

# NCCIM's DDI Forum

## How to Revive Domestic Direct Investment (DDI)?

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*The National Chamber  
of Commerce and  
Industry of Malaysia  
(NCCIM)*



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# Highlights of the DDI Report

1. Regional Comparison: Where Does Malaysia Stand?
2. Why Domestic Direct Investment (DDI) Matters for Malaysia?
3. DDI Survey's Key Findings: Issues and Policy Recommendations



# Regional comparison - Where does Malaysia stand?

## World Competitiveness Ranking

	2018	2021	Change in ranking
Singapore	3 <sup>rd</sup>	5 <sup>th</sup>	-2
<b>MALAYSIA</b>	<b>22<sup>nd</sup></b>	<b>25<sup>th</sup></b>	<b>-3</b>
Thailand	30 <sup>th</sup>	28 <sup>th</sup>	+2
Indonesia	43 <sup>rd</sup>	37 <sup>th</sup>	+6
Philippines	50 <sup>th</sup>	52 <sup>nd</sup>	-2

Source: International Institute for Management Development (IMD)

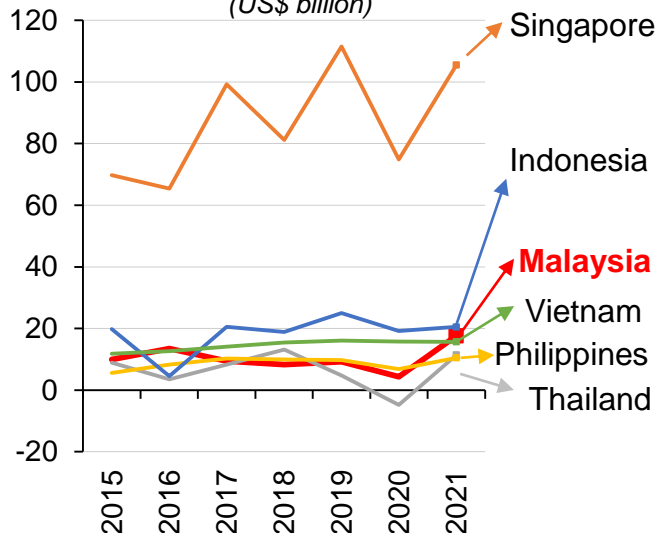
## Global Opportunity Index

	2018	2022	Change in ranking
Singapore	3 <sup>rd</sup>	14 <sup>th</sup>	-11
<b>MALAYSIA</b>	<b>20<sup>th</sup></b>	<b>25<sup>th</sup></b>	<b>-5</b>
Thailand	29 <sup>th</sup>	34 <sup>th</sup>	-5
Indonesia	67 <sup>th</sup>	57 <sup>th</sup>	+10
Vietnam	61 <sup>st</sup>	67 <sup>th</sup>	-6
Philippines	80 <sup>th</sup>	83 <sup>rd</sup>	-3

Rank=1 means most favourable investment environment Source: Milken Institute

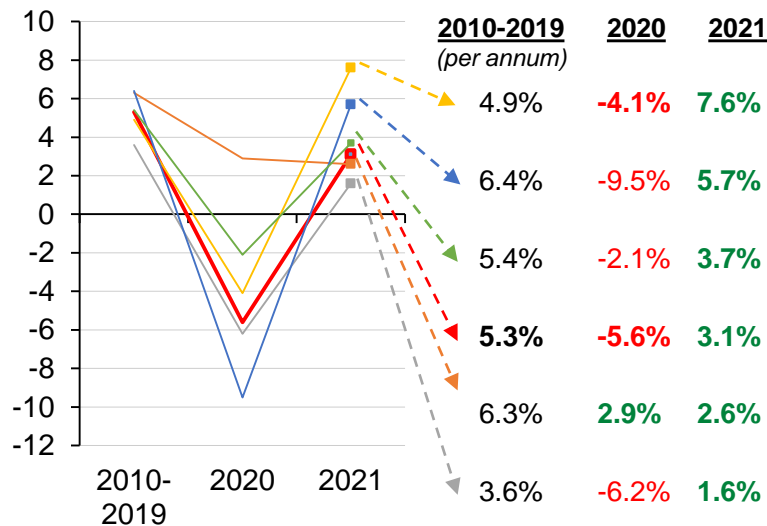
## Net FDI Inflows

(US\$ billion)



