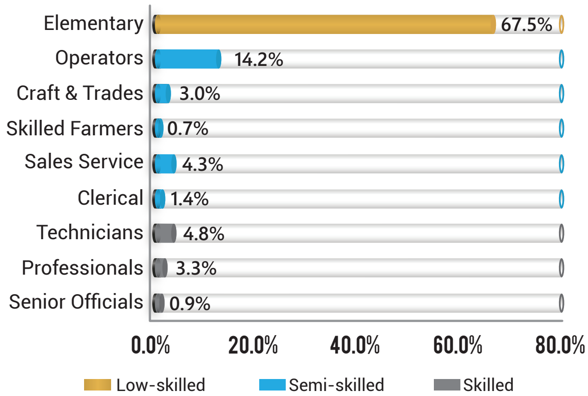
Malaysia's unemployment rate will remain under a state of full employment in 2020 but with an uptick to 3.8% (2019: 3.3%). Unemployment is expected to accelerate following layoffs in hard-hit sectors. The slowdown in both the domestic and global economy which has weakened exports and consumption will affect employment opportunities, particularly in the services and manufacturing sectors. The services sector, with a 60% share of the total workforce, has the largest share of total employment in the country, followed by manufacturing with 20%. The newly introduced Wage Subsidy Programme under the economic stimulus package provides some relief though companies, especially Small and Medium Enterprises (SMEs), view the subsidy inadequate as a buffer against retrenchment as they are facing prospects of a huge drop in revenue.

**Exhibit 5.27: CPI: Labour Market Key Indicators (YoY%)**




*Note: RHS - Right Hand Side*
*Source: CEIC Data (CEIC); MIDFR Research (MIDFR)*

**Exhibit 5.28: Share of Job Vacancies by Type (%)**

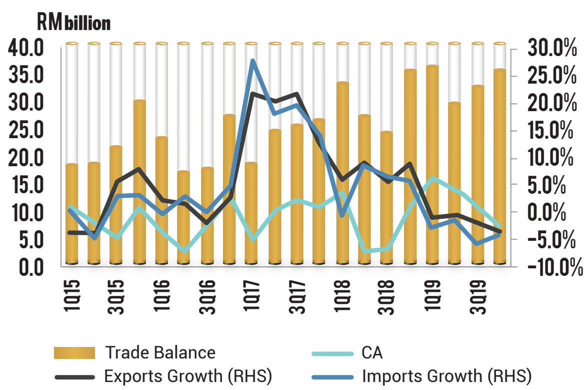



*Source: CEIC Data (CEIC); MIDFR Research (MIDFR)*

In the immediate term, the COVID-19 pandemic poses a downside risk to the ringgit through disruption in the global supply chain and capital flight. This was clearly seen in the recent plunge in oil price which caused the ringgit to breach the USD/RM4.40 level. Other downside risks include the review by the Financial Times Stock Exchange (FTSE) Russell of Malaysia's position in its FTSE World Government Bond Index (WGBI) watch list, lower interest rates resulting from OPR cuts and the possible re-election of President Trump which may strengthen the greenback.

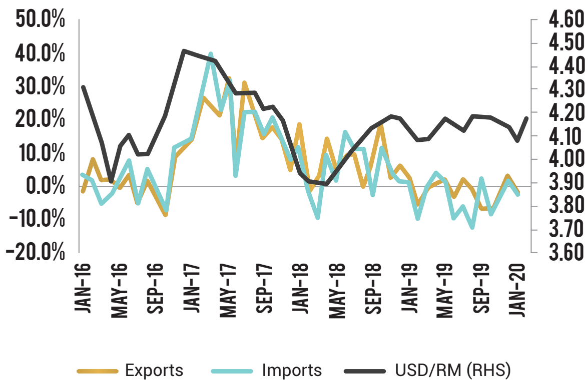
Malaysia's current account is expected to remain in surplus in 2020 though, given the moderate growth in net exports, tourism and manufacturing, is expected to be narrower at 2% of GDP (2019: 3.3%). With Malaysia as a net exporter of oil, the recent oil price war will also contribute to the narrowing current account surplus.

**Exhibit 5.29: CPI: Current Account Balance versus External Trade**




*Note: RHS - Right Hand Side*
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

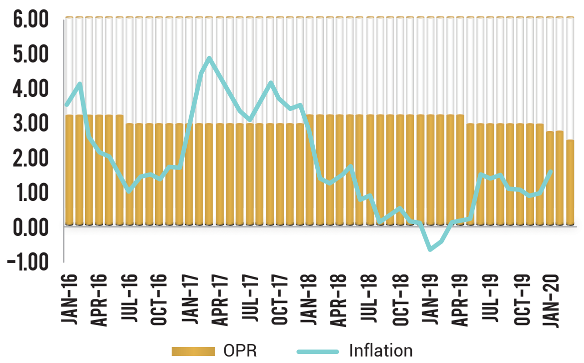
**Exhibit 5.30: Exports & Imports (YoY%) versus USD/RM**




*Note: RHS - Right Hand Side*
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

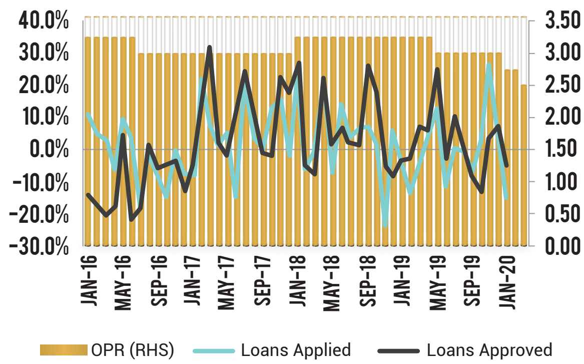
To mitigate the effect of the COVID-19 outbreak on the economy, Bank Negara Malaysia (BNM) has cut its OPR three consecutive times for a total of 100 bps to 2% so far in 2020. The 2% level is the lowest reached since the GFC09. The monetary easing move together with an expansionary fiscal policy are to support Malaysia's economy via private consumption and investment amidst the downside risks from COVID-19, global trade tensions, political instability and the uncertainties emanating from the upcoming US presidential election. In a second emergency move after the first one on 3 March 2020, the US Federal Reserve had cut its policy rate by 100 bps to 0-0.25%, the levels at which it had hovered for years during and after the global financial crisis. With increasing pressure coming from both the domestic and external fronts, BNM could make another rate cut of 25 bps to 1.75%, lower than the level seen during GFC09, reflecting even worse economic conditions than that seen in the previous crisis.

