

42

ENERGY & GREEN ECONOMY

The government is pursuing large-scale solar developments and providing incentives to businesses and homeowners.

103

EDUCATION

TVET programs will play a bigger role in training the workforce required to keep Malaysia's economic engine running.


109

TOURISM & RETAIL

Known as the king of fruit, the durian is exported and consumed in record quantities.

MALAYSIA
2019

the business year

An aerial satellite-style map of Malaysia and surrounding regions, including parts of Indonesia, Thailand, and the Philippines. The map shows the green landmasses and blue waters of the Southeast Asian archipelago.

"We want to foster new growth sectors, i.e. producing and not merely consuming the kinds of products in demand in developed countries."

TUN DR. MAHATHIR BIN MOHAMAD
Prime Minister of Malaysia

"MIDA has facilitated 5,000 companies from more than 40 countries to **make Malaysia their location for manufacturing and related services operations.**"

DATO' AZMAN MAHMUD
CEO,
Malaysian Investment Development Authority (MIDA)

"Asia's increasing middle-class population with significant discretionary spending power is expected to lead to **higher demand of sophisticated and multipurpose consumer products** such as personal care, nutrients, and pharmaceuticals."

DATUK SAZALI HAMZAH
Managing Director & CEO,
PETRONAS Chemicals Group (PCG)





THE 8



BAYERISCHE MOTOREN WERKE

• AUTO BAVARIA • INGRESS AUTO • LEE MOTORS AUTO CARE • MILLENNIUM WELT • QUILL AUTOMOBILES • RAZA PREMIUM AUTO • REGAS PREMIUM AUTO • REGAS PREMIUM SABAH • SEONG HOE PREMIUM MOTORS • TIAN SIANG PREMIUM AUTO • WEARNES AUTOHAUS • WHEELCORP PREMIUM

THE BUSINESS YEAR: MALAYSIA 2019

For our third annual edition on Malaysia's economy, we conducted interviews with some of the main movers and shakers of the past year, a year that was dominated largely by the historic elections of May 2018. As Pakatan Harapan pulled off a shock victory and swept into government, the elections were widely regarded as a pivotal point for Malaysia. Around the world, eyes were set on the country as it sought to use the reform momentum to deliver on its promise of a new dawn. Moreover, global headlines were made when the country swore in the world's oldest leader, Tun Dr. Mahathir Mohamad.

Throughout the process of interviewing the country's main policymakers and business executives, we were eager to find out how the change of government would impact their operations; as it turns out, they were just as curious.

The announcement of the 2019 budget in November 2018 was among the most-awaited moments, as it provided tangible insights into how the government planned to navigate the economy's myriad challenges. It was interesting to follow the first year of Pakatan Harapan as it unfolded and to cover it based on the

thoughts and opinions of our interviewees. Yet, this was just one of many reasons we decided to compile this publication.

Malaysia's economy has been on a rapid growth trajectory in recent decades. Agriculture and commodities were once key economic pillars, though the country has successfully diversified into the manufacturing and services sectors. Over the past 20 years, Malaysia's population has grown by more than 40%, while its GDP has grown almost five-fold.

ASEAN is predicted to become the fourth-largest economy in the world by 2030, and Malaysia plays an important role in the trade bloc. The country ranks among the world's most well-connected in various connectedness indexes. Moreover, it has been moving up the Global Innovation Index and now ranks second among both innovative upper-middle income countries and ASEAN members.

Malaysia's leadership is determined to realize the transition to a high-income and developed economy, and we were keen to delve into this agenda. *The Business Year: Malaysia 2019* is the result of nine months of on-the-ground and in-depth research, and we hope you find it enlightening. ✕

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3 From the editor's desk

7 Executive summary

9 Timeline

10 Tun Dr. Mahathir bin Mohamad,
Prime Minister of Malaysia

• Foreword

11 Shared prosperity • Focus

12 ECONOMY

13 Repositioning the new Malaysia

• Chapter summary

14 Dato' Azman Mahmud, CEO,
Malaysian Investment Development
Authority (MIDA) • Interview

15 Dato' Wan Latiff Wan Musa,
CEO, Malaysia External Trade
Development Corporation
(MATRADE) • Interview

16 M. Kula Segaran, Minister of
Human Resources • Interview

17 Voices from the sector

19 Taking it to the next level • Focus:
Boosting productivity

21 Datuk Seri Mohd Shafie Apdal,
Chief Minister of Sabah • Interview

22 Anwar Ibrahim, Member of
Parliament & Leader of the Pakatan
Harapan Coalition • Interview

23 Firas Raad, Country Manager
Malaysia, World Bank • Interview

24 A good balance • Focus:
Malaysia-China relations

25 Andrew Sill, Chairman,
British Malaysian Chamber of
Commerce (BMCC) & Jennifer
Lopez, Executive Director, British
Malaysian Chamber of Commerce
(BMCC) • Interview

27 Marco Winter, Executive Director,
Malaysian Dutch Business Council
(MDBC) • Interview



31



40



38

28 FINANCE

29 Adding value • Chapter summary

31 Dato' Khairussaleh Ramli, Group
Managing Director & CEO, RHB
Banking Group • Interview

32 Leading the way • Focus: Global
leadership in Islamic finance

33 Dato' Mohamed Rafique Merican,
CEO, Maybank Islamic • Interview

34 Voices from the sector

36 Ismitz Matthew De Alwis,
Executive Director & CEO, Kenanga
Investors Berhad (KIB) • Interview

37 Datuk Chung Chee Leong,
President & CEO, Cagamas Berhad
• Interview

38 ENERGY & GREEN ECONOMY

39 Ambition unleashed • Chapter
summary

41 Yeo Bee Yin, Minister of Energy,
Science, Technology, Environment,
and Climate Change • Interview

42 Use the sun • Focus: Large-Scale
Solar (LSS)

43 YBrs. Ir. Dr. Sanjayan Velautham,
CEO, Sustainable Energy
Development Authority (SEDA)
Malaysia • Interview

44 Get cracking • Focus:
Downstream

45 Datuk Sazali Hamzah, Managing
Director & CEO, PETRONAS
Chemicals Group (PCG) • Interview

46 Chemicals • B2B

47 Voices from the sector

48 INDUSTRY & HIGH TECHNOLOGY

49 The way forward • Chapter summary

50 Datuk Darell Leiking, Minister of International Trade and Industry • Interview

51 The fourth wall • Spotlight Feature: Industry 4.0

54 Dato' Palaniappan Joseph, Council Member & Vice Chairman of HRM Committee, Federation of Malaysian Manufacturers (FMM) • Interview

55 Tan Sri Dr. Lim Wee Chai, Executive Chairman, Top Glove Corporation Bhd • Interview

57 Voices from the sector

58 Datuk Dr. Mohd Yusoff Sulaiman, President & CEO, Malaysian Industry-Government Group for High Technology (MIGHT) • Interview

59 Aerospace • B2B

60 Rezal Khairi Ahmad, CEO, NanoMalaysia • Interview

61 Tiny science writ large • Focus: Nanotechnology

62 Semiconductors • Forum

64 The right consistency • Focus: Penang Automation Cluster

65 James de Caluwe, Managing Director, Oleon • Interview

66 LC Saw, President, Evyap Sabun Malaysia • Interview

67 Japanese chemical investors • B2B



68 TRANSPORT

69 Going places • Chapter summary

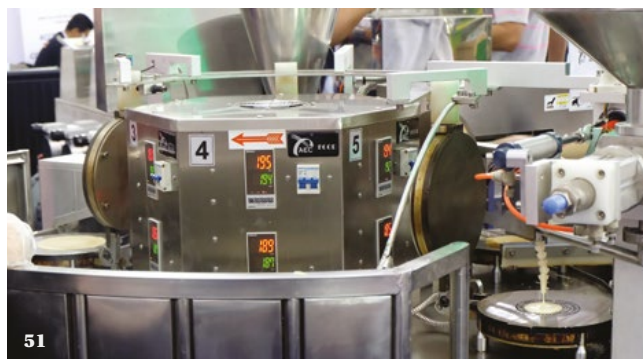
70 Harald Hoelzl, Managing Director, BMW Group Malaysia • Interview