Source: IMF

## GDP Growth



Source: World Bank (WB); Various; SERC

## GNI Per Capita\*

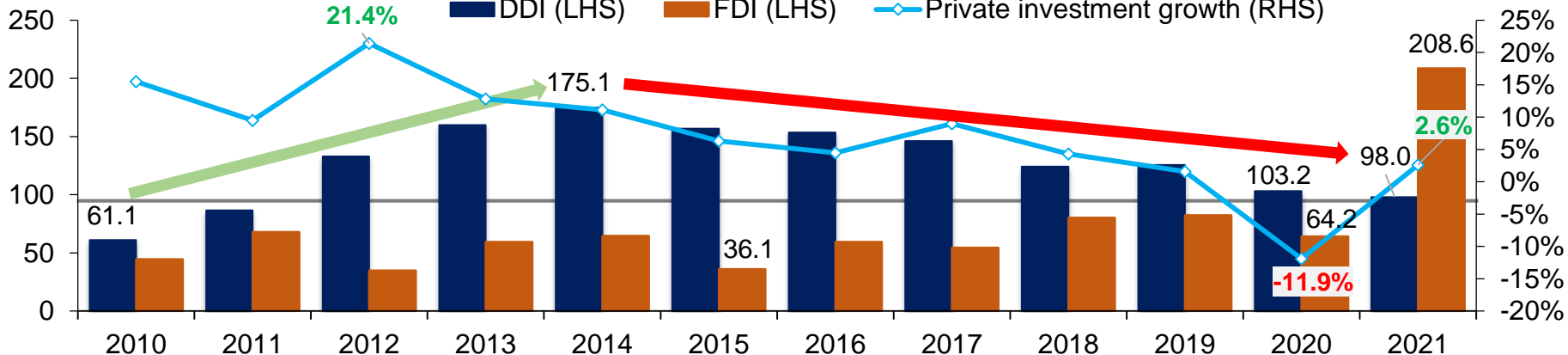
	2020 US\$	2011-2020 (per annum)
Singapore	54,920	2.0%
Philippines	3,430	3.8%
Indonesia	3,870	4.3%
<b>MALAYSIA</b>	<b>10,570</b>	<b>2.5%</b>
Vietnam	2,650	7.8%
Thailand	7,040	4.4%

\* Atlas method

# Approved DDI on average continued its moderating trend

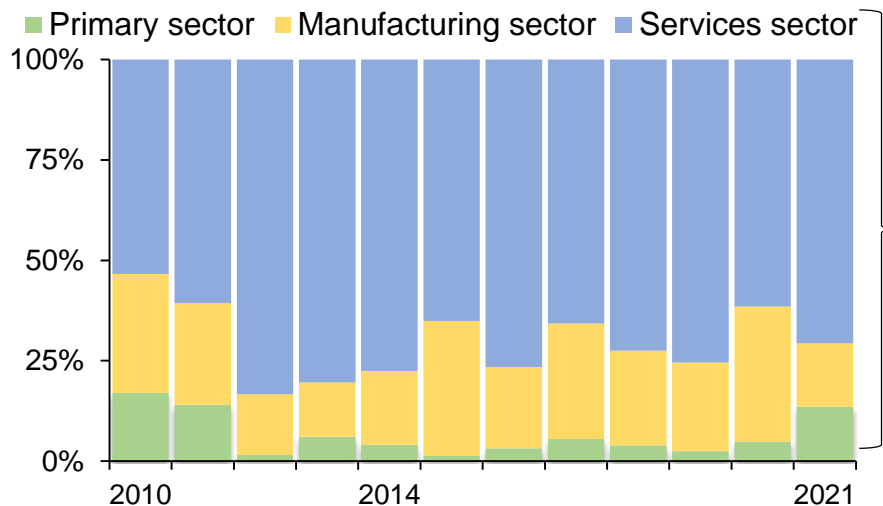
DDI	2016-2020 (average)	2021	FDI	2016-2020 (average)	2021
- RM billion	130.5	98.0	- RM billion	68.1	208.6
- Growth	-8.0%	-5.1%	- Growth	+12.2%	+224.9%
- % share	65.5%	32.0%	- % share	34.5%	68.0%

RM billion



Note: Drastic increases in DDI for the period 2014-2017 were due to significant investments in the oil & gas and petroleum sectors, including petrochemicals

## Share of Approved Domestic Direct Investment by Sector



Share 2021	By sector	Growth		
		2011-2014 (per annum)	2015-2020 (per annum)	2021
70.7%	Services	+42.8%	-11.9%	+9.0%
15.8%	Manufacturing	+15.5%	+1.2%	-55.3%
13.5%	Primary*	-8.9%	-5.6%	+163.3%

\* Refers to Agriculture and Mining

# Why DDI matters in Malaysia?

1



Enhance **Overall Contribution** to the economy

**SMEs**



**97.4%**

of total business establishments in 2021

**SMEs**



**13.5%**

share of total exports of goods and services in 2020

**SMEs**



**48.0%**

of total employment (7.3 million persons) in 2020

**SMEs**



**38.2%**

share of Malaysia's GDP in 2020

**DDI**



**32.0%**

of total approved domestic investment in 2021 (65.5% in 2016-2020)



**Diversified and Dynamic Industrial Base** - *imports substitution and increase local content*



**Complement FDI** - *supplier; collaborative partner or joint-venture*



**Foreign Technology Assimilation** - *innovation, R&D, digitalisation, engineering automation*



**Malaysia's Branding and Supply Chains** on the world stage



**Upskilling and Reskilling of Manpower** for future proof (*As of 4Q 2021: 27.8% of total employment*)

2

3

4

5

6

# Malaysian companies - Local strength, Global reach

Some homegrown champions\* ...



Semiconductor



Automated test equipment (ATE)



Metals



Technology equipment



Plastics



Apparels



Electronic Manufacturing Services (EMS)



Digital services

\* Based on market cap

Source: iSaham as of 14 April 2022

Our homegrown companies have footprints in overseas...