**Exhibit 5.31: CPI: Monetary Policy (%) versus CPI (YoY%)**




*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 5.32: OPR (%) versus Loans Growth (YoY%)**




*Note: RHS - Right Hand Side*
*Source: CEIC Data (CEIC); MIDF Research (MIDFR)*

**Exhibit 5.33: MIDF Research Macro-Economic Forecast Figures for 2020 (%)**

| (YoY%) Unless Stated Otherwise | 2016 | 2017 | 2018 | 2019 | 2020[f] |
|---|---|---|---|---|---|
| Real GDP | 4.4 | 5.7 | 4.7 | 4.3 | (2.1) |
| Public Consumption | 1.6 | 5.5 | 3.2 | 2.0 | 4.7 |
| Private Consumption | 5.8 | 6.8 | 7.9 | 7.6 | (0.5) |
| Public Investment | (0.8) | 0.5 | (5.0) | (10.9) | (9.0) |
| Private Investment | 4.4 | 9.1 | 4.4 | 1.6 | (6.5) |
| Exports of Goods and Services | 1.3 | 8.8 | 2.2 | (1.3) | (10.2) |
| Imports of Goods and Services | 1.5 | 10.3 | 1.3 | (1.5) | (8.7) |
| Net Exports | 0.3 | (3.9) | 14.6 | 9.7 | (22.4) |
| Agriculture, etc. | (3.6) | 5.8 | 0.2 | 2.0 | 1.0 |
| Mining and Quarrying | 2.3 | 0.5 | (2.6) | (2.0) | (3.0) |
| Manufacturing | 4.4 | 6.1 | 5.0 | 3.8 | (4.2) |

| (YoY%) Unless Stated Otherwise | 2016 | 2017 | 2018 | 2019 | 2020f |
|---|---|---|---|---|---|
| Construction | 7.5 | 6.8 | 4.3 | 0.1 | (0.5) |
| Services | 5.7 | 6.2 | 6.8 | 6.1 | (1.6) |
| Exports of Goods (Free on Board) | 1.2 | 18.8 | 7.3 | (1.7) | (8.3) |
| Imports of Goods (Cost, Insurance and Freight) | 1.9 | 19.7 | 5.2 | (3.5) | (7.8) |
| Trade Balance | 88.1 | 98.5 | 123.8 | 137.3 | 121.7 |
| Consumer Price Index | 2.1 | 3.8 | 1.0 | 0.7 | 0.5 |
| Current Account - % of GDP | 2.4 | 2.8 | 2.1 | 3.6 | 2.0 |
| Fiscal Balance - % of GDP | (3.2) | (3.1) | (3.7) | (3.5) | (5.9) |
| Federal Government Debt - % of GDP | 51.9 | 50.1 | 51.2 | 52.5 | 56.1 |
| **End of Unless States Otherwise** | **2016** | **2017** | **2018** | **2019** | **2020f** |
| Brent Crude Oil (Average) | 46.0 | 55.7 | 70.0 | 64.3 | 41.0 |
| Crude Palm Oil (Average) | 2,630 | 2,690 | 2,320 | 2,079 | 2,450 |
| USD/RM (Average) | 4.14 | 4.30 | 4.00 | 4.14 | 4.22 |
| USD/RM | 4.46 | 4.08 | 4.10 | 4.09 | 4.25 |
| Overnight Policy Rate (%) | 3.00 | 3.00 | 3.25 | 3.00 | 1.75 |

*Note: f - forecast, YoY - Year - on - Year*
*Source: MIDF Research (MIDFR); Department of Statistics Malaysia (DOSM); Bloomberg*

# APPENDICES

**Table 1: Annual Trade, 2005-2019**

| Period | Total Trade | Exports | Imports | Balance of Trade |
|---|---|---|---|---|
| | (RM million) | | | |
| 2005 | 969,104.5 | 536,233.7 | 432,870.8 | 103,362.9 |
| 2006 | 1,067,388.3 | 589,240.3 | 478,147.9 | 111,092.4 |
| 2007 | 1,106,344.3 | 604,299.6 | 502,044.6 | 102,255.0 |
| 2008 | 1,182,817.8 | 663,013.5 | 519,804.3 | 143,209.2 |
| 2009 | 987,187.9 | 552,518.1 | 434,669.8 | 117,848.3 |
| 2010 | 1,167,650.7 | 638,822.5 | 528,828.2 | 109,994.3 |
| 2011 | 1,271,488.3 | 697,861.9 | 573,626.3 | 124,235.6 |
| 2012 | 1,309,318.2 | 702,641.2 | 606,676.9 | 95,964.3 |
| 2013 | 1,368,687.3 | 719,992.4 | 648,694.9 | 71,297.5 |
| 2014 | 1,448,354.0 | 765,416.9 | 682,937.1 | 82,479.7 |
| 2015 | 1,463,133.5 | 777,355.1 | 685,778.4 | 91,576.6 |
| 2016 | 1,485,782.8 | 786,964.2 | 698,818.7 | 88,145.5 |
| 2017 | 1,771,349.0 | 934,926.8 | 836,422.2 | 98,504.6 |
| 2018[f] | 1,883,390.9 | 1,003,586.9 | 879,804.0 | 123,782.9 |
| 2019[p] | 1,835,411.7 | 986,402.5 | 849,009.2 | 137,393.3 |

*Note: f - forecast, p - preliminary*
*Source: Department of Statistics Malaysia (DOSM)*