71 This might just work • Focus: Third national car project

72 Voices from the sector

75 Eddie Lee, CEO, Westports Malaysia • Interview

77 Terry Chan Kong Ngee, Group CEO, Sabah Air Aviation (SAA) • Interview



78 CONSTRUCTION & REAL ESTATE

79 Work and progress • Chapter summary

81 Dr. James Tee, Managing Director & CEO, Medini Iskandar Malaysia (MIM) • Interview

82 Voices from the sector

84 Karen Moss, CEO, Borneo Benar • Interview

85 Tall tale • Focus: PNB 118





86 HEALTH

87 Healthy growth • Chapter summary

89 Sherene Azli, CEO, Malaysia Healthcare Travel Council (MHTC) • Interview

90 Chong Yee Mun, CEO, Prince Court Medical Centre (PCMC) • Interview

91 Cardiovascular care • B2B

92 Hospitals • Forum

93 Voices from the sector

94 The old world • Focus: Senior living

96 Voices from the sector

97 EDUCATION

97 Keen on learning • Chapter summary

99 Prof. Graham Kendall, CEO & Provost, University of Nottingham Malaysia (UNM) • Interview

101 Prof. Andrew Walker, President & Pro Vice-Chancellor, Monash University Malaysia • Interview

102 Prof. Dr. Premkumar Rajagopal, President, Malaysia University of Science and Technology (MUST) • Interview

103 Learn a trade • Focus: Technical vocational education and training



104 TOURISM & RETAIL

105 Thanks for stopping by • Chapter summary

106 Datuk Mohamaddin Ketapi, Minister of Tourism, Arts, and Culture • Interview

107 Unique experiences • Communiqué: The Ritz-Carlton, Langkawi

108 Yong Yoon Li, Executive Director, Royal Selangor • Interview

109 The (sweet?) smell of success • Focus: Durian exports

110 Events • B2B

111 Muhammed Raja Talib bin Dato' Raja Mohamad Abdullah, CEO, OIC International Business Centre Chairman, Muslim World Biz • Interview

112 Dato' Dr. JasG, CEO & Founder, Glojas Health Clinic • Interview

113 Voices from the sector

115 A win-win for everyone • Focus: Ecotourism

116 Nerine Tan Sheik Ping, CEO, Berjaya Sports Toto Berhad • Interview

117 Erik Stoel, Managing Director, British American Tobacco (BAT) Malaysia • Interview

119 TBY recommends



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EXECUTIVE SUMMARY

Malaysia is renewed after a significant changing of the guard, and big opportunities abound for discerning investors.

A new government has brought hope to many in Malaysia, embarking on an ambitious reform agenda to simultaneously restore fiscal balance while supporting economic growth. Although the challenges are myriad, there are early signs that business is responding well.

2019 BUDGET

“A Resurgent Malaysia, A Dynamic Economy, A Prosperous Society” is the theme of the first federal budget from the Pakatan Harapan government, unveiled by Finance Minister Lim Guan Eng. In spite of the difficult financial position of the country, it is a mildly expansionary budget. Yet, the government has expressed its firm commitment to control the fiscal deficit in the coming years.

SOLAR POTENTIAL

The Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) increased its 2025 target for the share of renew-

able energy in the installed electricity capacity mix from 2% to 20%. This implies the need to add 3.9GW of installed renewable energy capacity. Large Scale Solar 3 (LSS3), an industrial solar tender due by August 2019, will add 500MW. In January, the “one-on-one offset” was introduced to the Net Energy Metering (NEM) solar program. This new policy intends to incentivize people with large roofs to install rooftop solar panels, with higher returns for excess solar electricity.

INDUSTRY4WRD

With the launch of the National Policy on Industry 4.0, known as Industry4WRD, Malaysia aims to boost productivity and enhance competitiveness. The policy is designed to facilitate and encourage the digital transformation in Malaysia’s manufacturing sector and its related services, by providing comprehensive and systematic guidelines and to facilitate companies to embrace Industry 4.0 and digital technologies. One of the critical elements

to the successful realization of Industry4WRD is reskilling and upskilling the workforce to realign it to Industry4WRD and ensuring that new graduates are equipped with the relevant know-how to handle the specific challenges associated with Industry 4.0.

CONSTRUCTION

The construction sector was a great performer over the past decade, though the past year proved to be a difficult one. The delays and cancellation of important infrastructure projects and the general elections hampered confidence in the industry. The recent revival of the East Coast Rail Link (ECRL) project could be a catalyst for recovery. Moreover, the government is addressing the overhang in the market with stamp duty exemptions, aiding first-time home buyers, and other measures. The concept of open tendering is expected to contribute to fair competition and bring back integrity to the industry.

PROJECT CANCELLATIONS

The newly installed government has been critical of several China-backed infrastructure deals authorized by the previous government. It views the terms of the deals as unequal and the related costs as excessive in light of Malaysia's burdened financial position. The East Coast Rail Link (ECRL), a railway link project connecting Port Klang to Kota Bharu, is one of the most notable projects to be put under review, though in April Prime Minister Tun Dr. Mahathir bin Mohamad announced he had reached a deal with the Chinese government to proceed with ECRL.

MEDICAL TOURISM

Under the coordination of the Malaysia Healthcare Travel Council (MHTC), Malaysia seeks to become a leading global healthcare destination. Hospital revenues from medical tourists are targeted to reach MYR2.8 billion by 2020 as Malaysia is positioning itself as a regional hub for patients across Asia, especially in areas such as health screening, fertility, and cardiology treatments.

TVET

With the German system as a reference, Malaysia's government has started to reform the technical vocational education and training (TVET) space. The system currently lacks sufficient internships and industrial degrees. Under the initiated reforms, it is meant to develop into a more demand- and industry-driven system and better link up to the labor market. Industry standards set by professional and independent accreditation bodies will need to be adhered to.

VISIT MALAYSIA 2020

The marketing campaign "Malaysia Truly Asia" is well known around the globe and has been attracting tourists to the tropical country for two decades. The tourism sector is of immense importance to the country, having contributed significantly to its socioeconomic development and making up nearly a quarter of total employment in the country. Visit Malaysia 2020 is a landmark campaign that aims to bring in 30 million international tourists and MYR100 billion in tourist receipts. ✕

GDP PER CAPITA (2017)

SOURCE: WORLD BANK

USD9,944.9

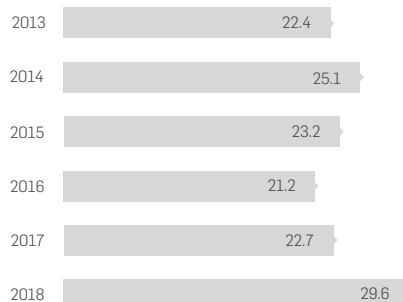
INFLATION (2018)

SOURCE: STATISTA

0.97%

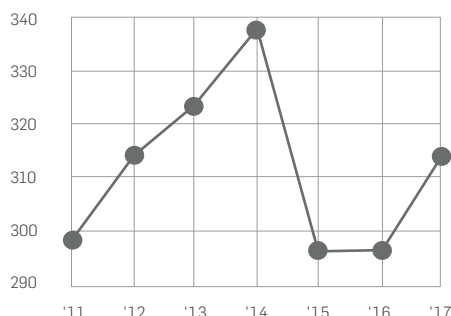
TRADE BALANCE (USD BLN)

SOURCE: FOCUS ECONOMICS, MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY



GDP (USD BLN)

SOURCE: THE WORLD BANK



SEPTEMBER 9, 2018

Malaysia cancels three China-backed pipeline projects in a bid to cut excessive spending and review "unequal treaties." The East Coast Rail Link was put under review in August 2017.



OCTOBER 13, 2018

Anwar Ibrahim returns to politics after winning the parliamentary by-election for the Port Dickson seat with almost 72% of the vote. He is sworn in as a member of parliament two days later.



JANUARY 31, 2019

Sultan Abdullah of Pahang ascends the throne as the new king, or Yang di-Pertuan Agong, of Malaysia, after being elected one week earlier by the Conference of Rulers, a council comprising the rulers of the Malay states. Sultan Muhammad V of Kelantan abdicated the throne on January 6 after a two-year reign.