PETRONAS



Maybank



CIMB



LION GROUP



PUBLIC BANK





# DDI is as important as FDI - Championing homegrown industries

## DDI – INVESTMENT AGENDA'S FOCUS:-

- Dedicated Policy Thrusts to Harness and Energise DDI
- High Quality; Value-added and Technology-based
- Nature and Type of Domestic Investment
- Competitive and Capable Indigenous Industries



## DOMESTIC INVESTORS' VIEWS: -

- “Lack of Conviction” to Drive DDI
- “Special Treatment” Towards FDI

**More than 50%** of respondents commented that “Government Authority” tends to FAVOUR FDI relative to DDI

## WE CAN DO BETTER: -



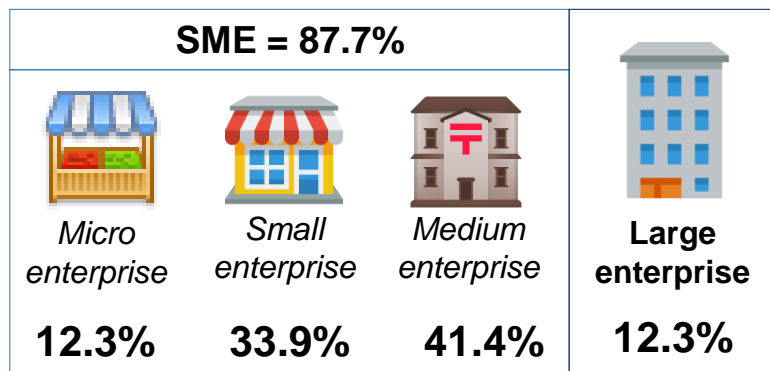
- Enhancing Investment Climate
- Re-engineering of Federal-State-Local Authorities
- Improving Government-to-Business Customer Experience
- Bold Regulatory and Compliance Reforms

# Profile of NCCIM's DDI Survey (7 August - 21 October 2020)

## Profile of Respondents (n=227)

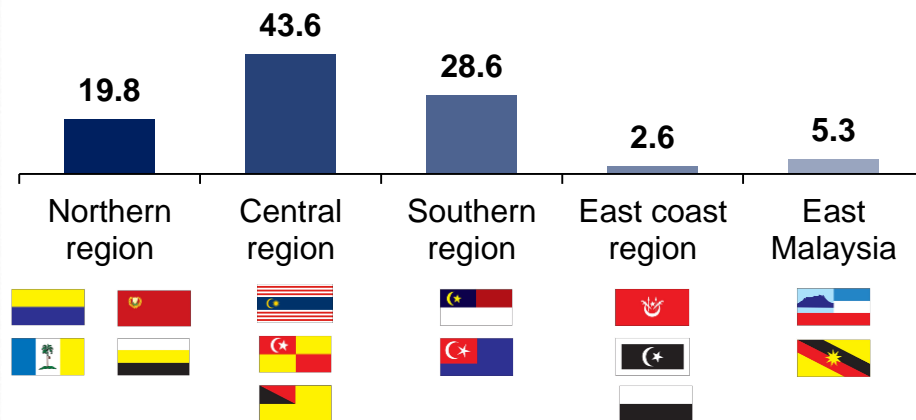
### By size

% of respondents



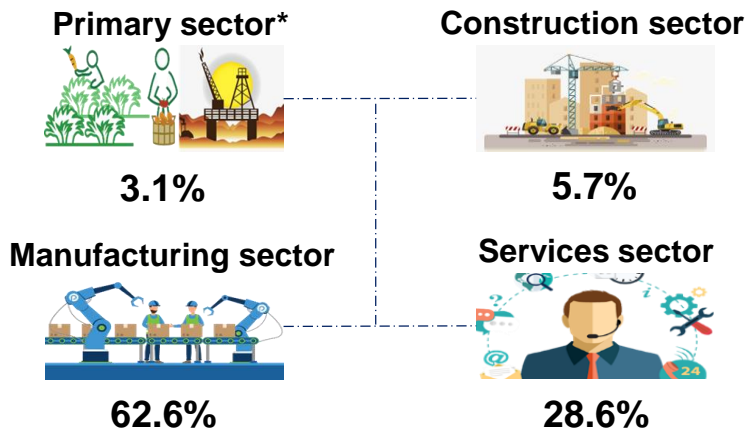
### By location

% of respondents



### By Sector

% of respondents



### 18 Interviewees:

#### Sectoral:

Retail industry (sundry goods, retail chain, shopping mall, etc.)

Logistic sector

Property development

Construction sector

Manufacturing sector (rubber-based products, wood-based products, furniture, plastic, etc.)