## Table 2: Trade with the Association of Southeast Asian Nations (ASEAN), 2018-2019

| Country | Exports | | | | | Imports | | | | | Balance of Trade | | Total Trade | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019p | | | 2018f | | 2019p | | | 2018f | | 2019p | 2018f | 2019p | 2018f |
| | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | | RM million | |
| **TOTAL** | **986,402.5** | **100.0** | **-1.7** | **1,003,586.9** | **100.0** | **849,009.2** | **100.0** | **-3.5** | **879,804.0** | **100.0** | **137,393.3** | **123,782.9** | **1,835,411.7** | **1,883,390.9** |
| **ASEAN** | **284,027.8** | **28.8** | **-1.1** | **287,113.8** | **28.6** | **204,884.1** | **24.1** | **-8.8** | **224,558.6** | **25.5** | **79,143.7** | **62,555.2** | **488,911.9** | **511,672.4** |
| Singapore | 136,888.3 | 13.9 | -2.4 | 140,248.9 | 14.0 | 89,546.9 | 10.5 | -13.1 | 103,071.1 | 11.7 | 47,341.4 | 37,177.8 | 226,435.3 | 243,320.0 |
| Thailand | 55,810.4 | 5.7 | -2.2 | 57,060.8 | 5.7 | 44,167.5 | 5.2 | -9.2 | 48,623.7 | 5.5 | 11,642.9 | 8,437.1 | 99,977.8 | 105,684.5 |
| Indonesia | 30,833.9 | 3.1 | -3.4 | 31,906.8 | 3.2 | 38,799.7 | 4.6 | -4.2 | 40,490.3 | 4.6 | -7,965.8 | -8,583.4 | 69,633.5 | 72,397.1 |
| Viet Nam | 34,729.1 | 3.5 | 1.2 | 34,329.2 | 3.4 | 19,587.2 | 2.3 | 0.7 | 19,457.0 | 2.2 | 15,141.8 | 14,872.3 | 54,316.3 | 53,786.2 |
| Philippines | 18,184.7 | 1.8 | 7.3 | 16,955.0 | 1.7 | 9,027.4 | 1.1 | -1.9 | 9,199.0 | 1.0 | 9,157.3 | 7,756.0 | 27,212.1 | 26,154.0 |
| Brunei | 2,288.0 | 0.2 | 3.4 | 2,212.8 | 0.2 | 1,941.4 | 0.2 | 11.0 | 1,749.4 | 0.2 | 346.6 | 463.4 | 4,229.4 | 3,962.2 |
| Myanmar | 2,764.2 | 0.3 | -1.6 | 2,810.2 | 0.3 | 1,089.1 | 0.1 | -11.6 | 1,232.7 | 0.1 | 1,675.2 | 1,577.5 | 3,853.3 | 4,042.8 |
| Cambodia | 2,495.8 | 0.3 | 61.1 | 1,549.0 | 0.2 | 683.5 | 0.1 | -3.2 | 706.4 | 0.1 | 1,812.3 | 842.6 | 3,179.3 | 2,255.4 |
| Lao PDR | 33.5 | 0.0 | -18.2 | 40.9 | 0.0 | 41.5 | 0.0 | 42.3 | 29.1 | 0.0 | -8.0 | 11.8 | 75.0 | 70.1 |

*Note: Top countries are sorted according to Total Trade value for 2019 p - preliminary, f - forecast*
*Source: Department of Statistics Malaysia (DOSM)*

**Table 3: Top Ten Trade Partners in the European Union (EU), 2018-2019**

| Country | Exports | | | | | Imports | | | | | Balance of Trade | | Total Trade | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019p | | | 2018f | | 2019p | | | 2018f | | 2019p | 2018f | 2019p | 2018f |
| | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | | RM million | |
| **TOTAL** | **986,402.5** | **100.0** | **-1.7** | **1,003,586.9** | **100.0** | **849,009.2** | **100.0** | **-3.5** | **879,804.0** | **100.0** | **137,393.3** | **123,782.9** | **1,835,411.7** | **1,883,390.9** |
| **EU** | **95,777.8** | **9.7** | **-2.9** | **98,644.7** | **9.8** | **78,876.1** | **9.3** | **-7.0** | **84,799.7** | **9.6** | **16,901.7** | **13,845.0** | **174,654.0** | **183,444.3** |
| Germany | 25,963.4 | 2.6 | -7.9 | 28,201.9 | 2.8 | 26,745.4 | 3.2 | 1.4 | 26,380.4 | 3.0 | -782.0 | 1,821.5 | 52,708.8 | 54,582.2 |
| Netherlands | 25,313.5 | 2.6 | -1.9 | 25,799.1 | 2.6 | 5,691.7 | 0.7 | -16.0 | 6,772.2 | 0.8 | 19,621.8 | 19,026.9 | 31,005.2 | 32,571.3 |
| France | 6,206.2 | 0.6 | -1.4 | 6,293.0 | 0.6 | 10,859.9 | 1.3 | -34.7 | 16,626.2 | 1.9 | -4,653.7 | -10,333.3 | 17,066.1 | 22,919.2 |
| UK | 9,087.6 | 0.9 | 5.2 | 8,638.6 | 0.9 | 7,351.8 | 0.9 | 5.4 | 6,972.3 | 0.8 | 1,735.7 | 1,666.3 | 16,439.4 | 15,611.0 |
| Italy | 5,046.3 | 0.5 | -13.1 | 5,807.4 | 0.6 | 7,052.6 | 0.8 | 5.4 | 6,688.5 | 0.8 | -2,006.3 | -881.1 | 12,098.8 | 12,495.9 |
| Belgium | 4,517.0 | 0.5 | -2.8 | 4,645.7 | 0.5 | 3,344.7 | 0.4 | 14.6 | 2,919.2 | 0.3 | 1,172.2 | 1,726.4 | 7,861.7 | 7,564.9 |
| Spain | 4,542.6 | 0.5 | 15.3 | 3,941.0 | 0.4 | 2,769.0 | 0.3 | -7.1 | 2,979.7 | 0.3 | 1,773.6 | 961.3 | 7,311.6 | 6,920.6 |
| Ireland | 1,251.7 | 0.1 | 5.0 | 1,192.2 | 0.1 | 4,061.9 | 0.5 | -12.5 | 4,642.0 | 0.5 | -2,810.2 | -3,449.8 | 5,313.6 | 5,834.2 |
| Sweden | 1,214.9 | 0.1 | -7.6 | 1,314.6 | 0.1 | 2,211.2 | 0.3 | 21.6 | 1,817.8 | 0.2 | -996.4 | -503.2 | 3,426.1 | 3,132.3 |
| Poland | 1,816.3 | 0.2 | -1.4 | 1,842.7 | 0.2 | 1,142.8 | 0.1 | 44.7 | 789.9 | 0.1 | 673.5 | 1,052.8 | 2,959.1 | 2,632.7 |

*Note: Top countries are sorted according to Total Trade value for 2019 p - preliminary, f - forecast*
*Source: Department of Statistics Malaysia (DOSM)*

