

COUNTRY OUTLOOK : MALAYSIA 2007



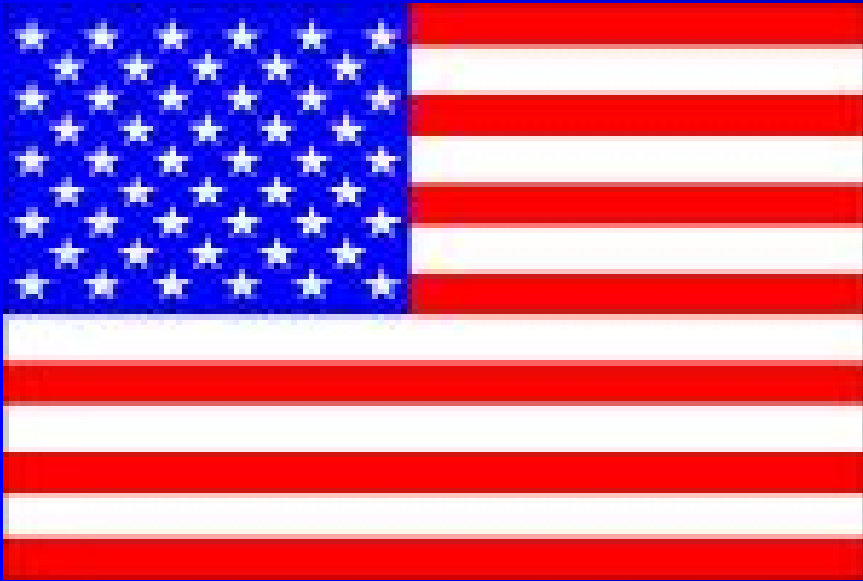
By

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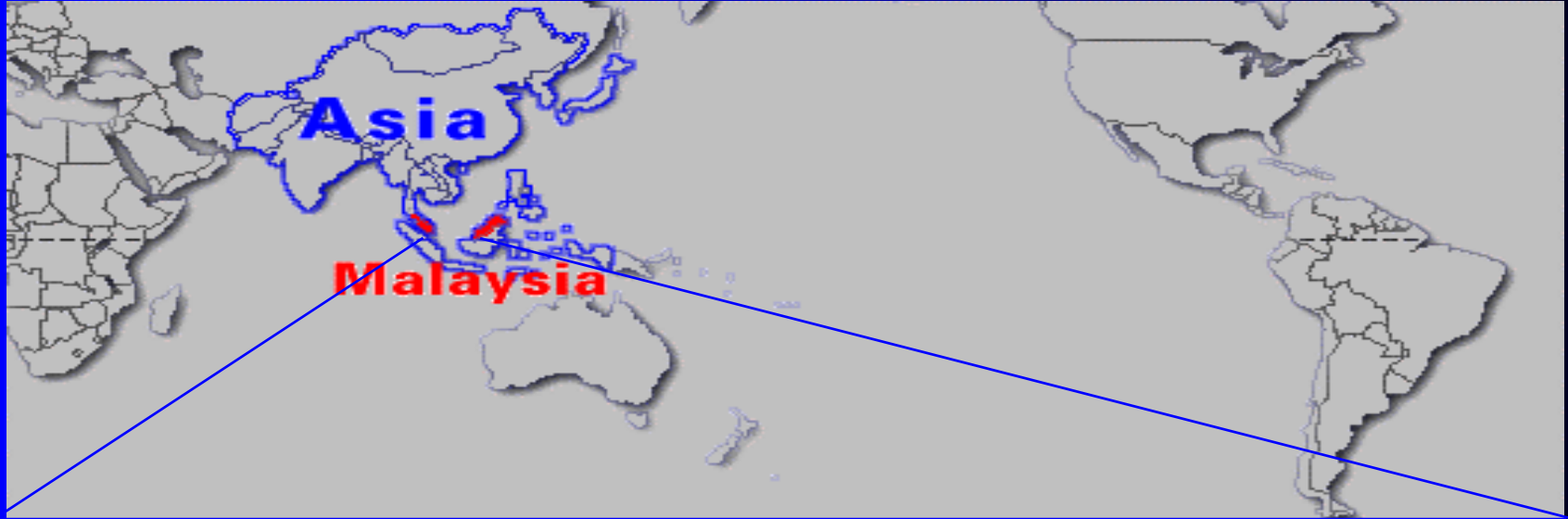
UNITED STATES