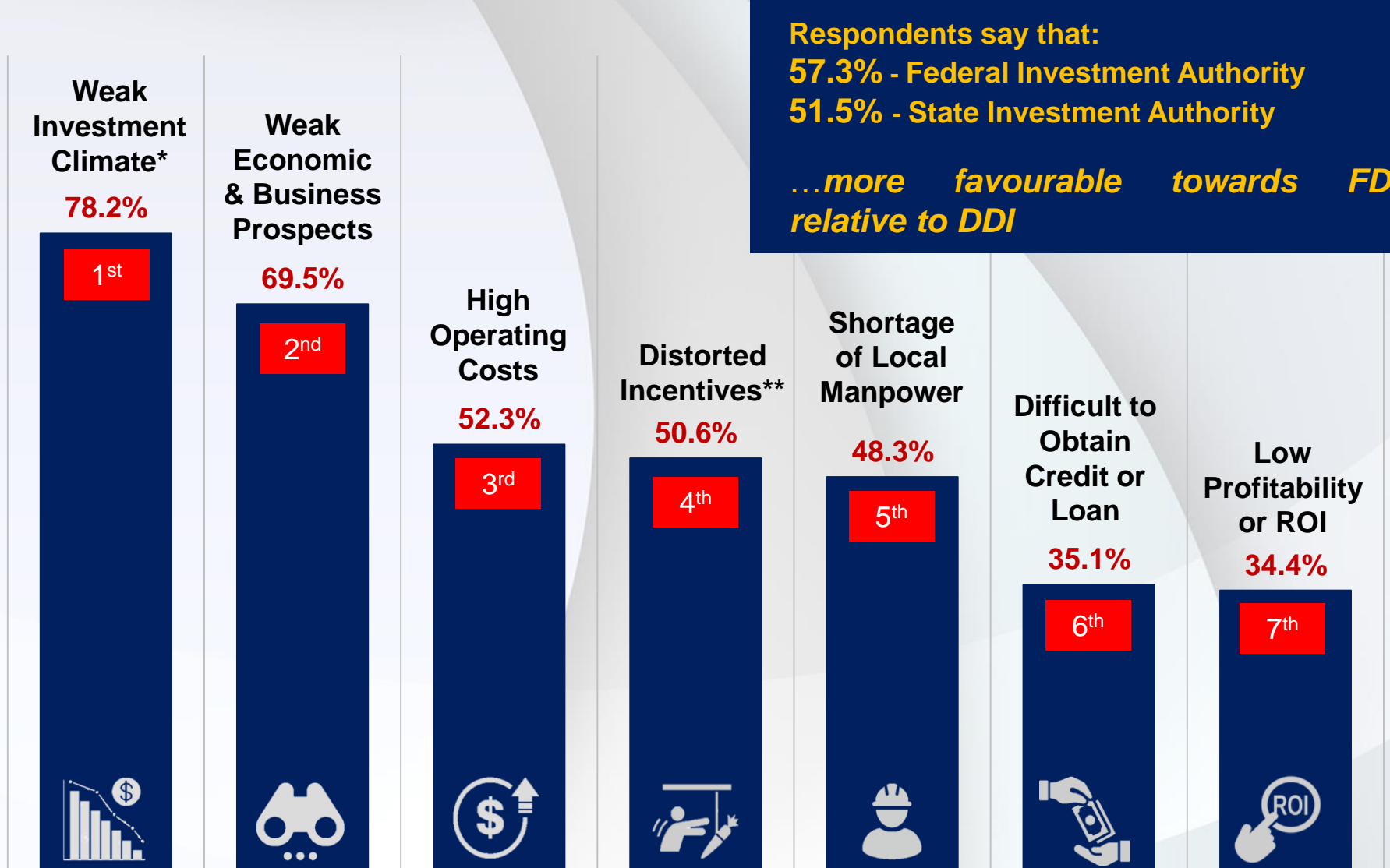
#### Expert:

- SME  
- Taxation

\* Refers to Agriculture and Mining



# Top 7 factors restraining business investment decision



Source: NCCIM's Survey on Domestic Direct Investment (DDI)

\* Refer to Political instability, unclear and inconsistent regulations, anti competitive policies etc

\*\* Refer to some sectors/groups enjoying controls on product and factor prices, special tax incentives, trade protection, subsidies and access to resources, etc

# Business pain points – Compliance without tears



**58.9%** of respondents cited **Bureaucratic hassles problem** as **the most critical obstacle** in government-business interactions

- Slow, fragmented, lack of visibility
- Delays and the long approval process
- Non transparent, inconsistent and confusing
- Hassles of interacting with multiple agencies
- Provide the same information multiple times
- Tax filing and tax compliance
- Fragmented sources of information/data
- Non-interconnected programs; outdated rules

## 3Rs of

### Effective Regulatory Reforms:

- ➔ **R**etain Regulations
  - support the basic rules of a market economy
- ➔ **R**eplace Regulations
  - have legitimate aims but have harmful unintended consequences
- ➔ **R**epeal Regulations
  - motivated primarily by the manipulation of public policy for unproductive rent-seeking

**Top priority should be reforming regulations with high compliance costs and reducing the number of regulations**

# Selected cases of Government-to-Business experience

## Outdated licensing requirement

### Company A

- A downstream wood-based processing player was ordered to shut down on the first day of operation due to not obtaining license from the Forestry Department

### What can do better...

- A need to revise outdated requirement; no business sense in needing such license
- Lack of clear checklist to prepare business commencement

### Interviewees

- Rice wholesaler must apply permit from Kawalselia Padi dan Beras, Ministry of Agriculture and Food Industries (MAFI) to delivery rice across different states in Malaysia. The rice will be impounded if get caught without permit or not comply with the terms and conditions.