## Table 4: Top Ten Trade Partners in the Asia-Pacific Economic Cooperation (APEC), 2018-2019

| Country | Exports | | | | | Imports | | | | | Balance of Trade | | Total Trade | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019p | | | 2018f | | 2019p | | | 2018f | | 2019p | 2018f | 2019p | 2018f |
| | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | | RM million | |
| **TOTAL** | **986,402.5** | **100.0** | **-1.7** | **1,003,586.9** | **100.0** | **849,009.2** | **100.0** | **-3.5** | **879,804.0** | **100.0** | **137,393.3** | **123,782.9** | **1,835,411.7** | **1,883,390.9** |
| **APEC** | **768,589.7** | **77.9** | **-1.6** | **781,385.4** | **77.9** | **658,714.2** | **77.6** | **-3.2** | **680,739.3** | **77.4** | **109,875.6** | **100,646.1** | **1,427,303.9** | **1,462,124.7** |
| PRC | 139,605.4 | 14.2 | 0.3 | 139,147.3 | 13.9 | 175,589.3 | 20.7 | 0.1 | 175,416.5 | 19.9 | -35,983.9 | -36,269.3 | 315,194.7 | 314,563.8 |
| Singapore | 136,888.3 | 13.9 | -2.4 | 140,248.9 | 14.0 | 89,546.9 | 10.5 | -13.1 | 103,071.1 | 11.7 | 47,341.4 | 37,177.8 | 226,435.3 | 243,320.0 |
| US | 95,782.5 | 9.7 | 5.5 | 90,810.9 | 9.0 | 68,668.9 | 8.1 | 5.7 | 64,947.3 | 7.4 | 27,113.6 | 25,863.6 | 164,451.3 | 155,758.3 |
| Japan | 65,247.0 | 6.6 | -7.3 | 70,384.6 | 7.0 | 63,583.6 | 7.5 | -0.4 | 63,857.5 | 7.3 | 1,663.4 | 6,527.0 | 128,830.5 | 134,242.1 |
| Thailand | 55,810.4 | 5.7 | -2.2 | 57,060.8 | 5.7 | 44,167.5 | 5.2 | -9.2 | 48,623.7 | 5.5 | 11,642.9 | 8,437.1 | 99,977.8 | 105,684.5 |
| Chinese Taipei | 36,945.0 | 3.7 | 12.6 | 32,814.1 | 3.3 | 57,027.2 | 6.7 | -10.3 | 63,576.2 | 7.2 | -20,082.2 | -30,762.1 | 93,972.3 | 96,390.2 |
| Hong Kong | 66,544.8 | 6.7 | -11.1 | 74,831.0 | 7.5 | 14,042.2 | 1.7 | -7.3 | 15,140.9 | 1.7 | 52,502.6 | 59,690.2 | 80,587.0 | 89,971.9 |
| ROK | 33,761.9 | 3.4 | -1.4 | 34,237.3 | 3.4 | 38,804.4 | 4.6 | -1.2 | 39,283.9 | 4.5 | -5,042.5 | -5,046.6 | 72,566.3 | 73,521.2 |
| Indonesia | 30,833.9 | 3.1 | -3.4 | 31,906.8 | 3.2 | 38,799.7 | 4.6 | -4.2 | 40,490.3 | 4.6 | -7,965.8 | -8,583.4 | 69,633.5 | 72,397.1 |
| Viet Nam | 34,729.1 | 3.5 | 1.2 | 34,329.2 | 3.4 | 19,587.2 | 2.3 | 0.7 | 19,457.0 | 2.2 | 15,141.8 | 14,872.3 | 54,316.3 | 53,786.2 |

*Note: Top countries are sorted according to Total Trade value for 2019 p - preliminary, f - forecast*
*Source: Department of Statistics Malaysia (DOSM)*

## Table 5: Trade with the North American Free Trade Agreement (NAFTA), 2018-2019

| Country | Exports | | | | | Imports | | | | | Balance of Trade | | Total Trade | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $2019^{p}$ | | | $2018^{f}$ | | $2019^{p}$ | | | $2018^{f}$ | | $2019^{p}$ | $2018^{f}$ | $2019^{p}$ | $2018^{f}$ |
| | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | | RM million | |
| **TOTAL** | **986,402.5** | **100.0** | **-1.7** | **1,003,586.9** | **100.0** | **849,009.2** | **100.0** | **-3.5** | **879,804.0** | **100.0** | **137,393.3** | **123,782.9** | **1,835,411.7** | **1,883,390.9** |
| **NAFTA** | **108,335.7** | **11.0** | **5.4** | **102,741.0** | **10.2** | **73,725.1** | **8.7** | **5.8** | **69,705.1** | **7.9** | **34,610.5** | **33,035.9** | **182,060.8** | **172,446.0** |
| US | 95,782.5 | 9.7 | 5.5 | 90,810.9 | 9.0 | 68,668.9 | 8.1 | 5.7 | 64,947.3 | 7.4 | 27,113.6 | 25,863.6 | 164,451.3 | 155,758.3 |
| Mexico | 9,049.7 | 0.9 | 8.0 | 8,380.0 | 0.8 | 1,730.0 | 0.2 | 16.5 | 1,485.2 | 0.2 | 7,319.7 | 6,894.8 | 10,779.7 | 9,865.2 |
| Canada | 3,503.5 | 0.4 | -1.3 | 3,550.1 | 0.4 | 3,326.2 | 0.4 | 1.6 | 3,272.5 | 0.4 | 177.2 | 277.5 | 6,829.7 | 6,822.6 |

*Note: Top countries are sorted according to Total Trade value for 2019 p - preliminary, f - forecast*
*Source: Department of Statistics Malaysia (DOSM)*

## Table 6: Trade with European Free Trade Association (EFTA), 2018-2019

| Country | Exports | | | | | Imports | | | | | Balance of Trade | | Total Trade | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $2019^{p}$ | | | $2018^{f}$ | | $2019^{p}$ | | | $2018^{f}$ | | $2019^{p}$ | $2018^{f}$ | $2019^{p}$ | $2018^{f}$ |
| | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | | RM million | |
| **TOTAL** | **986,402.5** | **100.0** | **-1.7** | **1,003,586.9** | **100.0** | **849,009.2** | **100.0** | **-3.5** | **879,804.0** | **100.0** | **137,393.3** | **123,782.9** | **1,835,411.7** | **1,883,390.9** |
| **EFTA** | **2,597.9** | **0.3** | **-25.7** | **3,497.0** | **0.3** | **7,503.9** | **0.9** | **-35.1** | **11,569.3** | **1.3** | **-4,906.0** | **-8,072.4** | **10,101.8** | **15,066.3** |
| Switzerland | 2,141.0 | 0.2 | -31.5 | 3,125.9 | 0.3 | 6,506.5 | 0.8 | -38.8 | 10,631.8 | 1.2 | -4,365.5 | -7,505.9 | 8,647.5 | 13,757.6 |
| Norway | 449.5 | 0.0 | 27.0 | 353.8 | 0.0 | 989.7 | 0.1 | 5.7 | 936.0 | 0.1 | -540.3 | -582.2 | 1,439.2 | 1,289.8 |
| Liechtenstein | 3.0 | 0.0 | 27.3 | 2.3 | 0.0 | 6.2 | 0.0 | 7,265.6 | 0.1 | 0.0 | -3.3 | 2.3 | 9.2 | 2.4 |
| Iceland | 4.4 | 0.0 | -70.6 | 14.9 | 0.0 | 1.4 | 0.0 | -7.2 | 1.5 | 0.0 | 3.0 | 13.4 | 5.8 | 16.4 |