NOVEMBER 2, 2018

Finance Minister Lim Guan Eng unveils Malaysia's 2019 budget, themed "A Resurgent Malaysia, A Dynamic Economy, A Prosperous Society." It is the first federal budget by the Pakatan Harapan government.



FEBRUARY 11, 2019

Malaysian authorities bust a pangolin-trafficking ring in the state of Sabah, seizing a record 30 tons of pangolins and pangolin scales. Pangolins are critically endangered, and Malaysia has been clamping down on the poaching and smuggling of the mammals.



MARCH 14, 2019

At the premises of MIDA, Minister of International Trade and Industry Datuk Darell Leiking announces Malaysia has approved MYR201.7 billion in investments in 2018, a small increase from 2017.

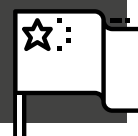


MAY 28, 2019

MESTECC minister Yeo Bee Yin says Malaysia will send back 3,000 tons of illegally imported plastic waste. She also urges developed nations to review their management of plastic waste. Malaysia last year became the world's number-one destination for plastic waste.

APRIL 15, 2019

PM Tun Mahathir announces he has reached a deal with the Chinese government to push ahead with the East Coast Rail Link, after having renegotiated more favorable terms.



THE DAWN *of a new era*



Under Tun Dr. Mahathir bin Mohamad's premiership, the government has identified seven core strategies to replace the previous regime's model of debt-driven megaprojects and foster the conditions that create a better standard of living for all Malaysians.

Tun Dr. Mahathir bin Mohamad
PRIME MINISTER OF MALAYSIA

It seems that Malaysians surprised the world on May 9, 2018 when we brought down a powerful coalition that had ruled the nation uninterrupted for 61 years. It was historic because Malaysians were on the right side of history, as we were not merely out for an electoral victory in the quest for power, but it was an effort to bring an end to a scandalized kleptocratic government.

That was a year ago, and much water has flowed under the bridge since then. And here we are today, struggling to mend a system so damaged that it is a surprise how it had managed to continue in the past few years.

Thus far, we have managed to clean and mop up much of the mess, but it will take some time before we can turn everything around, although the outlook is quite positive and encouraging.

The initial steps taken by the Pakatan Harapan (Alliance of Hope) government involved stringent fiscal policies, the rehabilitation of the civil service, and the introduction of greater anticorruption reforms.

In addition, we have also started pursuing a new vision, one that fosters the conditions that create a decent standard of living for all Malaysians, regardless of one's class, race, or religion. We are setting our sights on achieving this vision of

shared prosperity by 2030, and the government has identified seven core strategies to replace the previous regime's model of debt-driven mega projects with more sustainable and equitable development models.

The strategies include restructuring and enhancing the nation's business ecosystem and industries by adopting the fourth industrial revolution and digital economy technologies that will foster the skills and high-paying jobs needed to sustain a knowledge economy.

Apart from that, it means pursuing inclusive regional development to reduce the gaps not only between urban and rural areas, but also within cities and between entire regions, most pointedly Peninsula and East Malaysia. Moreover, we want to foster new growth sectors, i.e. producing and not merely consuming the kinds of products in demand in developed countries.

We would also need to equip our public- and private-sector workforces with the latest skills to compete and produce on par with the world's most developed countries.

Then, there is the need to increase purchasing power and to provide more opportunities to local workers. Our social welfare system needs to be strengthened and we have to create social support networks at the grassroots level to aid the country's long-term economic development.

None of these steps can be implemented without a firm foundation of good governance and to that end we have set up the Governance, Integrity and Anti-Corruption Centre (GIACC). It is designed to ensure that cabinet ministers and MPs live up to the highest ethical standards and serve as role models and not otherwise.

GIACC not only requires high-ranking public servants to declare their assets, but also enforces strict procedures relating to the receipt of gifts and the management and allocation of political offices. Thus far, the government has made encouraging strides in doing both.

While all these are being undertaken, the government is also reemphasizing its keenness to make Malaysia even more business friendly. Malaysia has always been successful in attracting FDI, and we will continue with these efforts and policies.

Concrete steps are being undertaken to ensure that future FDI into Malaysia, be it from China, the West or from anywhere else, is not subjected to red tapes and bureaucratic hurdles. The new system is also aimed at being the clearinghouse of sorts between the government and investors.

Within the regional context, Malaysia will continue with its neutrality and stand opposed to any kind of belligerence or gunboat diplomacy.

We remain committed to our anti-war stance, and we believe that war is not an option to solve any dispute, more so within ASEAN. We have always promoted the principle of "prosper thy neighbor," and it has served us well within and outside our borders.

ASEAN, with a colossal market of 650 million fellow citizens who in turn are potential consumers, stands as a powerful regional market that has not yet been fully tapped. Its diversity and hardworking peoples are its greatest assets. Similarly, Malaysia, due to its diversity, has often been dubbed as the microcosm of Asia and ASEAN, hence the tagline "Malaysia, truly Asia."

It is with this diversity that Malaysia has come of age. ✕

"We want to foster new growth sectors, i.e. producing and not merely consuming the kinds of products in demand in developed countries."

MALAYSIA IS EMBARKING ON A DRIVE TO CREATE INCLUSIVE ECONOMIC DISTRIBUTION AT EVERY STAGE OF THE VALUE CHAIN TO CREATE HARMONY AND STABILITY AMONG THE POPULATION BY 2030.



GOAL

To provide a decent standard of living for all Malaysians



OBJECTIVES

Narrow the income and wealth gap

Create a new development model for all



Build a brighter Malaysia and help establish the country as Asia's leading economy



CORE STRATEGIES

Restructure and enhance the business ecosystem and industries through the adoption of technology and Industry 4.0.



Ensure the development of more economic centers nationwide to create a more inclusive country and reduce the gaps between urban and rural areas.

Increase investment in new growth sectors to establish Malaysia as more of a producer than a consumer country.



Review the entire capacity building and skills programs in both the public and private sectors to create a competitive and productive workforce.

Ensure policies and programs offer workers fairer wages.



Strengthen social welfare policies and programs based on the principle of meeting the basic economic needs of all Malaysians.

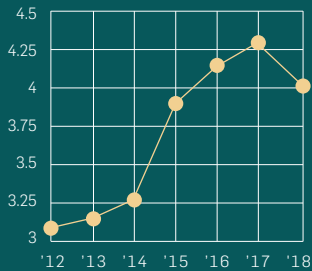
Develop a strong social support structure that will help with rapid economic development of the country and its people.



OFFICIAL EXCHANGE RATE

(MYR TO USD, PERIOD AVG)

SOURCE: THE WORLD BANK



MACROECONOMIC KEY DATA (2018)

SOURCE: DEPARTMENT OF STATISTICS, MALAYSIA

MYR
372.3B

Gross national savings

68.3%

Labor force participation rate

3.3%

Unemployment rate

32.38M

Population

BREAKDOWN OF ECONOMIC ACTIVITY (1Q2019)

SOURCE: DEPARTMENT OF STATISTICS, MALAYSIA



- 57% Services
- 22.1% Manufacturing
- 7.6% Mining and quarrying
- 7.2% Agriculture
- 4.9% Construction





Economy

REPOSITIONING THE NEW MALAYSIA

The historic general election of May 2018 that saw Pakatan Harapan pull off a shocking victory and sweep into government were broadly regarded as a pivotal point for Malaysia. Around the world, eyes were set on the country, as it endeavored to use the reform momentum to deliver on its promise of a new Malaysia. In the interviews we conducted, we noticed a general acknowledgment of the challenges Malaysia was facing, most notably corruption and high debt levels. This acknowledgment, without exception, came together with the will and commitment to improve governance and integrity and the acknowledgement that the government's pursuit of fiscal health would be felt across industries. The announcement of the 2019 budget in November 2018 marked an important point in our research, as our interviewees were keen to better understand how the government would strike a balance between restoring the country's fiscal buffers and supporting economic growth, restoring private sector confidence, and protecting vulnerable groups in society.