### What can do better...

- Eliminate cross-states permit requirement
- To contain rice smuggling, strict enforcement must be stepped up at border checks

## Zoning issues

### Interviewees

- More than a year for getting the approval of industrial development in areas/zoning under a masterplan
- Approval meeting is only convened once a month; no alternate officer; no follow up; always busy
- Not keen to lodge complaint - worried for "unfair treatment"

### What can do better ...

- Industrial development in areas/zoning under a masterplan should be handled on a fast track/green lane

## One-Stop Centre (OSC) and approval process

### Interviewees

- Approvals required from about 10 or more departments and agencies when submitting a layout plan and building plan
- Still need to visit the departments separately to resolve various outstanding issues

### What can do better ...

- Streamline departments and agencies involved
- Review and enhance the effectiveness of OSC

# DDI Diagnostic Check:

## Two Immediate Priorities (IP)

**IP1**










**The Formation of National DDI Council**

**&**

**IP2**

**Re-orientation of One-Stop Centre (OSC)**

## 11 Issues and 144 Policy Recommendations

		<i>Number of Recommendations</i>
1	 Enhancing Conducive Investment Climate	1
2	 The Need for Regulatory Reforms	27
3	 Reviewing Investment Incentives	15
4	 Bridging Financing Gaps for SMEs	6
5	 Upscaling of Technology	11
6	 Skills Development	27
7	 Review of Foreign Workers Management	7
8	 Exports Capacity & Global Supply Chains	18
9	 Transformation of Industrial Park	11
10	 Transforming from OEM, ODM to OBM	14
11	 Securing Green Investment	7

IP1

## The Formation of National DDI Council

# GOVERNANCE STRUCTURE

- Reinforce determination to promote inclusive, robust and sustainable DDI
- The National DDI Council, to be chaired by **YAB Prime Minister**
- **Various stakeholders:** State Secretary, relevant Ministers, Bank Negara Malaysia, and NCCIM

## TORs

i

### Realised investments in priority sectors

*...annual targeted investment promotion programme; follow-up on investment leads and pledges*

ii

### Promote and facilitate investments

*...facilitating linkages between domestic and foreign companies through incentives and non incentives*

iii

### Promote re-investments and diversification

*...streamlining processes and procedures for acquiring land, engaging existing investors, special incentives for diversification and reinvestments in targeted sectors*

iv

### Strengthen coordination and collaboration of investment promotion

*...reviewing and streamlining policy and regulatory frameworks, and strengthen inter-agency investment promotion facilitation committees*

v

### Monitoring and evaluation mechanisms

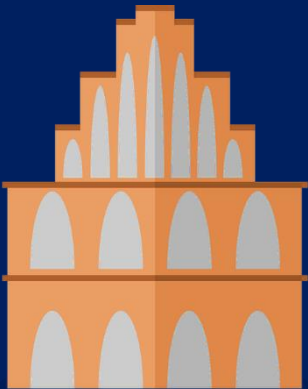
*...follow up on pledged investment, quarterly monitoring and evaluation of actualized investments*



IP2

## Re-orientation of One-Stop Centre (OSC)

OSC



The “One-Stop Centre” has actually turned into a  
“**One More Stop**”

### Re-orient and Remake OSC

- Effective promoter and facilitator of domestic investment
- Empowering with the practical authority to override existing procedures
- Collect approvals, permits and licenses from the appropriate jurisdiction

### Key elements of OSC transformation:

1. Institutional Support and Decentralising
2. Streamlining Procedures
3. Restaffing, Reskilling and Re-motivating

→ **A culture of professionalism.** OSC staff must have adequate knowledge, competency, training and authority to help investors

→ **Setting KPI for OSC to achieve realised DDI target.** Accelerate the process based on a **NEGATIVE LIST** – any company can operate business activities that do not appear on the negative list

# Enhancing Conducive Investment Climate

60.4% of respondents expect Government to “ease cost of doing business, including “compliance cost”

## RECOMMENDATIONS



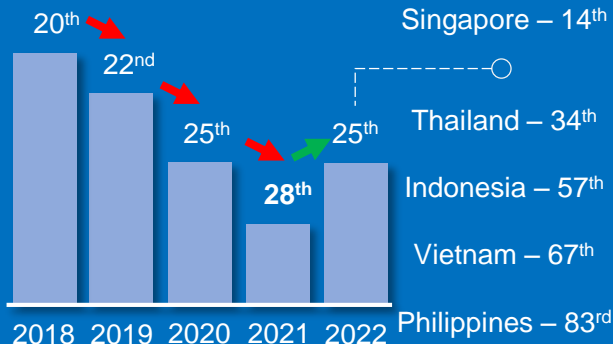
### Competitive Corporate Tax Rate

- Lower corporate tax rates (simpler and transparent)
- Reducing tax-induced distortions in the choice of investments
- Legal guarantees for investors
- Simplified incentives regime
- Setting time limits on specific incentives

### Global Opportunity Index

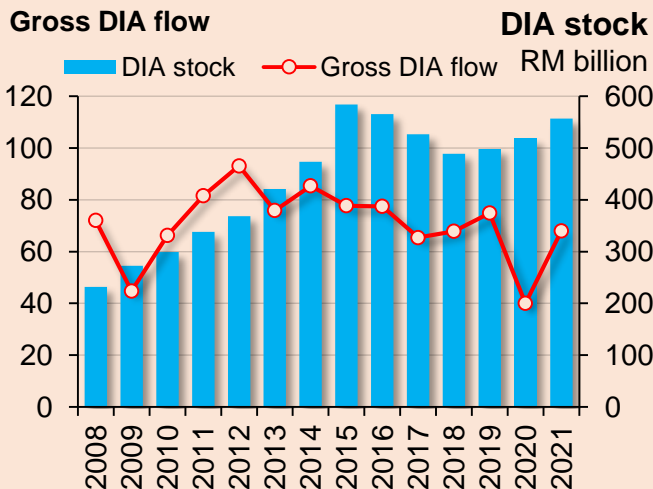


Rank (2022)