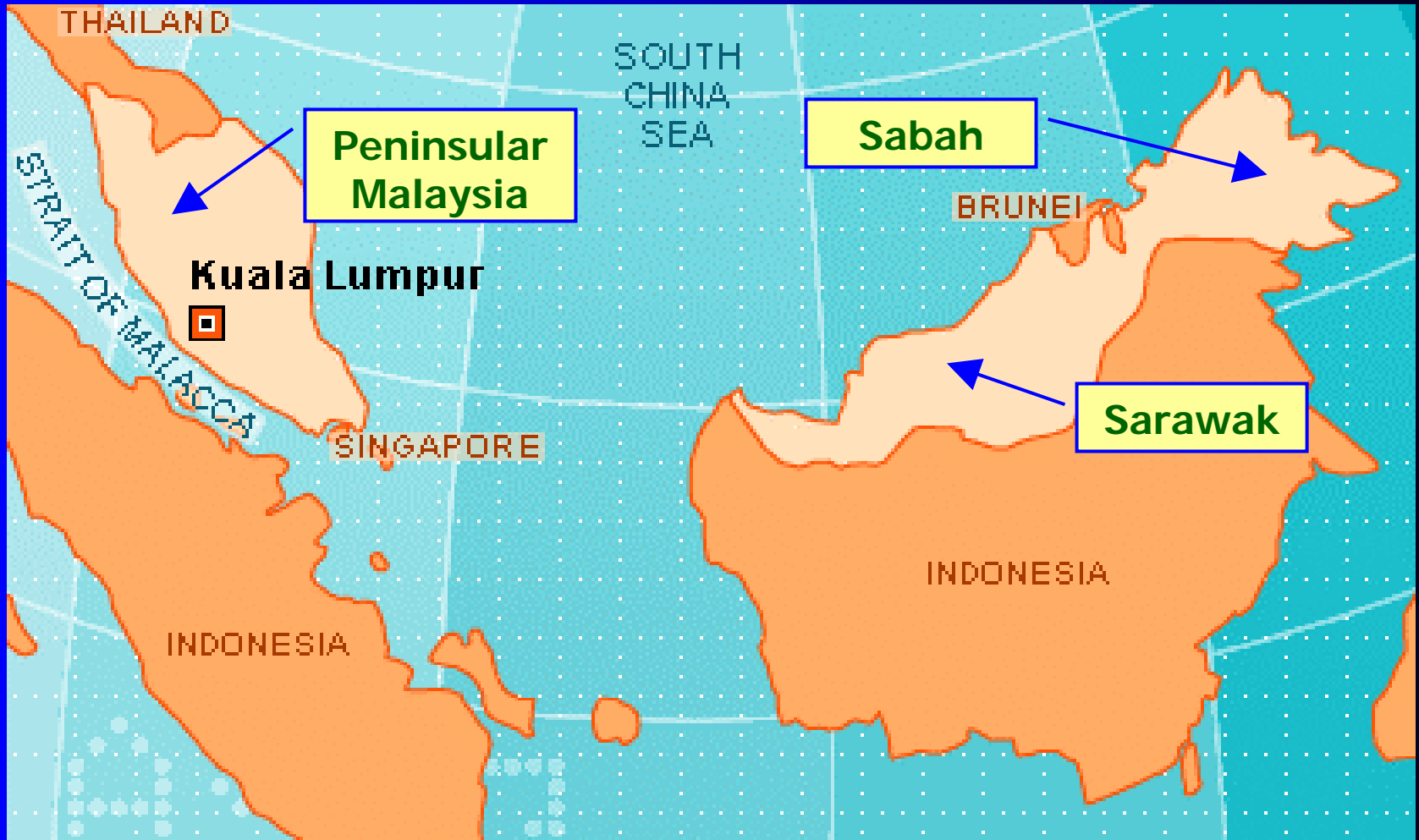
MALAYSIA



“MALAYSIA, TRULY ASIA”



MALAYSIA



MALAYSIA



FREE TRADE AGREEMENT?

