

Record FDI flows into Asean

By **TENGKU DATUK SERI ZAFRUL ABDUL AZIZ**

I WAS in Semarang, Indonesia, recently, for the 55th Asean Economic Ministers’ (AEM) meeting, where the United Nations Conference on Trade and Development tabled Asean’s foreign direct investment (FDI) inflow for 2022.

Impressively, this had grown by 5% year-on-year, to a total of US\$224bil, bucking the trend in various parts of the world, and amid the 12% decline of global FDI in 2022.

This was Asean’s record highest FDI inflow, and crowned Asean as a top recipient of investments within the developing world.

The region’s share of global FDI expanded further, from an annual average of below 10% in the last decade, to over 17% in 2022.

Asean’s manufacturing FDI rose to a record level to US\$62bil, following a plus 400% growth in 2021. Manufacturing share of total FDI rose from 9% in 2020, 26% in 2021 to 28% in 2022.

Asean is clearly the “silver lining in the cloud of disruption” in supply chains elsewhere, whether due to prolonged Covid-related restrictions in China, the Russia-Ukraine conflict or others.

International supply chains restructuring will bring further opportunities for Asean, as triggers by geopolitical tensions, for example, create a momentum that favours Asean as a relocation hub.

This has encouraged investors to proactively expand capacities, strengthen regional footholds and reinforce supply chains based on the China plus one strategy.

These are rich pickings for investment-seekers like Malaysia.

Nonetheless, the window to capitalise on this may not last long, which is why the Investment, Trade and Industry Ministry (Miti) is firing on all cylinders to capture as much of these investments as possible.

We will do this mainly in three ways. Firstly, by improving the investor’s journey; secondly, by transforming the ecosystem of our manufacturing industry and thirdly by providing the right ecosystem for sustainable investments.

Addressing pain points along the investor journey, once and for all

When I was in the banking sector, one key aspect that influenced the take-up of our products and services was the customer’s journey.

This is so important that most banking

How much of it can Malaysia capture?

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groups have established a customer experience department.

Similarly, in attracting investments into the country, we have the investor’s journey.

We have identified 13 key pain points along the investor’s journey comprising promotion and marketing, deal negotiation, investment implementation and after-care.

On promotion alone, the media, investment communities and entities such as the World Bank, foreign chambers and the Federation of Malaysian Manufacturers have regularly pointed out that public programmes through the various investment promotion agencies (IPAs) are so fragmented, resulting in a lot of confusion in the investor’s journey.

This means additional cost to taxpayers, and reduced competitiveness versus our neighbours.

Thus, it is imperative that IPAs’ roles and functions are streamlined to improve our investment attractiveness, and while also addressing the issue of nationwide government process inefficiencies.

Last May, the National Investment Council chaired by our Prime Minister had decided that Malaysia’s main Investment Promotion Agency is the Malaysian Investment Development Authority, and that the roles of other IPAs must be re-focused on facilitation and aftercare.

We are targeting to accomplish this by Jan 1 2024, a deadline given by our Prime Minister.

A transformed manufacturing is key to broad-based economic growth

The second way to capture investments coming into Asean is by transforming our manufacturing.

One finding from various think tanks is that our gross domestic product growth does not seem to be aligned with socio-economic growth, or improved situations for our small and medium enterprises (SMEs) and the rakyat.

A similar case in point: despite record FDI flows into Asean, 60% of these are enjoyed by less than 1% of the Asean population.

This gross imbalance must be avoided at all costs for Malaysia.

The benefits of investments must cascade to our SMEs, and the millions of Malaysian workers in the manufacturing sector.

In many cases, while big companies reap huge profits, Malaysian workers in the lowest-paying category have suffered from low wages for many decades, due to long-standing foreign worker policies that suppress the rise of general wages in our labour market. This must change.

We understand that higher productivity also plays a role in upping wages, but it is equally true that the absence of a progressive wage policy makes employers less inclined to improve the wage ratio of their businesses.

We are confident that with a transformed manufacturing ecosystem, both foreign and domestic investors will feel encouraged to expand their existing investments, and to pay Malaysian workers more.

But we must also be choosy about the investments we approve, and they must be aligned with sustainable growth that supports our long-term Madani Economy agenda, including making Malaysia one of the 30 largest economies globally, as well as in the top 12 on competitiveness and ease of doing business.

Miti has repeatedly shared that it will capture more investments in targeted hi-tech industries such as aerospace and the digital economy.

These sectors will help develop our SMEs, and our people in terms of high-

er-tech processes and higher-paying jobs, respectively.

On Sept 1, our New Industrial Master Plan 2030 will be launched.