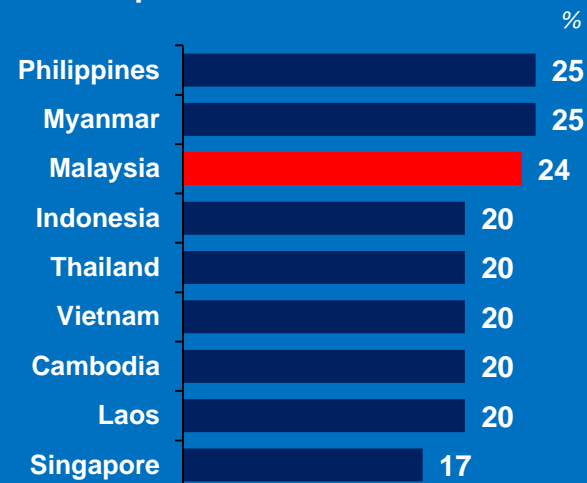


Singapore	14 <sup>th</sup>
Thailand	34 <sup>th</sup>
Indonesia	57 <sup>th</sup>
Vietnam	67 <sup>th</sup>
Philippines	83 <sup>rd</sup>

### Direct Investment Abroad (DIA)

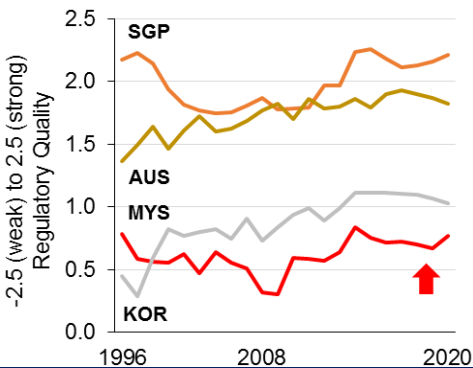


### Corporate Tax Rate in 2022



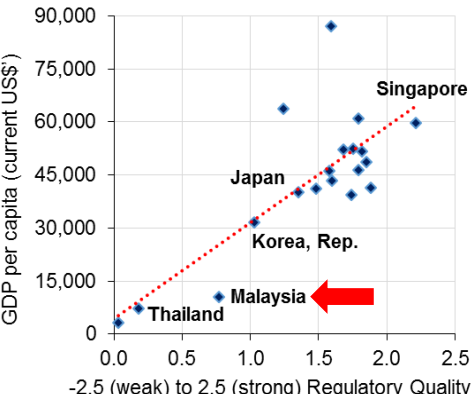
# The Need for Regulatory Reforms

Ample room for further improvements in regulatory quality in Malaysia (1996-2020)



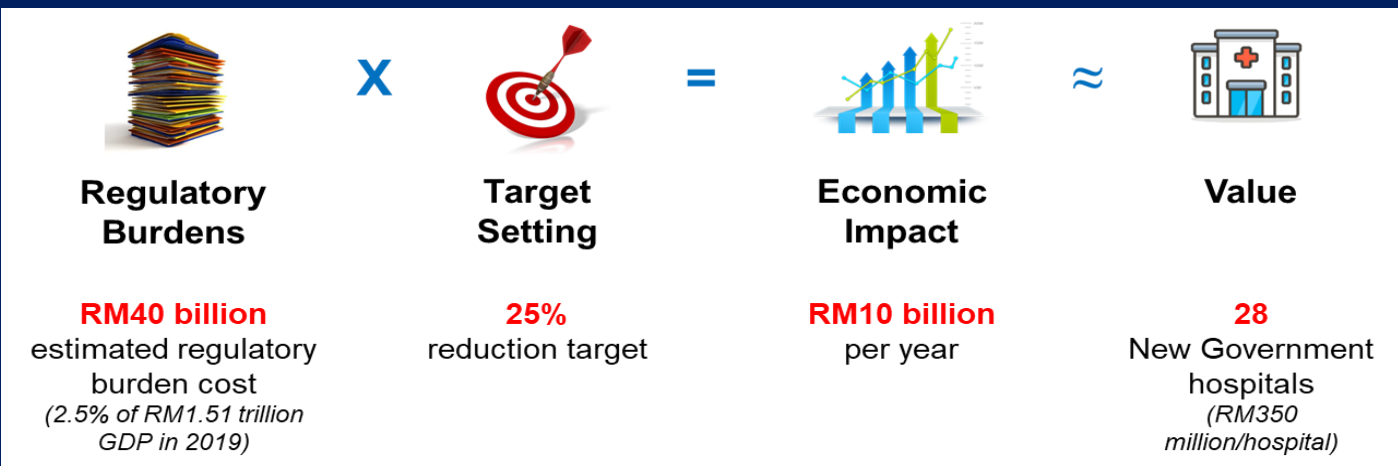
Note: SGP: Singapore; AUS: Australia; MYS: Malaysia; KOR: Korea, Rep.