- March 8, 2006 -- Announcement**
- June 2006 -- Round 1 Penang**
- July 2006 -- Round 2 Washington DC**
- October 2006 -- Round 3 Kuala Lumpur**
- January 2007 -- Round 4 San Francisco**
- February 2007 -- Round 5 Sabah, Malaysia**

***POLITICAL,
SOCIAL,
ECONOMIC
FUNDAMENTALS***

MALAYSIA IS STABLE



Datuk Seri Abdullah Ahmad Badawi
Prime Minister



Dato' Seri Rafidah Aziz
Minister of Int'l Trade & Industry

- ❖ Mahatir Mohammed out in 2003
- ❖ Moderate, pragmatic, level-headed Prime Minister Abdullah, but
- ❖ Continuity in key Ministry of International Trade and Industry where trade policy powerhouse Rafidah has sat for 21 years. Financial Times FDI Personality of the Year.

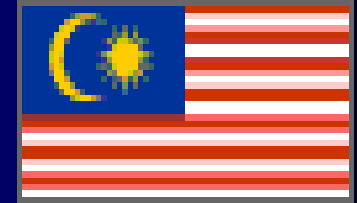
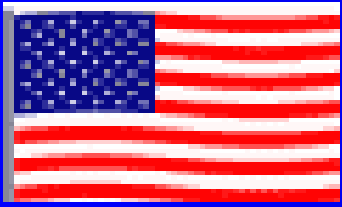
MALAYSIA IS STABLE....Contd.

- ❖ **Pro-U.S. Commercial Viewpoint**
- ❖ **“We’re two different persons. We have our ways of doing things. Of what needs to be done and how things should be done.” Mahatir vs. Abdullah**
- ❖ **Parliamentary elections in 2004, 90 % of voters confirmed that Malaysians want the moderate path. Opposition party lost many seats, controls only one state. Next elections in 2009, maybe sooner.**

MALAYSIA IS MODERATE

- ❖ **A Muslim Country promotes “civilizational, or progressive, Islam.”**
- ❖ **Economic development key to VISION 2020’s success**
- ❖ **Population: 27 million**
 - *Malays - (Muslim) 65%*
 - *Chinese - (Buddhists, Christians) 26%*
 - *Indians - (Hindu) 8%*
 - *Others - 1%*
- ❖ **Multi-lingual (Malay, Cantonese, Mandarin, Hokkien, Tamil, ENGLISH), multi-racial. Harmonious.**





MALAYSIA IS PROSPEROUS

- ❖ Per Capita GDP: \$5,100 (2006)
- ❖ GDP Growth 2006: 5.8% Estimate
2007: 6.0%
- ❖ America's 10th Largest Trading Partner
- ❖ U.S. is #1 Investor -- \$30 Billion

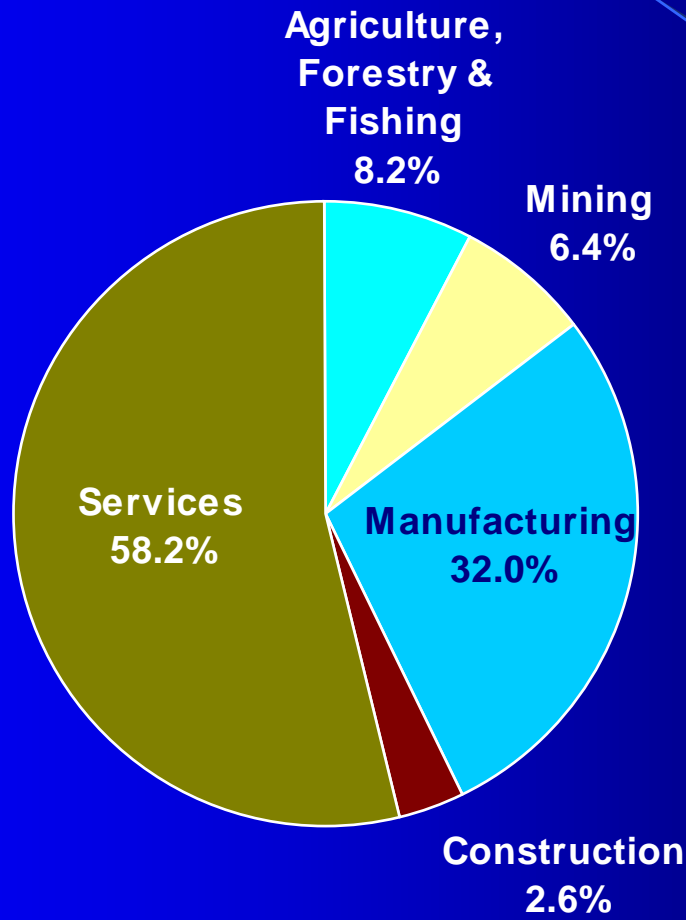


2006 TRADE STATISTICS

- ❖ **Two Way Trade - \$45 billion**
- ❖ **Malaysia exports to U.S.- \$30 billion**
- ❖ **Malaysia imports from U.S. - \$15 billion**
- ❖ **Malaysia accounts for 2% of total U.S. imports**