Against this backdrop, the economy performed reasonably well in 2018, with GDP growth of 4.7%. Although 4Q2018 surpassed expectations by bringing the first growth acceleration in a year, forecasts for 2019 are somewhat lower amid global trade uncertainties. In the World Bank's Doing Business 2019 Report, Ma-

laysia advanced nine places to 15th place among 190 economies worldwide. The total approved investments grew by 0.5% YoY to MYR201.7 billion. Investments in the domestic manufacturing sector showed a strong surge. Malaysia's trade performance was solid as well, with total trade volume increasing 5.9% to MYR1.88 trillion. Exports contributed particularly strongly, growing by 6.8% almost reaching the MYR1 trillion mark, and Malaysia's trade balance grew 22.3%, jumping to MYR120.52 billion.

In our interviews with government and related bodies, the ambition to cross the threshold into a high-income and developed country was evident. Embracing technology is the key in the government's plans to boost economic productivity, and the launch of the National Policy on Industry 4.0, which took place in October 2018, marked a significant step in Malaysia's aspirations. Going forward, the government aims to position Malaysia as a high-tech manufacturing hub suitable for high value-added activities, rather than as an inexpensive and labor-intensive investment location. However, many interviewees emphasized that with embracing technology comes the need to reskill and upskill the labor population, as well as to prepare Malaysia's future workforce by realigning university and college curricula with labor market requirements. Here lies the challenge for the coming years, although it is one that the government is not hesitating to address. ✕

INTERVIEW



Dato' Azman Mahmud
CEO,
MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY (MIDA)

AN *all-out* EFFORT

MIDA has been stepping up its efforts to drive stronger R&D linkages between the industry and tertiary and research institutions in a bid to encourage greater Industry 4.0 adoption.

“MIDA has facilitated 5,000 companies from more than 40 countries to make Malaysia their location for manufacturing and related services operations.”

BIO

Dato' Azman Mahmud was appointed as CEO of MIDA in 2014. Having served MIDA for three decades in various positions as well as being on the boards of many key organizations, he is passionate about positioning Malaysia as a preferred investment destination. From developing key industrial sectors to promoting Malaysia in various countries including the US and Japan, he brings a vast range of competencies to MIDA. Under his guidance, MIDA is ramping up efforts to support the government's Industry 4.0 agenda.

Malaysia has been moving up the Global Innovation Index. How does this contribute to further developing Malaysia as a preferred R&D hub?

In 2018, Malaysia came in 35th place overall, moving up two positions YoY. Among ASEAN and upper-middle income countries, Malaysia is ranked second after Singapore and China, respectively. Malaysia's improvement in these rankings reflects the country's strength in tertiary education, knowledge diffusion, and creative goods and services. In particular, Malaysia ranks among the top five for graduates in science and engineering, ease of protecting minority investors, high-tech imports and exports, and creative goods exports. We seek to attract more companies, particularly large MNCs, to set up their R&D activities here. Malaysia has five public universities that were granted research universities (RU) status to promote R&D activities, enhance commercialization, increase post-graduate and post-doctoral student intake, and improve the country's global standing. MIDA has been stepping up its efforts to drive stronger R&D linkages between the industry and tertiary and research institutions. It is a tax-efficient way to invest in R&D whereby industry partners can access these universities' expertise while enabling the academia to produce more research with higher commercial potential. The Public-Private Research Network (PPRN) by the Ministry of Education closes the technological knowledge gap, increases productivity, and strengthens Malaysian economic development through innovation and commercialization programs. The emphasis on R&D as reflected in the 11th Malaysia Plan 2016-2020, focuses on translating innovation to wealth by strengthening relational capital to foster stronger linkages, collaboration, and trust among stakeholders. Under the Industry4WRD initiative, one of the Strategic Enablers includes “Technology.” Under this enabler, we aim to intensify research, innovation, commercialization, and entrepreneurship (RICE) programs and activities in Industry 4.0 technologies and processes that support advance priority sectors.

How does MIDA facilitate investors to connect with the local infrastructure?

MIDA has facilitated over 5,000 companies from more than 40 countries to make Malaysia their location for manufacturing and related services operations. MIDA also undertakes several initiatives to facilitate domestic investments and advocate the development of supply chains between Malaysian companies and MNCs and large corporations. These include supply chain initiatives such as the Industrial Linkages program in aerospace for companies to explore business and investment opportunities through strategic partnerships and joint ventures; the establishment of the Investment Coordination Platform (ICP) to facilitate companies to grow their businesses and investment portfolio; the introduction of MIDA's i-Services Portal, a single market place to link investors and companies; and the outreach programs such as the 2018 nationwide forum series on industrial parks.

What are your key objectives for 2019?

Last year, MIDA recorded a significant increase of 169.3% for approved FDI in the manufacturing sector worth a total of MYR58 billion, compared to MYR21.6 billion in 2017. We continue to focus on strengthening growth and increasing productivity, creating new generations of jobs and reducing dependency on foreign labor as well as attracting high levels of quality FDI and direct domestic investment. With the launch of Industry4WRD, Malaysia's key objectives for 2019 in this context revolve around growing local companies with the MNCs and providing reinforcement into Industry 4.0 adoptions. Structural efforts have been taken to mitigate foreign labor dependency and transition labor intensive sectors into automation and digitalization. This effort will continue as one of the key objectives for 2019. It will also contribute to productivity growth. Labor productivity in the manufacturing sector improved from 2.2% in 3Q18 to 2.5% in 2Q18. While this is positive growth, greater improvement is needed to reach a productivity level of 3.7% by 2019. Industry-ready talent is another focus area for 2019. Initiatives are being undertaken to review and revamp the current education system to ensure the curriculum is in line with the development and progress of technology. ✖

Dato' Wan Latiff Wan Musa
CEO,
MALAYSIA EXTERNAL TRADE
DEVELOPMENT CORPORATION
(MATRADE)

on a growth TRAJECTORY

How do you assess Malaysia's trade performance over the past year?

In 2018, Malaysia continued to record a record-breaking trade performance by registering positive growth amid the high-base effect of 2017. Malaysia's total trade expanded by 5.9%, valued at MYR1.876 trillion. The total export value has jumped closer to the MYR1-trillion mark, growing by 6.8% to reach MYR998.28 billion, while imports grew by 4.9% to MYR877.76 billion. The trade balance grew 22.3% to surpass the MYR100-billion mark and reach MYR120.52 billion, the highest level since 2012. Amid global headwinds, Malaysia's trade remained healthy with growing exports and imports, maintaining an upward growth momentum with trade surplus recorded for over two decades. China, Singapore, the US, Japan, and Thailand were Malaysia's top-five trading partners in 2018, accounting for slightly over 50% of total trade. Singapore was the largest export market for Malaysia, followed by China, the US, Hong Kong, and Japan.

What are the main opportunities for Malaysian manufacturers around the move toward Industry 4.0?

In essence, Industry 4.0 adoption is a major shift toward propelling productivity and enhancing competitiveness. The growth of Industry 4.0 will provide greater avenue for Malaysian companies to short circuit the growth cycle as it enables businesses to grow quickly and access new markets. Alternatively, companies can move up the value chain by providing more customized products, through the use of existing experience and data as well as investing in machines and particularly in CAD technology. The economic impact of Industry 4.0 could noticeably be significant for Malaysia's manufacturing industry, especially sectors that are involved in development and marketing of products.

How does MATRADE help local SMEs to prepare themselves trends in international trade?

SMEs account for about 90% of businesses and more than 50% of employment across the world and are therefore a crucial backbone of any economy. In Malaysia, SMEs represent 98.5% of registered



companies. It is critical to ensure that Malaysian SMEs are well prepared to expand and explore new markets overseas. Currently, SMEs' contribution to exports is 17.3%, and MATRADE plays a pivotal role to assist export-ready SMEs to increase their contribution. For 2019, MATRADE has outlined 437 activities for exporters development, aimed to accelerate and strengthen the contribution of Malaysian companies, mainly SMEs, to exports. Going forward, we will continue to develop opportunities for companies to succeed in international trade by assisting SMEs to expand in the export market and grow as future mid-tier companies (MTCs) who will become regional and global champions. MATRADE has implemented an e-trade program with the aim of accelerating exports by encouraging Malaysian companies to adopt cross border e-commerce by participating in international e-commerce platforms. Taking advantage of the growing e-commerce trend, more than 2,800 companies have participated in the eTRADE program, penetrating more than 35 markets. MATRADE's Exporters Development programs aim to assist around 10,000 exporters in 2019. For export-ready companies and SMEs, a total of 40 trade promotional programs will be implemented in 2019, which includes participation in iconic trade fairs and exports acceleration missions. The strong network of MATRADE's 46 trade offices overseas will help provide market intelligence reports and product market studies and update our Malaysian exporters with the latest business trends and opportunities.