*Note: Top countries are sorted according to Total Trade value for 2019 p - preliminary, f - forecast*
*Source: Department of Statistics Malaysia (DOSM)*

**Table 7: Top Ten Trade Partners in the Organization of Islamic Cooperation (OIC), 2018-2019**

| Country | Exports | | | | | Imports | | | | | Balance of Trade | | Total Trade | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019p | | | 2018f | | 2019p | | | 2018f | | 2019p | 2018f | 2019p | 2018f |
| | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | | RM million | |
| **TOTAL** | **986,402.5** | **100.0** | **-1.7** | **1,003,586.9** | **100.0** | **849,009.2** | **100.0** | **-3.5** | **879,804.0** | **100.0** | **137,393.3** | **123,782.9** | **1,835,411.7** | **1,883,390.9** |
| **OIC** | **88,110.1** | **8.9** | **-4.0** | **91,766.0** | **9.1** | **93,326.2** | **11.0** | **0.3** | **93,064.8** | **10.6** | **-5,216.1** | **-1,298.9** | **181,436.2** | **184,830.8** |
| Indonesia | 30,833.9 | 3.1 | -3.4 | 31,906.8 | 3.2 | 38,799.7 | 4.6 | -4.2 | 40,490.3 | 4.6 | -7,965.8 | -8,583.4 | 69,633.5 | 72,397.1 |
| UAE | 11,167.7 | 1.1 | -1.6 | 11,352.6 | 1.1 | 15,442.1 | 1.8 | 32.3 | 11,670.7 | 1.3 | -4,274.4 | -318.1 | 26,609.8 | 23,023.3 |
| Saudi Arabia | 3,505.9 | 0.4 | -7.0 | 3,770.5 | 0.4 | 18,800.8 | 2.2 | 5.0 | 17,901.3 | 2.0 | -15,294.8 | -14,130.8 | 22,306.7 | 21,671.9 |
| Bangladesh | 9,698.5 | 1.0 | 7.6 | 9,012.0 | 0.9 | 957.8 | 0.1 | -10.0 | 1,064.1 | 0.1 | 8,740.8 | 7,947.8 | 10,656.3 | 10,076.1 |
| Turkey | 6,967.5 | 0.7 | -12.7 | 7,981.5 | 0.8 | 1,773.5 | 0.2 | -3.0 | 1,827.5 | 0.2 | 5,193.9 | 6,154.0 | 8,741.0 | 9,808.9 |
| Pakistan | 4,594.9 | 0.5 | -11.2 | 5,176.4 | 0.5 | 1,065.5 | 0.1 | 40.7 | 757.5 | 0.1 | 3,529.4 | 4,418.9 | 5,660.4 | 5,933.9 |
| Brunei | 2,288.0 | 0.2 | 3.4 | 2,212.8 | 0.2 | 1,941.4 | 0.2 | 11.0 | 1,749.4 | 0.2 | 346.6 | 463.4 | 4,229.4 | 3,962.2 |
| Qatar | 1,632.1 | 0.2 | 64.9 | 989.6 | 0.1 | 1,798.5 | 0.2 | -34.1 | 2,731.2 | 0.3 | -166.4 | -1,741.6 | 3,430.6 | 3,720.8 |
| Cote D'ivoire | 273.6 | 0.0 | -36.5 | 431.0 | 0.0 | 2,700.0 | 0.3 | 40.6 | 1,920.6 | 0.2 | -2,426.4 | -1,489.6 | 2,973.6 | 2,351.6 |
| Nigeria | 2,005.8 | 0.2 | 16.6 | 1,720.2 | 0.2 | 887.5 | 0.1 | -22.4 | 1,144.1 | 0.1 | 1,118.3 | 576.2 | 2,893.4 | 2,864.3 |

*Note: Top countries are sorted according to Total Trade value for 2019 p - preliminary, f - forecast*
*Source: Department of Statistics Malaysia (DOSM)*

**Table 8: Top Ten Trade Partners in the Organisation for Economic Co-operation and Development (OECD), 2018-2019**

| Country | Exports | | | | | Imports | | | | | Balance of Trade | | Total Trade | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019p | | | 2018f | | 2019p | | | 2018f | | 2019p | 2018f | 2019p | 2018f |
| | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | | RM million | |
| **TOTAL** | **986,402.5** | **100.0** | **-1.7** | **1,003,586.9** | **100.0** | **849,009.2** | **100.0** | **-3.5** | **879,804.0** | **100.0** | **137,393.3** | **123,782.9** | **1,835,411.7** | **1,883,390.9** |
| **OECD** | **342,434.1** | **34.7** | **-2.8** | **352,138.4** | **35.1** | **289,408.2** | **34.1** | **-1.7** | **294,560.6** | **33.5** | **53,025.9** | **57,577.8** | **631,842.4** | **646,699.0** |
| US | 95,782.5 | 9.7 | 5.5 | 90,810.9 | 9.0 | 68,668.9 | 8.1 | 5.7 | 64,947.3 | 7.4 | 27,113.6 | 25,863.6 | 164,451.3 | 155,758.3 |
| Japan | 65,247.0 | 6.6 | -7.3 | 70,384.6 | 7.0 | 63,583.6 | 7.5 | -0.4 | 63,857.5 | 7.3 | 1,663.4 | 6,527.0 | 128,830.5 | 134,242.1 |
| ROK | 33,761.9 | 3.4 | -1.4 | 34,237.3 | 3.4 | 38,804.4 | 4.6 | -1.2 | 39,283.9 | 4.5 | -5,042.5 | -5,046.6 | 72,566.3 | 73,521.2 |
| Germany | 25,963.4 | 2.6 | -7.9 | 28,201.9 | 2.8 | 26,745.4 | 3.2 | 1.4 | 26,380.4 | 3.0 | -782.0 | 1,821.5 | 52,708.8 | 54,582.2 |
| Australia | 28,402.3 | 2.9 | -15.3 | 33,539.8 | 3.3 | 23,297.3 | 2.7 | 7.9 | 21,584.5 | 2.5 | 5,105.0 | 11,955.3 | 51,699.7 | 55,124.4 |
| Netherlands | 25,313.5 | 2.6 | -1.9 | 25,799.1 | 2.6 | 5,691.7 | 0.7 | -16.0 | 6,772.2 | 0.8 | 19,621.8 | 19,026.9 | 31,005.2 | 32,571.3 |
| France | 6,206.2 | 0.6 | -1.4 | 6,293.0 | 0.6 | 10,859.9 | 1.3 | -34.7 | 16,626.2 | 1.9 | -4,653.7 | -10,333.3 | 17,066.1 | 22,919.2 |
| UK | 9,087.6 | 0.9 | 5.2 | 8,638.6 | 0.9 | 7,351.8 | 0.9 | 5.4 | 6,972.3 | 0.8 | 1,735.7 | 1,666.3 | 16,439.4 | 15,611.0 |
| Italy | 5,046.3 | 0.5 | -13.1 | 5,807.4 | 0.6 | 7,052.6 | 0.8 | 5.4 | 6,688.5 | 0.8 | -2,006.3 | -881.1 | 12,098.8 | 12,495.9 |
| Mexico | 9,049.7 | 0.9 | 8.0 | 8,380.0 | 0.8 | 1,730.0 | 0.2 | 16.5 | 1,485.2 | 0.2 | 7,319.7 | 6,894.8 | 10,779.7 | 9,865.2 |