2006: Malaysia's Economy Based On Share of GDP



Rubber



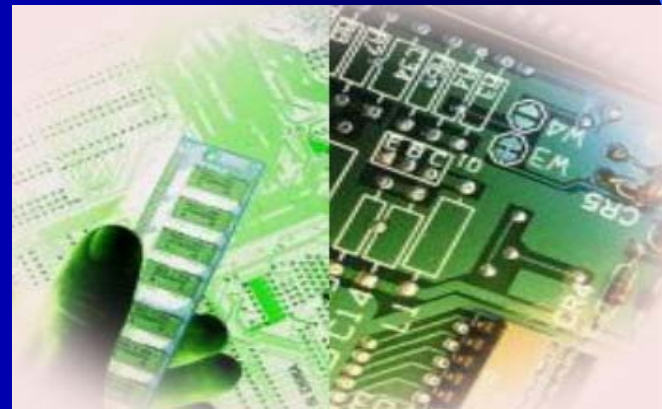
Tin Mining



Oil/Gas



Electronics





Who's who in Penang

TAIWAN	58
JAPAN	53
USA	40
SINGAPORE	25
OTHERS	51
TOTAL	227



MALAYSIA IS COMPETITIVE

- ❖ **Member, ASEAN Free Trade Area**
- ❖ **FTAs or Economic Partnership Agreements with**
 - **Japan**
 - **Australia**
 - **New Zealand**
 - **China**
 - **South Korea**
 - **Pakistan**
- ❖ **Future FTAs: USA and India; EU study**

MALAYSIA IS COMPETITIVE.....Contd.

- ❖ **Economist Intelligence Unit's cost of living survey for 128 cities:**
 - **Oslo - 1**
 - **Tokyo - 2**
 - **Kuala Lumpur - 95**
 - **Singapore - 24**
 - **Manila - 127**

- ❖ **Exchange rate: pegged at RM 3.8 until July 2005; now at 3.48.
Makes U.S. exports more competitive**

MALAYSIA IS COMPETITIVE.....Contd.

Global Competitiveness Index

	<u>2006 Rank</u>	<u>2005 Rank</u>
Switzerland	1	4
Finland	2	2
Sweden	3	7
Singapore	5	5
United States	6	1
Japan	7	10
Korea	24	19
Malaysia	26	25
Thailand	35	33
India	43	45
Cambodia	103	111

Source: Ranking from a combination of publicly available data & results of Executive Opinion Survey

Transparency International's Corruption Perception Index for 163 countries:

	<u>2006</u>	<u>2005</u>
Malaysia	44	39
Singapore	5	5
South Korea	42	40
Thailand	63	59
Hong Kong	15	15

Approved Projects with Foreign Investments By Country, 1995-2006

Country	Foreign Investments (RM billion)	Share (%)	No. of Projects
Total	177.4	100.0	
USA	43.1	24.3	478
Japan	29.0	16.3	1,433
Singapore	21.5	12.1	1,751
Germany	17.3	9.7	209
Netherlands	9.8	5.5	141
Taiwan	9.0	5.1	934
United Kingdom	7.3	4.1	210
Republic of Korea	6.7	3.8	216
United Arab Emirates	4.3	2.4	7
Switzerland	3.9	2.2	77

Source: MIDA

NEW U.S. FDI: \$714 million in 2006 (down from \$1.4 billion in 2005 and up from \$293 million in 2004)

MIDA: Malaysian Industrial Development Authority

MATRADE: Malaysia External Trade Development Corporation

Inward FDI Performance Index 1990-2005

	Inward FDI Performance Index						
	1990	1995	2000	2002	2003	2004	2005
Hong Kong	3	13	2	3	8	6	3
Singapore	1	2	5	6	6	7	5
China	52	12	54	48	43	45	55
Malaysia	4	6	53	74	82	64	62
Thailand	17	72	46	84	90	107	96
Indonesia	57	60	138	139	139	133	112
Korea	83	119	98	110	120	114	114
Philippines	28	43	85	94	110	103	115
Taiwan	47	99	111	106	119	125	126

Source: UNCTAD, World Investment Report 2006.