We strongly believe that it will transform the manufacturing sector across the board, with benefits spread equitably across key stakeholders like SMEs and workers, much like how a rising tide lifts all boats.

When our workers earn higher wages, this will not only stem talent flight to other countries, but also rebuild our middle class that will eventually consume more of the products made by the manufacturing sector. Ergo, a virtuous cycle is created for economic growth.

Investments in Malaysia: Go green or go home

The third way to attract investments is to show that we are serious on decarbonising and greening our economy.

In fact, we are currently in a sweet spot where Malaysia is firmly back on global investors’ radar, and Asean is receiving increased inflows of green investments.

In 2022, investment in Asean’s electric vehicle sector increased by 570%, while green investment in the renewable energy sector grew by 240%.

Miti and its agencies are determined to ride on this wave, while also advocating environmental, social and governance (ESG) capacity-building and a just transition towards embracing ESG practices, particularly for our SMEs.

On capacity-building, I am pleased to share that our National Industry ESG framework for the manufacturing sector will also be launched by end-September 2023. I had also made my point on “just ESG transition for SMEs” very clearly during the European Union-Asean discourse at the 55th AEM.

While Miti leads on investments, we recognise that attracting more investments requires nationwide effort, premised largely on broad-based transformation of our manufacturing ecosystem.

On this score, all of us must play our part in building a more resilient, prosperous, and sustainable future that Malaysian businesses, SMEs and the rakyat deserve.

Tengku Datuk Seri Zafrul Abdul Aziz is Investment, Trade and Industry Minister. The views expressed here are the writer’s own.

Malaysia set to be a larger engine for Sime Darby’s revenue

CORPORATE

By **KIRENNESH NAIR**
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SIME DARBY Bhd is embarking on a strategic shift after the demerger exercise in 2017 that carved out the property and plantations businesses, that aims to bring two businesses, namely industrial and motors, to a larger footprint.

The group has targeted to take over UMW Holding Bhd – a mini Sime Darby to many – by bolstering the core segments in a takeover exercise that can cost up to RM5.84bil, or RM5 a share.

Notably, a couple of days ago, Sime Darby entered a conditional share purchase agreement with its parent company, Permodalan Nasional Bhd (PNB), acquiring a 61.2% stake in UMW Holdings Bhd for RM3.57bil in cash.

Subsequently, a mandatory general offer (MGO) will be made for the remaining 38.8% stake, with the objective of delisting

UMW from Bursa Malaysia.

Rationale behind acquisition

Sime Darby group chief executive officer Datuk Jeffri Salim Davidson attributes this acquisition to the fact that the conglomerate’s business is currently largely centred on overseas operations, with over 70% of its revenue generated from Australia and China (**see chart on page 3**).

“This (revenue breakdown) is a little bit out of balance. But with this transaction, it gets a bit more instinct,” he tells the media and analysts during a briefing on the group’s financial results and announcement of its merger and acquisition (M&A) of UMW.

Jeffri Salim further explains that Sime Darby and UMW are very much similar in terms of the business they are engaged in, having first contemplated an acquisition of UMW back in 2006.

“While it (UMW) may be a little bit more Malaysian centric, we (Sime Darby) are more of the opposite,” he says.

Following the acquisition, Sime Darby

anticipates that revenue contributions from Australia, China, and Malaysia will each comprise 30%, thus establishing the country as a “larger engine” for its revenue.

Commenting on another rationale for the deal, Jeffri Salim explains that the group’s motor business has predominantly centred on luxury automobiles.

However, with the M&A involving UMW, he believes the conglomerate can cater to a broader audience.

“This widens the opportunities at hand, as it allows us to cater not just the smaller luxury segment, but also the larger mass market space,” he says.

Furthermore, he notes that the group is presently engaged solely in dealing, retailing, and assembly.

Considering UMW’s primary involvement in the manufacturing and distribution of *Toyota* and *Perodua*, Davidson is confident that the M&A will seamlessly “plug the gap”.

“Post-acquisition, we would have assembly, manufacturing, distribution, retail as well as after sales services, which completes a whole sort of spectrum,” he says.

Jeffri Salim also envisions spillover effects stemming from the M&A, particularly extending to the group’s used car business.

Additionally, he envisages that it will enable the conglomerate to enter Toyota’s forklift business, *Tico*, which holds a significant 70% market share in the industry.

Funding for the acquisition

In terms of funding the acquisition, the group plans to source about 85% of the RM5.8bil through borrowings, while the remaining 15% or equivalent to nearly a billion ringgit will be covered using internal cash reserves.

However, the conglomerate is concurrently working towards divestments, including plans to exit the healthcare business and the disposal of over 8,000 acres in Labu, Negri Sembilan.

The receipts from the disposals will go towards paring down the debt used for the