*Note: Top countries are sorted according to Total Trade value for 2019 p - preliminary, f - forecast*
*Source: Department of Statistics Malaysia (DOSM)*

**Table 9: Major Exports of Manufactured Goods to Top Five Destinations, 2018-2019**

| Products | Country | 2019^p | | 2018^f | |
|---|---|---|---|---|---|
| | | RM million | Share (%) | RM million | Share (%) |
| **Total** | | **986,402.5** | **100.0** | **1,003,586.9** | **100.0** |
| Manufactured Goods | | 834,167.2 | 84.6 | 837,071.1 | 83.4 |
| **Electrical and Electronic Products** | **Total** | **372,668.2** | **37.8** | **381,544.6** | **38.0** |
| | Singapore | 60,419.7 | 6.1 | 64,135.1 | 6.4 |
| | Hong Kong | 54,777.4 | 5.6 | 58,578.6 | 5.8 |
| | US | 50,909.3 | 5.2 | 47,277.2 | 4.7 |
| | PRC | 49,585.7 | 5.0 | 55,473.3 | 5.5 |
| | Japan | 19,252.4 | 2.0 | 19,722.3 | 2.0 |
| **Petroleum Products** | **Total** | **71,509.1** | **7.2** | **76,160.9** | **7.6** |
| | Singapore | 19,034.5 | 1.9 | 21,630.9 | 2.2 |
| | PRC | 10,049.0 | 1.0 | 11,316.0 | 1.1 |
| | Viet Nam | 6,458.7 | 0.7 | 9,059.4 | 0.9 |
| | Indonesia | 5,415.8 | 0.5 | 5,473.7 | 0.5 |
| | Bangladesh | 5,326.0 | 0.5 | 4,125.1 | 0.4 |
| **Chemicals & Chemical Products** | **Total** | **57,005.9** | **5.8** | **57,714.6** | **5.8** |
| | PRC | 17,439.5 | 1.8 | 17,251.8 | 1.7 |
| | Indonesia | 5,871.3 | 0.6 | 6,417.3 | 0.6 |
| | Thailand | 4,686.6 | 0.5 | 5,017.8 | 0.5 |
| | Viet Nam | 4,205.6 | 0.4 | 4,140.7 | 0.4 |
| | Singapore | 4,193.8 | 0.4 | 3,705.4 | 0.4 |
| **Manufactures of Metal** | **Total** | **41,492.9** | **4.2** | **44,663.6** | **4.5** |
| | PRC | 7,610.9 | 0.8 | 6,794.7 | 0.7 |
| | India | 4,666.1 | 0.5 | 5,077.1 | 0.5 |
| | Singapore | 4,479.1 | 0.5 | 3,910.2 | 0.4 |
| | Viet Nam | 3,762.3 | 0.4 | 3,069.7 | 0.3 |
| | Japan | 2,820.2 | 0.3 | 2,832.4 | 0.3 |
| **Machinery, Equipment & Parts** | **Total** | **41,389.7** | **4.2** | **40,668.0** | **4.1** |
| | Singapore | 8,496.5 | 0.9 | 7,898.1 | 0.8 |
| | US | 3,967.4 | 0.4 | 3,969.3 | 0.4 |
| | Indonesia | 3,441.0 | 0.3 | 2,764.7 | 0.3 |

| Products | Country | 2019p | | 2018f | |
|---|---|---|---|---|---|
| | | RM million | Share (%) | RM million | Share (%) |
| | Thailand | 3,207.6 | 0.3 | 2,751.1 | 0.3 |
| | PRC | 2,644.4 | 0.3 | 2,723.7 | 0.3 |
| **Optical & Scientific Equipment** | **Total** | **38,560.9** | **3.9** | **36,563.3** | **3.6** |
| | US | 7,286.3 | 0.7 | 7,118.0 | 0.7 |
| | PRC | 5,430.4 | 0.6 | 4,719.3 | 0.5 |
| | Singapore | 5,401.7 | 0.5 | 5,084.1 | 0.5 |
| | Taiwan | 3,590.6 | 0.4 | 2,812.2 | 0.3 |
| | Germany | 2,791.4 | 0.3 | 2,693.1 | 0.3 |
| **Rubber Products** | **Total** | **25,634.1** | **2.6** | **26,491.3** | **2.6** |
| | US | 7,096.5 | 0.7 | 6,785.6 | 0.7 |
| | PRC | 3,647.4 | 0.4 | 4,092.9 | 0.4 |
| | Germany | 1,438.8 | 0.1 | 1,529.0 | 0.2 |
| | Japan | 1,371.8 | 0.1 | 1,321.3 | 0.1 |
| | UK | 807.2 | 0.1 | 781.2 | 0.1 |
| **Processed Food** | **Total** | **21,769.1** | **2.2** | **19,413.5** | **1.9** |
| | Singapore | 2,762.2 | 0.3 | 2,587.2 | 0.3 |
| | PRC | 2,419.8 | 0.2 | 1,871.2 | 0.2 |
| | Indonesia | 1,334.7 | 0.1 | 1,437.6 | 0.1 |
| | Japan | 1,135.8 | 0.1 | 945.6 | 0.1 |
| | US | 1,129.5 | 0.1 | 694.0 | 0.1 |
| **Palm Oil-Based Manufactured Products** | **Total** | **21,735.9** | **2.2** | **22,782.6** | **2.3** |
| | PRC | 3,460.9 | 0.4 | 3,522.9 | 0.4 |
| | Netherlands | 2,030.5 | 0.2 | 1,790.3 | 0.2 |
| | US | 1,737.9 | 0.2 | 1,939.2 | 0.2 |
| | India | 1,331.6 | 0.1 | 1,441.7 | 0.1 |
| | Japan | 1,259.7 | 0.1 | 1,595.5 | 0.2 |
| **Iron & Steel Products** | **Total** | **19,891.7** | **2.0** | **15,503.9** | **1.5** |
| | PRC | 2,606.9 | 0.3 | 552.2 | 0.1 |
| | Indonesia | 2,253.2 | 0.2 | 1,551.4 | 0.2 |
| | Thailand | 1,704.5 | 0.2 | 1,401.0 | 0.1 |
| | Singapore | 1,331.6 | 0.1 | 1,333.3 | 0.1 |
| | India | 1,293.5 | 0.1 | 1,461.7 | 0.1 |