Economic Freedom of the World Index

Selected Summary Ratings 2004

Hong Kong	1
Singapore	2
Taiwan	24
South Korea	35
India	53
Malaysia	53
Thailand	60
Philippines	68
Indonesia	83
Vietnam	88
China	95

Source: Fraser Institute

Most Business Friendly

2007 rank	2006 rank	Economy
1	2	Singapore
2	1	New Zealand
3	3	United States
5	6	Hong Kong
8	9	Australia
18	19	Thailand
23	23	South Korea
25	25	Malaysia
47	43	Taiwan
93	108	China
134	138	India
135	131	Indonesia

Source: World Bank

Most Business Friendly....Contd.

❖ Dealing with licenses	137th
❖ Getting credit	3rd
❖ Protecting investors	4th
❖ Starting a business	71 st (30 days)
❖ Enforcing contracts	81 st (450 days)
❖ Employing workers	38th
❖ Ease of trading across borders	46 th
❖ Ease in paying taxes	49 th
❖ Ease of closing a business	51 st
❖ Ease of registering property	66th

Source: World Bank

2007 Ranking The World's Top Innovators

1	United States	5.80
2	Germany	4.89
3	United Kingdom	4.81
4	Japan	4.48
7	Singapore	4.10
10	Hong Kong	3.97
17	Australia	3.71
19	South Korea	3.67
23	India	3.57
26	Malaysia	3.47
29	China	3.21
34	Thailand	3.01
48	Indonesia	2.71
65	Vietnam	2.38
66	Philippines	2.38
95	Cambodia	1.94

Source: The World Business/INSEAD

Strong U.S.-Malaysia Commercial Relationship

- ❖ **America's 10th largest trading partner**
 - \$45 billion in 2006
- ❖ **Malaysia – 18th largest trading nation in world**
\$232.7 billion
 - Imports \$126.44 billion. 94.1% capital and intermediate goods.
- ❖ **America's 17th largest export market**
 - \$28.6 billion electronics, machinery, optical equipment, chemicals.
- ❖ **America accounts for 19.7% of Malaysia's exports**
- ❖ **U.S. electronic manufacturers account for 25% of Malaysia's exports**

Strong U.S.-Malaysia Commercial Relationship.....Contd.

- ❖ **Malaysia is 26th largest market for U.S. agriculture exports**
 - 3rd largest market for fresh fruit
 - 4th largest for table grapes
 - 5th largest for oranges
 - 8th largest for apples

- ❖ **TIFA – signed May 10, 2004**
 - FTA negotiations start June 2006
 - FTA negotiations end February 2007?

Malaysia and China

- ❖ **Malaysia-China trade in 2006
\$33.5 billion – triple by 2010**
 - **China is Malaysia's 4th largest export market**
 - **Malaysia is China's 7th largest export market**
- ❖ **27% of Malaysian population is ethnically Chinese**
- ❖ **ASEAN FTA with China**
- ❖ **Supply chain**

FTA: Malaysia's Thinking/Challenges

- ❖ FDI -- 4th (1990) to 62nd (2005)
- ❖ 2006 new FDI: Japan, Netherlands, Australia, U.S. (\$714 m vs. \$1.5 b)
- ❖ IPR—moving up the “value chain” ; Biotechnology
- ❖ 9MP, 3IMP stress on liberalization, development of, services
- ❖ Bumiputera policy: longstanding affirmative action program for ethnic Malays
- ❖ Overhauling government-linked companies

FTA: Malaysia's Thinking/Challenges

- ❖ Costly infrastructure projects on hold
- ❖ Skill shortages
- ❖ Red tape
- ❖ Proton: VW, GM, Mitsubishi??
- ❖ Income taxes from 28% to 27% to 26% in 2008, still not competitive with Singapore (20%) and Hong Kong (17.5%)
- ❖ Regional competition strong
- ❖ Education system weak; segregated. Needs to produce English-speaking, skilled graduates

FTA: U.S. Motivations

- ❖ Strengthen economic partnerships in Asia
- ❖ Advance broader strategic goals
- ❖ 10th largest trading partner. \$44 billion in 2005, 60% more than with India. Cement this relationship
- ❖ Gateway to ASEAN, \$3 TRILLION market
- ❖ Strategic foothold for U.S. hi-tech, telecom, services sectors
- ❖ “China plus one” or more ASEAN strategy
- ❖ Trade balance 3 : 1 in Malaysia’s favor
- ❖ Average tariff: 8.4 % (Malaysia), 3.7 % (U.S.)