How do you envision Malaysia's role in further building the global halal market?

Malaysia has to ensure that its halal ecosystem keeps on progressing with support and new initiatives from various government agencies, trade associations, financial institutions, universities, and industry players. Based on Thomson Reuters' GIEI 2018/19 Report, the global Islamic economy is expected to reach USD5.9 trillion in 2022. In 2018, Malaysia's export of halal products was MYR40 billion. Based on the Halal Industry Master Plan (2008-2020), Malaysia's export of halal products will reach MYR50 billion in 2020. ✖

MATRADE's large network of trade offices around the world provide valuable market intelligence and studies for Malaysian exporters.

BIO

Dato' Wan Latiff Wan Musa has a wide experience in international trade. He started his career with Tourism Malaysia in 1984 before joining MATRADE in 1997. With MATRADE, he served as Trade Commissioner for almost nine years at MATRADE's Cologne, Toronto, and New York offices, where he accumulated more experience in international trade. Currently, he is the CEO of MATRADE. He obtained a bachelor's degree in economics from the National University of Malaysia and an MBA from Mara University of Technology. He also attended a two-year Intensive Education Program on Tourism at the Rikkyo University, Tokyo, and the fifth ASEAN Senior Management Development Program (5SMDP) at Harvard Business School.

INTERVIEW

M. Kula Segaran
MINISTER OF
HUMAN RESOURCES



level UP

Given that upskilling workers is one of the most important aspects of human capital development, the ministry is launching a host of initiatives to prepare the Malaysian workforce for the future.

Could you elaborate on your plans to boost productivity by reskilling and upskilling workers? All employers from 63 sub-sectors within three key economic sectors (services, manufacturing, and mining and quarrying) are obliged to register with the Human Resources Development Fund (PSMB) and pay a 1% Human Resources Development (HRD) levy of their total Malaysian employees' salary for human capital development (HCD) initiatives. As of October 31, 2018, the total number of PSMB-registered employers is 24,627, and these employers hire 2.24 million Malaysian employees. The agency offers financial assistance and training schemes that are driven by its registered employers' training demands, encompassing technical and soft skill trainings in domestic and international courses, setup of training rooms and relevant facilities within an employer's working space, as well as facilitating training for disabled and future workers. Recently, PSMB established a full-fledged customer engagement team tasked with identifying the training demands and challenges among its registered employers. More recently, in the 2019 budget announcement under the technical and vocational education and training (TVET) initiative, the government will allocate PSMB a MYR20-million matching grant for the implementation of two TVET driven programs: an Apprenticeship Program and the Graduates Enhancement Program for Employability (GENERATE). These programs are targeted at school leavers and graduates, respectively, helping them to become job-ready while simultaneously ensuring higher productivity levels. From 1993 to October 2018, over 19.7 million local employees of PSMB-registered employers benefited from these schemes, and in 2019, PSMB targets approximately 1.2 million people. Boosting productivity by reskilling and upskilling workers is one of the most important aspects of human capital development.

Is there a skills mismatch between university curricula and professional requirements on the labor market?

Though we need graduates, there seems to be an issue of a skills mismatch in terms of university curricula and the professional requirements from the labor market. Universities in Malaysia fall under the purview of the Ministry of Education, and it is taking steps to address this issue. On the part of the Ministry of Human Resources, there are several ini-

"The government is taking the lead in encouraging women to contribute to the economy and pushing for more women in leadership roles."

tiatives to prepare local workforces for the future. Among these are conducting a TVET Master Plan Study that encompasses the issues of TVET's demand and supply toward addressing the issues of skills and industry needs, including the challenges of Industry 4.0 and ensuring high employability among TVET graduates with better pay. In order to enhance the quality of TVET and in line with the needs of Industry 4.0, this study will address the aspect of curriculum restructuring, upgrading of facilities and training equipment, professional development of TVET instructors, and other related matters. Another of our initiatives is the review of the National Occupational Skills Standard (NOSS) to meet the current knowledge and skills in the era of digitalization, automation, or Industry 4.0 required by industrial players.

How will the government enhance the participation rate of women in senior positions?

The 11th Malaysia Plan emphasizes on anchoring growth on people, focusing on empowering human capital, including women talent. The 2019 Budget clearly reflects the government's concern on this matter, and the government is taking the lead in encouraging women to contribute to the economy and pushing for more women in leadership roles. Further to this, there is also a push to increase women on boards to 30% by 2020. To support this agenda, the government also announced tax exemption on employment income to be enjoyed by women on who return to the workforce. Furthermore, the Career Comeback Program under TalentCorp aims to encourage employers to recruit and retain female talent in the workforce. To date, we have placed 694 women in the workforce since the launch of this program with an average monthly salary of MYR7,000-8,000. Moving forward, TalentCorp is highly committed to advancing this initiative forward with the support of the Ministry of Human Resources. ✕

BIO

M. Kula Segaran has been serving as Minister of Human Resources since 2018. He is also the National Vice-Chairman of the Democratic Action Party (DAP) and Member of Parliament for Ipoh Barat. He was first elected to Parliament in 1997, holding the seat of Teluk Intan. Segaran was admitted as Barrister-at-Law at Lincoln's Inn in London in 1982. Thereafter he was admitted and enrolled as an Advocate and Solicitor of the High Court in Malaya in 1983.



Dr. Laila Rani binti Dato'
Dr Raja Mohamad Abdullah
EDITOR-IN-CHIEF,
OIC TODAY

What was the vision behind OIC TODAY?

The launch of the OIC TODAY in 2003 was timely and in response to the needs of the Islamic nations, whose cooperation in trade was not up to its potential. This unique initiative was based on the weak, but promising, intra-OIC trade activities in the early 2000s. In line with other activities of the OIC, the magazine is regarded as a gateway to Islamic economies. Two years after OIC TODAY was established, a 10-Year Program of Action was introduced during the Third Extraordinary Session of the Islamic Summit Conference in December 2005. The main objective of that program was to face the challenges facing the Muslim world. At that time, the magazine was already promoting cooperation between OIC member countries.

How do you assess OIC TODAY's role in strengthening communication between businesses across the Muslim world?

OIC TODAY acts as an information provider and communication link between businesses from various industries around the Muslim world. It further allows for investment opportunities and collaboration between businesses in OIC member countries and the rest of the world. Each section of the magazine has a special target to fulfill the overall mission of the magazine. In every issue, we strive to provide a great deal of useful information to our readers. In addition, OIC TODAY has been the media partner for many international trade events. OIC TODAY also presents a number of prestigious awards every year in recognition of the efforts of a group of leaders, such as The Jewels of the Muslim World Award for the movers and shakers of the Islamic economy; the Muslim World Rania Award for the most prominent women in the Islamic world; and the Muslim World Entrepreneur Development Award to support and encourage the progress made by young entrepreneurs.



Dato' Sri Dr. Mohammed Azman Aziz Mohammed
CEO,
SOCIAL SECURITY ORGANISATION (SOCSO)

How do you assess Malaysia's progress in regard to social security protection?