*Note: p-preliminary, f-forecast*
*Source: Department of Statistics Malaysia (DOSM)*

### Table 10: Major Imports of Manufactured Goods to Top Five Import Sources, 2018-2019

| Products | Country | 2019p | | 2018f | |
|---|---|---|---|---|---|
| | | RM million | Share (%) | RM million | Share (%) |
| Total | | 849,009.2 | 100.0 | 879,804.0 | 100.0 |
| Manufactured Goods | | 728,964.2 | 85.9 | 765,087.3 | 87.0 |
| **Electrical and Electronic Products** | **Total** | **245,463.8** | **28.9** | **262,622.7** | **29.9** |
| | PRC | 64,049.9 | 7.5 | 65,687.7 | 7.5 |
| | Taiwan | 40,488.6 | 4.8 | 45,907.0 | 5.2 |
| | Singapore | 28,970.0 | 3.4 | 32,558.5 | 3.7 |
| | US | 27,179.8 | 3.2 | 29,549.1 | 3.4 |
| | Japan | 19,238.6 | 2.3 | 17,240.7 | 2.0 |
| **Chemicals & Chemical Products** | **Total** | **81,553.6** | **9.6** | **82,934.1** | **9.4** |
| | PRC | 13,969.6 | 1.6 | 14,267.5 | 1.6 |
| | US | 9,171.1 | 1.1 | 6,242.0 | 0.7 |
| | Singapore | 7,694.2 | 0.9 | 8,934.1 | 1.0 |
| | Saudi Arabia | 6,403.8 | 0.8 | 7,059.3 | 0.8 |
| | Japan | 5,872.9 | 0.7 | 5,717.3 | 0.6 |
| **Petroleum Products** | **Total** | **77,507.9** | **9.1** | **86,014.7** | **9.8** |
| | Singapore | 29,361.2 | 3.5 | 38,251.8 | 4.3 |
| | PRC | 10,505.6 | 1.2 | 7,413.8 | 0.8 |
| | ROK | 7,283.8 | 0.9 | 6,106.1 | 0.7 |
| | UAE | 5,487.1 | 0.6 | 4,304.7 | 0.5 |
| | India | 5,330.5 | 0.6 | 9,731.6 | 1.1 |
| **Machinery, Equipment & Parts** | **Total** | **69,639.0** | **8.2** | **73,778.4** | **8.4** |
| | PRC | 19,961.4 | 2.4 | 20,305.5 | 2.3 |
| | Japan | 7,814.9 | 0.9 | 8,918.0 | 1.0 |
| | US | 7,183.2 | 0.8 | 7,527.6 | 0.9 |
| | Singapore | 5,755.1 | 0.7 | 6,239.5 | 0.7 |
| | Germany | 5,316.2 | 0.6 | 5,566.5 | 0.6 |
| **Manufactures of Metal** | **Total** | **47,102.9** | **5.5** | **46,147.6** | **5.2** |
| | PRC | 11,739.0 | 1.4 | 12,541.6 | 1.4 |
| | Japan | 4,865.6 | 0.6 | 5,292.1 | 0.6 |
| | India | 4,987.0 | 0.6 | 3,473.0 | 0.4 |
| | Australia | 4,601.4 | 0.5 | 3,311.8 | 0.4 |
| | US | 3,864.0 | 0.5 | 2,935.3 | 0.3 |
| **Transport Equipment** | **Total** | **40,781.6** | **4.8** | **45,170.9** | **5.1** |

| Products | Country | 2019p | | 2018f | |
|---|---|---|---|---|---|
| | | RM million | Share (%) | RM million | Share (%) |
| | Japan | 7,196.7 | 0.8 | 7,299.0 | 0.8 |
| | Thailand | 6,275.6 | 0.7 | 6,600.8 | 0.8 |
| | PRC | 5,997.7 | 0.7 | 4,714.8 | 0.5 |
| | Germany | 4,995.6 | 0.6 | 4,623.0 | 0.5 |
| | France | 4,278.8 | 0.5 | 9,869.7 | 1.1 |
| **Iron & Steel Products** | **Total** | **31,185.4** | **3.7** | **30,978.4** | **3.5** |
| | PRC | 5,572.9 | 0.7 | 7,668.0 | 0.9 |
| | Japan | 5,340.5 | 0.6 | 5,502.9 | 0.6 |
| | ROK | 3,577.7 | 0.4 | 3,079.0 | 0.3 |
| | Taiwan | 2,688.6 | 0.3 | 3,110.9 | 0.4 |
| | Indonesia | 2,578.1 | 0.3 | 1,196.0 | 0.1 |
| **Optical & Scientific Equipment** | **Total** | **24,177.2** | **2.8** | **23,395.9** | **2.7** |
| | US | 4,725.9 | 0.6 | 4,081.8 | 0.5 |
| | PRC | 4,023.3 | 0.5 | 4,169.8 | 0.5 |
| | Singapore | 3,435.6 | 0.4 | 3,192.8 | 0.4 |
| | Japan | 2,296.6 | 0.3 | 2,434.6 | 0.3 |
| | Germany | 2,042.3 | 0.2 | 1,776.6 | 0.2 |
| **Processed Food** | **Total** | **20,275.0** | **2.4** | **19,953.6** | **2.3** |
| | Thailand | 2,530.1 | 0.3 | 2,408.7 | 0.3 |
| | PRC | 2,173.8 | 0.3 | 2,224.2 | 0.3 |
| | New Zealand | 2,095.5 | 0.2 | 2,029.2 | 0.2 |
| | US | 1,910.7 | 0.2 | 1,595.1 | 0.2 |
| | Singapore | 1,678.2 | 0.2 | 1,633.1 | 0.2 |
| **Textiles, Apparels & Footwear** | **Total** | **16,454.8** | **1.9** | **17,709.8** | **2.0** |
| | PRC | 7,273.7 | 0.9 | 8,481.8 | 1.0 |
| | Viet Nam | 1,649.9 | 0.2 | 1,573.3 | 0.2 |
| | Indonesia | 899.6 | 0.1 | 1,015.1 | 0.1 |
| | India | 773.8 | 0.1 | 833.4 | 0.1 |
| | Bangladesh | 770.4 | 0.1 | 825.4 | 0.1 |