FTA: U.S. Motivations

- ❖ Liberalization of Services—financial, education, franchising, legal, accounting, engineering, architectural, telecoms (services = 58 % of Malaysia's economy)
- ❖ Liberalization of auto sector
- ❖ Government procurement, more transparency
- ❖ Halal market
- ❖ IPR enforcement
- ❖ U.S. cannot be left behind by competitors (Malaysian FTA with Japan; ASEAN FTA with China; future FTAs with India, EU??)
- ❖ Muslim, democratic nation
- ❖ Partner in counter-terrorism

RECENT NEWSPAPER HEADLINES

- 😊 Rafidah is “FDI Personality of the Year 2006”
- 😊 Japanese FDIs into Malaysia Stage Strong Comeback
- 😊 Malaysia Making Inroads on Global Investment Map
- 😊 Malaysia Stock-Market Rally Looks Like It Could Last Awhile
- 😞 Malaysia Export Pace Slows As The High-Tech Cycle Turns
- 😊 Ringgit’s Steady Climb Expected To Continue
- 😊 StanChart Sees Strong 2007 Growth for Malaysia
- 😊 Investors Flocking Back to Penang
- 😊 Cisco Set to Spread Its Wings



RECENT NEWSPAPER HEADLINES....Contd.

- 😊 IBM Malaysia To Keep Growing Regional Centres
- 😊 Seagate To Invest RM 712 Million in Penang
- 😞 Proton's Partner Will be Known in Q1 2007
- 😊 US Firm SimpleTech To Make Penang Hub, Invest RM 107 million
- 😞 Low Salaries Clouding Malaysia Biotech Plan
- 😞 Biotech Bid Hurt By Brain Drain
- 😊 US 4th Top Buyer Of Malaysian Palm Oil
- 😞 EU Envoy Says Malaysia's Appeal Waning
- 😊 😞 Malaysia Off The Priority Watch List For Pirated Movies, Music

BEST PROSPECTS IN MALAYSIA ***- OIL & GAS EQUIPMENT***

- ❖ Malaysia's crude oil production: 660,000 barrels/day
- ❖ \$700 million equipment market for 2006
- ❖ One of world's largest suppliers/producers of LNG



BEST PROSPECTS IN MALAYSIA

- AIRPORT & SEAPORT SECURITY EQUIPMENT

- ❖ Import of such equipment in 2006: US\$28 million.
- ❖ U.S. suppliers dominate the market.
- ❖ Several airports in the country are being or will be expanded and upgraded.



BEST PROSPECTS IN MALAYSIA

HEALTHCARE

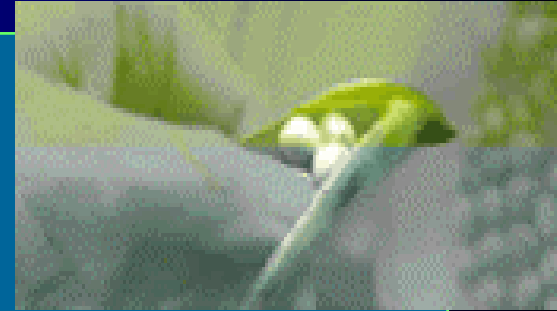
- ❖ **Medical device is estimated at US\$1.2 billion in 2006. 400,000 different types of devices are used annually.**
- ❖ **High-tech medical devices are still being imported. The U.S. has the largest import market share of 24% in 2005.**
- ❖ **All medical devices need to be registered by 2008. On-line voluntary registration is currently on-going.**
- ❖ **US\$2.7 billion has been allocated for the health sector development during 9 Malaysia Plan (2006-2010)**



BEST PROSPECTS IN MALAYSIA

BIOTECHNOLOGY

- ❖ National Biotech Policy in April 2005
- ❖ Nine (9) thrusts in the policy, including capacity building, development, and commercialization
- ❖ Biotech expected to generate revenue of US\$71 billion by 2020, creating 280,000 new jobs.
- ❖ Malaysian Biotechnology Corporation as a one-stop agency for biotechnology sector.
- ❖ US\$548 million has been allocated for biotech development during 9 MP (2006-2010)



BEST PROSPECTS IN MALAYSIA

Environmental Technologies

- ❖ **\$700 million market for**
 - Water
 - Wastewater treatment
 - Solid waste disposal
 - Recycling



BEST PROSPECTS IN MALAYSIA

- FRANCHISING

- ❖ Popular – Industry growing 15% annually
 - 40% are foreign – of these 70% are American
- ❖ Strong Government Support
 - \$26 million for 50 new franchises
- ❖ Strong Growth Potential
 - Only 5% of retail business (40% in U.S.)