SOCSO is one of the main providers of social security protection for workers with mandatory contributions in Malaysia. SOCSO was established under the Employees' Social Security Act 1969 to administer the Employment Injury Scheme and the Invalidity Scheme. We have added a lot of value to these schemes and we reached a milestone in 2007, when we moved beyond compensation to enhance and improve the social safety net system. Previously, our policies were based on compensating in cases of injury, accident, or illness, but we figured that this way of providing support is not sustainable. We looked into how we could strengthen prevention and rehabilitation and introduced the Return to Work program. We started it by looking at a process of case management, based on the biopsychosocial and multidisciplinary approaches. These approaches mean we get the team and case manager to train workers to be in the organization and help them at every step. At the same time, we actively promote occupational safety to reduce workplace accidents; conduct road safety campaigns to reduce commuting accidents; and implement employees wellness programs. These are all ways to prevent non-communicable illnesses among Malaysian workers. We will intensify our efforts to ensure that our social security protection covers not only registered employees, but Malaysian society. Another milestone for the Return to Work program came in October 2014, when the rehabilitation center in Malacca started its operations. This one-stop center for disabled and injured workers has the latest technology, and is the first in the region to have the multidisciplinary approach. In 2017, SOCSO introduced two new laws to expand the coverage of social security. Previously, the informal sector was not covered by any social security or safety net, but under the self-employed scheme we include taxi, e-hailing, and bus drivers. In addition, we introduced the Employment Insurance System on January 1, 2018. These acts are a turning point in employees' social security in Malaysia. Having said that, we recognize that coverage gaps exist within the current social security system. For example, workers in the informal sector and housewives are still not covered by any social insurance, which exposes them to vulnerabilities. Even the safety net for the country's aging population is inadequate. Together with other stakeholders, SOCSO hopes to consolidate and coordinate the fragmented social protection landscape for comprehensive and adequate coverage for all Malaysians.

What is your outlook for the year ahead?

SOCSO currently covers over 400,000 active employers and close to 6.8 million workers. If we consider the average size of Malaysian households, which is 4.3 persons per family—including families where both parents are working—SOCSO is actually providing social protection to more than half of the Malaysian population. It will be a good year if we can consolidate different fragmented systems within the country's social protection ecosystem. To move forward, we need to follow a good blueprint. Looking at Malaysia from a macroeconomic perspective, there are many measures being undertaken to improve economic fundamentals, enhance consumer and investor confidence, combat corruption, and ensure good governance. These efforts, in turn, should lead to more clients registering and contributing to the organization. That means our pool of resources will grow, allowing us to achieve our goals.



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TAKING IT TO THE NEXT LEVEL

Always at the cutting edge of technological developments, Malaysia is particularly keen to make its workforce digitally literate.

AS MALAYSIA TAKES STRIDES TOWARD BECOMING A DEVELOPED ECONOMY, its labor market finds itself in need of new skills. Even those workers whose skills were honed to perfection when they joined the workforce are quite often in need of upskilling to keep pace with advancements in a rapidly changing ecosystem.

Scholarly studies in the field of management suggest that “employee upgrading” is a key to efficiency, and a hands-on industrialist like Henry Ford once commented that “The only thing worse than training your employees and having them leave is not training them and having them stay.”

But, according to Malaysia’s Human Resources Development Fund (HRDF), the majority of Malaysian workers are employed by SMEs, which do not necessarily have the means to offer retraining opportunities.

Since its inception in 1993 and its restructuring in 2001, HRDF has been on a quest to change this situation by creating a culture of on-the-job training across the labor market under the supervision of the Ministry of Human Resources.

The organization covers over 2.24 million employees and approximately 25,000 employers from many sub-sectors, and it is always on the lookout to identify the hard and soft skills that are in greatest demand across the service and manufacturing industries.

HRDF is aiding its members by funding upskilling programs both inside and outside of the employer’s premises. The organization, in turn, depends on levies paid by the registered employers, though the government is also supporting the cause. In 2019, HRDF is entitled to receive approximately USD4.8 million in the form of a grant for a program that promotes apprenticeship and another one that aims to make graduates more employable.

The upskilling of personnel is by no means some extra work that employers need to undertake because the school system and the universities did not do a good job. Practical know-how is, by nature, different from theoretical knowledge; “For the things we have to learn before we can do them, we learn by doing them,” observed Aristotle over two millennia ago.

All that said, like everywhere else in the world, Malaysia is suffering from some dissonance between the higher education system’s output and the economy’s requirements, and the curricula used by polytechnics, colleges, and universities need to be upgraded to improve the employability of graduates.

At the same time, HRDF’s Graduate Enhancement Program for Employability (GENERATE) is trying to achieve a similar objective. Targeting those Malaysian degree holders who have not found employment three months after graduating and new recruits working in HRDF-registered businesses, the GENERATE initiative has set out to give the graduates the skillset which they need for job placement.

The initiative appears to be a “quick fix” in the good sense of the word, as it is trying to give the graduates, who are otherwise well-trained, a last enabling quality. It is expected that GENERATE and other technical and vocational education (TVET) programs sponsored by HRDF are going to “contribute to the creation of a 35% skilled Malaysian workforce and 1.5 million jobs by 2020.”

As a country at the cutting edge of all things technological in the age of AI and the internet of things (IoT), Malaysia is particularly keen to make its workforce digitally literate. The country has even launched its national policy, Industry4WRD, to speed up the digitalization of manufacturing and business, among other things.

A new report by Randstad Malaysia, a global HR service, discovered that roughly 90% of the country’s workforce think they are in need of upskilling to stay in the game. While the majority of participants had a positive attitude to emerging technologies, they also feared that they would be left behind without upgrading their skills.

This awareness is greater in those employees who have been in the job market for a while and suspect that things have changed a lot since they left school. Malaysians, however, are at an advantage compared to many parts of Asia thanks to their multilingualism and fluency in English—as the de facto language of the IT world—as well as their chance to participate in reskilling programs offered by the state. ✖

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IGNITE INSPIRATION

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FOR THE future

The state of Sabah is striving to achieve sustainable development in a bid to protect its rich and unique biodiversity for future generations.



Datuk Seri Mohd Shafie Apdal
CHIEF MINISTER OF SABAH

What are some of the cornerstones of your agenda for Sabah?

Under the new government led by Parti Warisan Sabah (Sabah Heritage Party), we are striving to achieve a sustainable form of progress and development, driven by policies for economic growth, environmental protection, and social equity. The interests and welfare of Sabahans always come first in our agenda. In our pursuit of economic growth, we make every effort to satisfy the needs of the people but not at the expense of our precious natural resources. This is important to ensure that future generations will continue to enjoy Sabah's rich and unique biodiversity. To that end, environmental protection plays a crucial part, and we fully appreciate that the foundation for keeping our ecosystem as pristine as possible is to make sure that wildlife and flora are well taken care of and not exploited needlessly. Therefore, we are allocating special zones in our rainforests so wild animals can still have their own sanctuary where they are free to roam and thrive. Likewise, social equity plays a crucial part in Sabah's direction to greater progress and prosperity, and our policy stresses on the importance of meeting the needs of all Sabahans regardless of race and religion. As a multiracial and multicultural society, social equity is important to uphold and maintain unity in Sabah. For progress and prosperity to become real, Sabahans must embrace their diversity. We also have zero tolerance for any kind of extremism, whether racial or religious.

How are you planning to boost human capital development in Sabah?

Since forming the new government in 2018, we have set up a Ministry of Education and Innovation to tailor make courses in order to produce human capital that serves specific industries ranging from hospitality to oil and gas. The mainstream curriculum taught in schools will be supplemented with courses that emphasize on skills. There will be greater focus on skills for specific Sabah-based industries in vocational institutions. Professional occupations in medicine, law, and engineering, among others, remain important, but greater emphasis will be placed on skill training.

"We make every effort to satisfy the needs of the people but **not at the expense of our precious natural resources."**

How do you view the potential to further develop Sabah as a tourism hub?

Sabah has vast potential to be developed further as a tourism hub. From the mountain tops of the UNESCO World Heritage Site of Kinabalu Park to the deepest waters of the internationally renowned diving treasure of Sipadan Island, there are plenty of attractions to hold any visitor spellbound. What is needed is a more efficient form of coordination and synergy to bring all these attractions together so that they not only offer a visual treat but also create a deeper appreciation for nature. With over 32 ethnic tribes in Sabah, each with their own distinct culture, just discovering about the people in this Land Below the Wind is in itself another attraction for tourists. We seek to increase the number of direct international flights to the Kota Kinabalu International Airport and with our strategic geographical location, we have high hopes of securing that to boost tourism. Similarly, Sabah sits perfectly on the path of cruise liners, and this certainly holds potential that can be explored further.

How do you assess the ease of doing business in Sabah?