Regulatory quality is positively correlated with GDP per capita (2020)



Top 5 issues/ problems	Overall	Large Enterprises	SMEs
Bureaucratic hassles	58.9%	52.4%	59.8%
Licensing issues	55.7%	52.4%	56.1%
Inconsistent information and procedures	49.2%	38.1%	50.6%
Time-consuming to obtain building plan approval	42.1%	52.4%	43.2%
Land issues	30.3%	33.3%	-
High compliance costs	-	-	31.1%

It is estimated that reducing regulatory burden could result in RM10 billion GDP impact



A sundry owner requires 10 types of licenses/permits

## The Need for Regulatory Reforms (cont.)

### RECOMMENDATIONS



#### Government-to-Business experience

- Establish a link-up “Join up” government services
- Publish negative list for businesses to achieve course correction
- Regulatory Impact Assessment - Adhere to the National Policy on the Development and Implementation of Regulations (NPDIR) for all new proposed regulations or review of existing regulations



#### Building and Construction Permits

- A “click-online” submission of application and approval process
- Lowering of compliance cost: Township development (21.8%-32.5% of GDV) and Strata development (12.8%-24.5% of GDV)
- Automatic release on unsold Bumiputera’s house quotas



#### “Regulatory Guillotine” – Bold and top-down sustainable reforms

- **Risk-based approach.** Enforcement, inspection, control and supervision as well as “regulatory guillotine” to reduce the types of control / supervisory
- **“Cost-in, Cost-out” system.** Enforce agencies to restrict the increase of the costs of newly introduced or reinforced regulations by abolishing or relaxing regulations that carry an equal or more amount of costs.

# Reviewing Investment Incentives

**i-Incentives**  
Investment Incentives Portal

Ministries

10

**Total incentives**  
130

Gov agencies

22

25 agencies and 10 local ones handle 101 SMEs digitalisation programs  
*(Source: World Bank)*



## DDI's survey:



Unaware of "i-Incentives" portal  
(74.4% of total respondents)



Unclear incentives information  
(55.2%)



Incentives Information not up-to-date  
(41.4%)

## RECOMMENDATIONS



Setting KPI on processing time for incentives' application



Review of Reinvestment Allowance (RA) – Longer Period



Consolidate Investment Promotion Agencies under one agency with specific KPIs



Raise the cap on double tax deduction on R&D expenditure



Standardise and increase the qualifying expenditure for Accelerated Capital Allowance (ACA) for both Category 1 and Category 2 industries to RM10 million



Issue

4

## Bridging Financing Gaps for SMEs

Bankability of SMEs has always been a major contentious issue due to lack of proper documentation and financial statement



DDI's survey:



SMEs are facing issues / problems when applying working capital loan (52.3% of respondents)



78.6% of micro enterprises and 63.6% of small enterprises are facing serious rejection of loan applications

### RECOMMENDATIONS



Leverage on annual tax submission form to LHDN in assessing the bankability



Establish an alternative financing platform to gather non-banks equity and venture capital financing modes



Create a centralised system for SMEs to synchronise with the loan applications



Innovative alternative financial instruments – whether based on debt, equity, or even invoice-based financing – will be critical in meeting the needs of high-growth businesses across various phases of the firm lifecycle

## Upscaling of Technology



### DDI's survey:



**Unstable internet connection**  
(62.8% of total respondents)



**Poor mobile and internet network coverage**  
(55.8%)



**Lack of know-how and skills to develop digitalisation capability**  
(49.2%)

## RECOMMENDATIONS



Enhance the role of **Malaysia Productivity Corporation (MPC)** as indicated by **29.1% of respondents** – MPC's scope is too narrow compared to China Productivity Center, Taiwan



Introduce an **Innovation Voucher Scheme** to connect SMEs to public research/industrial institutions



Implement a **Risk-Sharing Guarantee Program** – creates a psychological comfort that a company will not be hurt even if it failed



Supporting training on **technology, R&D and innovation; establish innovation and technology centres/co-operation; promote and develop inter-firm clusters and networks**



Establish a close link **between industrial research centres, universities and business incubators**



Enforcement of the **Intellectual Property Rights**

## Skills Development

- **57.1% of large enterprises** hope that the government can ensure **sufficient supply of skilled workers**
- **As of 4Q 2021:** Malaysia has **27.8% skilled workers**; 59.9% semi-skilled workers; and 12.3% low-skilled workers
- This pales in comparison to Luxembourg (59.5%), Singapore (54.7%), Switzerland (51.3%) and the United States (42.2%).