BEST PROSPECTS IN MALAYSIA - HIGHER EDUCATION

❖ Popular

- 350,000 Malaysian alumni of U.S. colleges and universities
- 22nd largest source of foreign students in U.S. colleges and universities

❖ Declining trend but strong recovery potential

- 6,100 students in U.S. (compared to 14,500 in 1997)
- 19,300 students in Australia and 11,500 students in England, presently

❖ Positive factors

- Vast improvement in visa application process
- Strengthening Ringgit against the U.S. Dollar
- Strengthening Australian Dollar and British Sterling
- Malaysian government's goal to increase numbers of college educated. Malaysians from 17% in 2002 to 40% in 2020
- Increasing efforts to promote U.S. education by U.S. Embassy



BEST PROSPECTS IN MALAYSIA - TOURISM

❖ Popular

- Outbound travel is very popular among Malaysians
- U.S. was one of the top outbound tourism destinations in the past

❖ Main Competitors

- Australia and Europe

❖ Strong Recovery

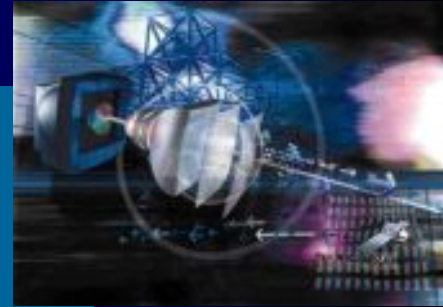
- Number of Malaysian tourists to U.S. is recovering and will continue to grow
- Vast improvement in visa application process
- Strengthening Ringgit against the U.S. Dollar
- Strengthening Australian Dollar and British Sterling
- Increasing efforts to promote U.S. Tourism by U.S. Embassy



BEST PROSPECTS IN MALAYSIA

BROADCASTING

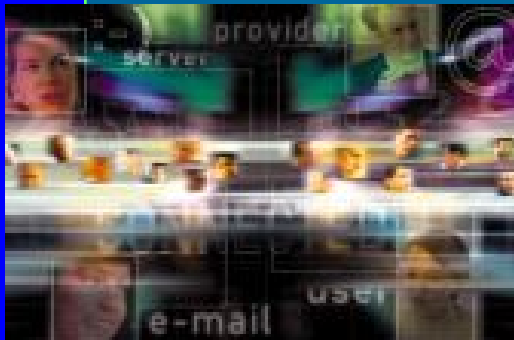
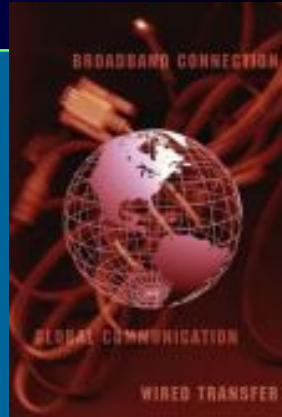
- ❖ **US\$5.2 billion market for 2007**
- ❖ **US\$15 million fund from GOM for television network content development. Strategic alliances with foreign content development experts with local companies are encouraged.**
- ❖ **Over 97% population has access to Free-To-Air TV while Pay-TV penetration rate is 35%.**
- ❖ **Best prospects include: IP enhanced multimedia and interactive TV and radios, Digital Direct-to-Home systems, including transmitters and receiver set-top-boxes. Convergent broadcasting and communications technology systems such as Mobile TV and other 3G-multimedia applications are in demand.**



BEST PROSPECTS IN MALAYSIA

ICT

- ❖ Malaysian Communications market is mature, 82% of population has mobile phones.
- ❖ Dial-up Internet access penetration is at 14%, while 2.8% have access to broadband.
- ❖ US\$13.2 billion ICT market for 2007
- ❖ Best prospects include: 3G, WiMAX, IP VPN, Satellite Point-to-Point, VoIP, Mobile Entertainment, Instant Messaging, Wireless Local Loop, Next Generation Networks



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