Investors will not find it terribly difficult to conduct business in Sabah because of our strategic location within the ASEAN region and the Southeast Asian trade route. There are already tax incentives put in place by the Malaysian government.

Where do you see the greatest untapped investment opportunities in Sabah?

Food production is one such opportunity. Food production in Sabah is largely limited to cottage industries. One example is the honey produced by stingless bees, which are highly prized for its medicinal benefits; however, no major investor has tapped into this. Tawau is one district where tropical fruits such as rambutan, mangoes, and durian can be grown without the use of chemicals and pesticides. ✕

BIO

Datuk Seri Mohd Shafie Apdal currently serves as Chief Minister of Sabah. He obtained a diploma in management and shipping from London Business College and a bachelor's degree (honors) in economics from North Staffordshire Polytechnic, UK. He started his career as an economic officer at the Ministry of Finance of Sabah and served in several positions at both the state and federal level before being elected Member of Parliament for Semporna in 1995. Four years later, he became Deputy Minister of Housing and Local Government and Deputy Minister of Defence. In 2004, he was appointed Minister of Domestic Trade and Consumer Affairs and Minister of Unity, Culture, Arts and Heritage. In 2009, he became Minister of Rural and Regional Development.

INTERVIEW

Anwar Ibrahim
MEMBER OF
PARLIAMENT &
LEADER OF THE
PAKATAN
HARAPAN
COALITION



STRONG *fundamentals*

The key to unlocking Malaysia's true potential is introducing structural and institutional reforms across the board to eventually make the country more competitive.

You have been advocating for “democratic accountability.” What institutional reforms are necessary for Malaysia to mature as a democracy?

Under Tun Mahathir, we are seeing a beginning of the reform of the judicial process, although it will take some time for all new judicial reforms to take place. While that process unfolds, judges have been asked to ensure that they adjudicate based on facts and law, and not on bribery or political influence, whatever may have happened in the past. For other institutions, such as the Anti-Corruption Commission and law enforcement agencies, we have given a clear signal that the bodies must operate professionally, effectively, and without political interference. There must be greater parliamentary oversight across the board as a check and balance on executive power. We must have a free media that can shine light on the excesses of business and government. I would also add that a critical aspect of the transition is adopting economic policies that are pro-growth and market based, while at the same time considering the welfare of the poor and marginalized who have been largely ignored. We would not be able to sustain progress toward a vibrant democracy if the country leaves the poor and marginalized behind in terms of education and distributive justice.

How should Malaysia deal with rising youth unemployment?

As a trading nation, Malaysia must attract high-value foreign investment. We must identify the obstacles companies face and develop a competitive and compelling argument for them to bring businesses into our country, particularly in the area of robotics, AI, and high-end technology. Regaining investor confidence requires the government to establish a clear, long-term policy agenda, deliver on the reforms that have been promised, and make investments in the country's education, infrastructure, and regulatory environment. At the same time, our graduates face a skills gap when it comes to filling positions. We need to redouble efforts to train the workforce of the future and en-

sure that the graduates that are coming into the workforce have what it takes to be competitive in a global economy.

What main challenges and opportunities do you foresee for Malaysian manufacturers around the move toward Industry 4.0?

Malaysia was a trailblazer in technology adoption, particularly with Malaysia's Multimedia Super Corridor (MSC), in the late 1990s. It is imperative that we accelerate the process and focus on promoting R&D and skills development. There are many in the SME sector who are hesitant to move into Industry 4.0, fearful of the costs they may incur and not yet convinced of the value. The government can play a role in increasing awareness and supporting the investment in capital and human resources necessary for companies to excel. We have to acknowledge that our economy can no longer be labor intensive. We should focus on high-end technology because we have the resources, and invest in skills training and development outside of the university system to ensure that all workers have an opportunity to participate in this new wave of innovation.

How should Malaysia regain investor confidence and make Malaysia attractive for FDI?

Malaysia's fundamentals are strong, and we cannot deny that as far as ease of doing business is concerned we are competitive within ASEAN. The new government's policies vis-à-vis corruption and transparency have sent a strong signal and our ranking has improved. Eliminating corrupt practices and shady deals will bring costs down for all parties. Furthermore, we can establish administrative bodies such as a Malaysian Arbitration Center to expedite the process of dispute resolution. Many of the problems foreign investors confront in Malaysia can be addressed with efficient administration, and I believe we must do everything we can to respond to their requests. We also need to make rapid improvements to our workforce to ensure workers can fill the jobs of the 21st century. ✕

BIO

Anwar Ibrahim is the president of the People's Justice Party (PKR) and leader of the governing Pakatan Harapan coalition. Between 1983 and 1998, he held various ministerial positions, serving as Deputy Prime Minister from 1993 to 1998. After being jailed from 1999 to 2004, he returned to the political stage in 2008, leading the opposition against former Prime Minister Najib Razak until being jailed once again in 2015. He was released and granted a royal pardon days after the 2018 General Election and in October 2018 he won the Port Dickson by-election and returned to Parliament. He is expected to take over as Malaysia's eighth Prime Minister in 2020.

Firas Raad
COUNTRY MANAGER MALAYSIA,
WORLD BANK

striking a BALANCE

Malaysia's 2019 budget looks promising, according to the World Bank, though it must invest in education and human capital development if it is to reach developed country status.



How do you assess the measures taken by the Malaysian government in the 2019 budget to restore fiscal buffers, improve governance, and regain consumer and investor confidence?

It is important to see the budget and policies for 2019 within the context of Malaysia's broader development narrative. The development model of this country has traditionally been based on an export-oriented strategy. Recently, however, questions have been raised about the appropriateness of this model going forward and how Malaysia can shift to a new development model to further climb up the income ladder and reach high-income and developed country status. Part of this challenge is boosting education outcomes and productivity growth. When the new government assumed power, there were a number of challenges it had to confront, and the budgetary cycle was an opportunity for it to unveil its policy directions vis-a-vis these challenges. In the near term, it had to manage its budget and fiscal position, grow the economy, give confidence to the private sector, and protect the vulnerable in society. The government knew it had to strike a careful balance, and we were fairly pleased that the budget included a number of pragmatic elements. We are still fairly positive as the economy still rests on strong fundamentals.

What are your expectations around the impact of the National Industry 4.0 Policy Framework on the performance of Malaysia's manufacturing industries?

In October 2018, the National Industry 4.0 Policy Framework was launched. Its success will ultimately rest on the ability of firms, particularly SMEs, to adopt new digital technologies. This framework will have to tackle issues like providing credit to firms that need it and getting connected digitally. Our recently completed report on Malaysia's digital economy found that the country was doing fairly well in terms of connectivity and e-services, both on the government and individual

levels. The digital adoption rate of firms in Malaysia, however, is relatively low compared to other regional countries. One key factor was the comparatively high prices for fixed broadband services and a lack of competition. The government is now encouraging greater competition in the telecoms sector, which is leading to lower prices and higher digital adoption.

How does the World Bank support Malaysia toward realizing better human capital?

Human development outcomes around the world need to improve if we are to meet the Sustainable Development Goals (SDGs) by 2030. Over the last two decades, there has been a real emphasis on the development of human capital by various organizations. There has also been a recognition that we are not moving fast enough as a community of nations to meet the challenges of human capital accumulation, particularly in health and education. In the health domain, there are twin challenges of infectious diseases and non-communicable diseases. On the education front, the latest World Development Report highlighted that enrollment rates are insufficient as an indicator of progress; we also have to look at learning outcomes. To that end, the World Bank introduced the new Human Capital Index in 2018, which provides a measure of the future potential of a child born today given the prevailing human development conditions in her or his country. It is both astonishing and encouraging that four of the top five performers of the HCI came from the East Asia and Pacific region. Malaysia did well in certain areas but lagged behind in other areas. The two areas where improvements are needed are in childhood stunting and the quality of education. Another area of concern is the quality of education. The country's most recent scores in education do not compare as well as those of its aspirational peers. We hope to support the government in its efforts to make improvements in this critical area for development. ✖