*Note: p-preliminary, f-forecast*
*Source: Department of Statistics Malaysia (DOSM)*

## Table 11: Top Ten Trade Partners in Africa, 2018-2019

| Country | Exports | | | | | Imports | | | | | Balance of Trade | | Total Trade | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019p | | | 2018f | | 2019p | | | 2018f | | 2019p | 2018f | 2019p | 2018f |
| | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | Share (%) | Change (%) | RM million | Share (%) | RM million | | RM million | |
| **TOTAL** | **986,402.5** | **100.0** | **-1.7** | **1,003,586.9** | **100.0** | **849,009.2** | **100.0** | **-3.5** | **879,804.0** | **100.0** | **137,393.3** | **123,782.9** | **1,835,411.7** | **1,883,390.9** |
| **Africa** | **19,101.8** | **1.9** | **0.4** | **19,028.7** | **1.9** | **13,807.8** | **1.6** | **11.3** | **12,402.8** | **1.4** | **5,294.0** | **6,625.9** | **32,909.5** | **31,431.5** |
| South Africa | 3,470.8 | 0.4 | -8.9 | 3,811.0 | 0.4 | 3,080.2 | 0.4 | 0.3 | 3,069.7 | 0.3 | 390.6 | 741.3 | 6,551.0 | 6,880.7 |
| Cote D'ivoire | 273.6 | 0.0 | -36.5 | 431.0 | 0.0 | 2,700.0 | 0.3 | 40.6 | 1,920.6 | 0.2 | -2,426.4 | -1,489.6 | 2,973.6 | 2,351.6 |
| Nigeria | 2,005.8 | 0.2 | 16.6 | 1,720.2 | 0.2 | 887.5 | 0.1 | -22.4 | 1,144.1 | 0.1 | 1,118.3 | 576.2 | 2,893.4 | 2,864.3 |
| Egypt | 1,828.2 | 0.2 | 10.7 | 1,652.2 | 0.2 | 392.0 | 0.0 | -27.8 | 543.2 | 0.1 | 1,436.2 | 1,109.0 | 2,220.2 | 2,195.4 |
| Kenya | 1,503.0 | 0.2 | 58.6 | 947.5 | 0.1 | 178.6 | 0.0 | 631.9 | 24.4 | 0.0 | 1,324.4 | 923.1 | 1,681.6 | 971.9 |
| Angola | 786.9 | 0.1 | 12.7 | 697.9 | 0.1 | 659.3 | 0.1 | 955.1 | 62.5 | 0.0 | 127.6 | 635.4 | 1,446.2 | 760.4 |
| Ghana | 695.9 | 0.1 | -23.2 | 905.6 | 0.1 | 733.1 | 0.1 | -27.8 | 1,014.9 | 0.1 | -37.1 | -109.3 | 1,429.0 | 1,920.5 |
| Libyan Arab Jamahiriya | 72.4 | 0.0 | -10.8 | 81.1 | 0.0 | 1,214.2 | 0.1 | -41.2 | 2,066.5 | 0.2 | -1,141.8 | -1,985.4 | 1,286.6 | 2,147.7 |
| Tanzania | 943.0 | 0.1 | 34.8 | 699.3 | 0.1 | 273.1 | 0.0 | 215.9 | 86.5 | 0.0 | 669.8 | 612.9 | 1,216.1 | 785.8 |
| Congo | 145.8 | 0.0 | -5.9 | 155.0 | 0.0 | 934.2 | 0.1 | 82.9 | 510.8 | 0.1 | -788.4 | -355.8 | 1,080.0 | 665.7 |

*Note: Top countries are sorted according to Total Trade value for 2019 p - preliminary, f - forecast*
*Source: Department of Statistics Malaysia (DOSM)*

**Table 12: Manufacturing Projects Approved with Foreign Participation by Top Ten Countries, 2017-2018**

| Country | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Number | Investment (RM million) | Investment (USD million) | Number | Investment (RM million) | Investment (USD million) |
| **Total** | *** | **58,022.1** | **14,015.0** | *** | **21,544.7** | **5,306.6** |
| PRC | 40 | 19,673.3 | 4,752.0 | 20 | 3,851.7 | 948.7 |
| Indonesia | 8 | 9,035.6 | 2,182.5 | 1 | 0.5 | 0.1 |
| Netherlands | 10 | 8,336.9 | 2,013.7 | 13 | 2,033.9 | 501.0 |
| Japan | 63 | 4,133.3 | 998.4 | 41 | 1,310.7 | 322.8 |
| US | 18 | 3,155.0 | 762.1 | 18 | 1,107.2 | 272.7 |
| British Virgin Islands | 5 | 2,768.5 | 668.7 | 2 | 41.6 | 10.2 |
| ROK | 10 | 2,495.4 | 602.7 | 7 | 636.7 | 156.8 |
| Singapore | 82 | 1,834.0 | 443.0 | 101 | 2,309.8 | 568.9 |
| Hong Kong | 10 | 1,250.6 | 302.1 | 10 | 1,494.5 | 368.1 |
| Panama | 4 | 892.0 | 215.5 | 0 | 0.0 | 0.0 |
| Taiwan | 18 | 678.7 | 163.9 | 20 | 755.4 | 186.1 |

*Note: Top countries are sorted according to Total Trade value for 2019*
*Source: Malaysian Investment Development Authority (MIDA)*