## RECOMMENDATIONS



### Skills Development

- Re-examine the need for a “new” technical education certification system that is accredited and certified from industries for “skill-readiness”
- Set up of a TVET Apprenticeship Fund
- 60% of FW levy channelled towards TVET Apprenticeship Fund; 40% channelled towards Automation & Industry 4.0 technology implementation



### Training & Education Platform

- Develop quality assurance and certified training schemes
- Invest in “Train the trainers”
- Design strategic courses and/or develop sectoral skill set training schemes



### Support Digital Adoption

- Promote open source-based technologies and skills
- Invest in infrastructure and facilitation programs that enables technology adoption

## Exports Capacity and Global Supply Chains

### RECOMMENDATIONS



#### Develop Market Access

- Establish a Central Agency under MITI to facilitate and address issues related to non-tariff barriers
- Review Market Development Grant (current ceiling of RM300,000)
- Review of qualifying criteria of Allowance for Increased Exports (AIE)



#### Branding, Market and Product Development

- Funding and financial support for R&D, technology upgrading and innovation as well as ESG integration
- Reinstate Brand Promotion Grant
- Ratify CPTPP and establish Preferential Trade Agreements with other countries (MERCOSUR, Pacific Alliance, Middle East, Eastern Europe and etc)



#### SMEs-FDI Linkages

- Quality certifications; outsourcing, matching/networking events and suppliers database
- Developing local absorptive capacity programs - supply chains and cluster initiatives

# SMEs-FDI Linkages

## Action Plan

- a) **Provision of information** – Government can act as facilitator by gathering and disseminating information on linkages opportunities via national website, business directories, 'meet-the-buyer' events, matching making
- b) **Targeting suppliers on the basis of proven abilities and commitment** for future improvements
- c) **Close engagements with domestic corporations and MNCs** – Identify areas and opportunities for suppliers; provide feedback on SMEs' weaknesses
- d) **Tailored programs assisting SMEs/suppliers identify their needs** and enhance their capability
- e) **Monetary incentives to participate in SMEs-FDI linkages program**
  - i. **Singapore:** Contributing to wage costs of engineers and managers in MNCs who have devoted time to suppliers upgrading
  - ii. **Ireland:** Cash grants to promising suppliers to help with initial investment costs
  - iii. **Chinese Taipei:** Subsidized training and consultancy necessary for enhancing suppliers capability



Issue

8

## Review of FWs Management



### DDI's survey:



**Flip-flop  
FWs policy**  
(71.0% of  
total  
respondents)



**Take too  
long to get  
approval**  
(66.1%)



**High hiring  
costs**  
(58.6%)



**Too many Ministries and  
government agencies  
involved in approval and  
recruitment process**  
(44.1%)



**FWs runaway**  
(43.5%)

## RECOMMENDATIONS



A **Single Ministry/One-stop Agency** to address all issues concerning FWs



A **transparent end-to-end system** to apply and approve the application of FWs. No manual intervention



**Tiered-levy model** – Mutually acceptable market-based mechanism, review periodically every 3 to 5 years



**Foreign workers' levies → Designated Fund** – Support industries automation and manpower skill upgrading

## Transformation of Industrial Park



### DDI's survey:



**54.2% of respondents facing issues** when investing/planning to invest in an industrial park.



**High land cost** (56.1% of respondents)



**Digital infrastructure is either outdated or inefficient** (48.0%)



**Weak regulatory authority as well as lack of intra-state and policies coordination** (40.7%)

## RECOMMENDATIONS



**Designated industrial park for SMEs**



**Underutilized can be rejuvenated or refurbished** for re-use for other industrial purposes. Currently, Malaysia has 140 underutilized industrial park



**Draw up the type of industrial park development framework** – Smart, Green and the Sustainable Development Goals (SDG)



**Well-readied onsite common facilities and facilitation support**



Providing safety net and **financial support for SMEs operating** within the industrial park

## Transforming from OEM, ODM to OBM

% respondents' rating of  
Malaysia made products

"Made in Malaysia" Products		Average
Very good value for money	23%	19%
Fair production	13%	15%
Excellent design	10%	15%
Advanced technology	10%	16%
Uniqueness	9%	14%
High quality	9%	18%
Authenticity	9%	13%
Sustainability	8%	10%
Status symbol	5%	9%
High security standards	5%	12%
None of the above	39%	33%

Of 50 countries surveyed, Malaysia's **"Made-in Malaysia (Buatan Malaysia)" brand was ranked 32<sup>nd</sup>**, slightly better than Thailand (34<sup>th</sup>), but markedly behind South Korea (21<sup>st</sup>), Singapore (22<sup>nd</sup>) and Taiwan (27<sup>th</sup>).

Source: Made-in-Country index (MICI) 2017 (published by Statista on 3 September 2019)

### RECOMMENDATIONS



**Strengthen indigenous core technologies and R&D capabilities** through continuous learning and innovation; develop our own global brands



**Government's funding and financial** support to undertake R&D, technology upgrading, innovation and branding development



**Over-regulations will hinder innovations and creativity**



**Too excessive market regulations** would stifle entrepreneurship or starts-up taking up risks and new venture



**Reinstate Brand Promotion Grant**

## Securing Green Investment

### RECOMMENDATIONS

- ✓ **Effective implementation** of the United Nation's **Sustainable Development Goals (SDG)** and **Environmental, Social and Governance (ESG) business practices**
- ✓ **Raise awareness and knowledge** of businesses, intermediaries, and management agencies on sustainable development
- ✓ **Clear, long-term and coherent policy and regulatory frameworks**
- ✓ **Price signals in the market**, including subsidies and carbon price should support the deployment of low carbon alternatives
- ✓ **Taxes and market-based instruments** are effective ways to stimulate smart green investment
- ✓ **Support from the Government and banks** on access to capital for green investment

# Thank you

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