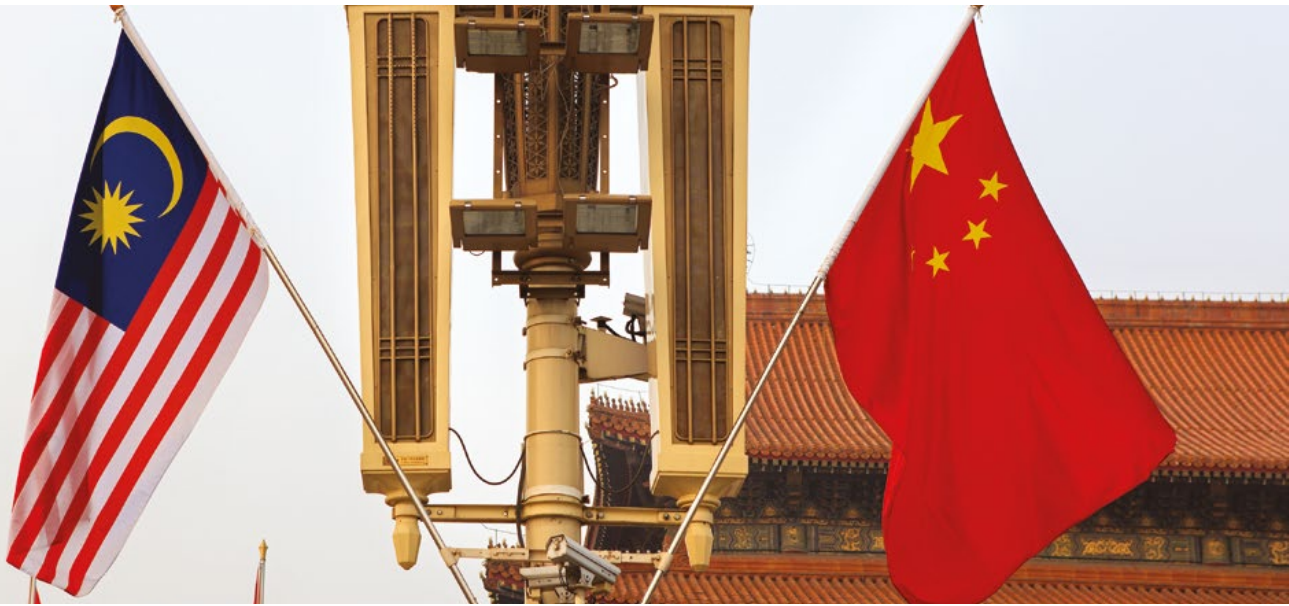
BIO

Firas Raad, a Jordanian national, is the World Bank Country Manager in Malaysia. He was formerly the Country Manager for Kuwait. Raad joined the World Bank in 2002 as a Senior Health Policy Specialist. More recently, he was working in the Health, Nutrition and Population (HNP) Global Practice. Prior to 2009, Raad focused on implementing health sector reforms in Lebanon, Palestine and Egypt. He also served as the World Bank Human Development Coordinator for the GCC countries. Between 1997 and 2000, Raad was the Private Secretary for Health Affairs in the Royal Jordanian Court providing health sector reform policy advice. He holds a PhD in international health policy and economics from the Harvard School of Public Health, and a master's degree in international relations from the Johns Hopkins School of Advanced International Studies.

FOCUS

Malaysia-China relations

Image: testing



A GOOD BALANCE

Malaysia remains on good terms with China, proving that maintaining healthy ties with both the West and China can bring significant benefits.

OVER FOUR DECADES AFTER THE REESTABLISHMENT OF DIPLOMATIC RELATIONS BETWEEN BEIJING AND KUALA LUMPUR, the two nations continue to maintain robust economic, cultural, and political ties in Southeast Asia, while navigating around problems and setting a model for the rest of the ASEAN region. Sino-Malay relations date back to ancient times, and the two countries have supported one another in dire straits throughout history, an early example of which being China's rebuke of the 1511 capture of Malacca. To this day, ethnic Chinese people remain a part of Malaysian society.

Diplomatic ties between Malaysia and China were revived in 1974 during the then-Prime Minister, Abdul Razak Hussein's historic state visit to China, and things have been on the mend ever since. During Tun Mahathir bin Mohamad's first term as Prime Minister in the 80s-90s, bilateral relations constantly improved. From being regarded as a potential threat, China came to be regarded as if not a strategic ally then at least a trustworthy regional partner.

Bilateral relations reached new heights in 2012 when both sides agreed to honor the 40th anniversary of their renewed diplomatic ties by making 2014 "Malaysia-China Friendship Year." In that year, Malaysia received two Chinese pandas as a sign of goodwill, which now reside in the National Zoo of Malaysia. Pandas were not the only things that the two nations exchanged. In the same year, Beijing and Kuala Lumpur agreed to ramp up their two-way trade volume to USD160 billion by 2017, and China became Malaysia's number-one import and export trade partner in 2017, though the trade volume did not reach the target figure.

The two countries once more expressed their optimism on the future of their bilateral ties during the state visit of reelected Prime Minister Mahathir to China in August 2018.

This is not to say, however, that Beijing and Kuala Lumpur have no unresolved issues. Both countries have claims to the South China Sea which has, at times, resulted in less-than-cordial exchanges. However, both nations have so far opted for the path of diplomacy and dialogue to solve the issue at hand, and therefore Malaysia-China relations have not suffered. Malaysia and China have both agreed

that the involvement of third parties in the South China Sea dispute will be highly counter-productive. Mahathir, on more than one occasion, argued that his country does not perceive China as a threat, going so far as to accuse some western powers of stirring conflict in the region.

It is perhaps this commitment to a regional solution that has kept Malaysia-China relations healthy, while Philippines-China relations have been undermined. The friendly, diplomatic approach taken by both sides has by-and-large guaranteed the security of maritime routes in the South China Sea, which is of crucial importance for all ASEAN economies. However, Malaysian authorities and the private sector have had mixed feelings about the widespread presence and investment of Chinese businesses—commonly known as the Bamboo Network—in their country. Admittedly, Chinese businesses are injecting cash into the economy; however, their presence also has an impact on the local business ecosystem, which is not always productive.

The most hyped instance of such frictions was the cancellation of the USD20-billion East Coast Rail Link (ECRL), which was entrusted to a Chinese contractor, Communications Construction Co Ltd (CCCC) in 2018. To make sure China would not get the wrong message, Malaysia announced that the new Cabinet's decision was made solely on economic grounds and without any political considerations.

Nevertheless, 2019 saw a number of breakthroughs in Sino-Malay relations. After some renegotiation and the Chinese party's promise to cut costs, the ECRL project was put back on track in April 2019, and Mahathir was one of the first leaders in the region to announce his country's attendance to the second Belt and Road Initiative Summit.

As a Chinese-sponsored series of megaprojects in over 150 countries, the initiative has been received with some misgivings in certain countries, but the Malaysian government has decided to remain optimistic about the initiative, letting Chinese companies to continue playing an important part in Malaysian infrastructure projects such as ECRL and Bandar Malaysia. ✖

TBY ANALYTICS MALAYSIA 2019

53 interviews were conducted for *The Business Year: Malaysia 2019* Analytics. This is a breakdown of the answers to the questions we posed.

BUSINESS CONFIDENCE INDEX

How confident are you about the outlook for business in Malaysia this year (1-5)?

3.5
AVERAGE
RATING

SECTORS TO WATCH



FINANCE

3



ENERGY

3.7



INDUSTRY

3.65



TRANSPORT

3.6



REAL ESTATE &
CONSTRUCTION

3.5



HEALTH &
EDUCATION

3.78



TOURISM

3.4

ADVANTAGES AND CHALLENGES

What are the most commonly mentioned advantages and challenges of doing business in Malaysia?

ADVANTAGES

Adoption of Industry 4.0

Talented and multi-lingual labor force

Well-developed banking and financial services

Competitive manufacturing market

High-quality infrastructure

Strategic investment location

Strong supply chain

CHALLENGES

Youth unemployment

Lack of human resources

High costs of living

Lack of foreign investments

GROWTH SECTORS

Which sectors have the strongest growth potential in the Malaysian economy?



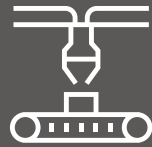
38%

Technology & innovation



36%

Logistics & supply chain



26%

Manufacturing

INDUSTRY 4.0

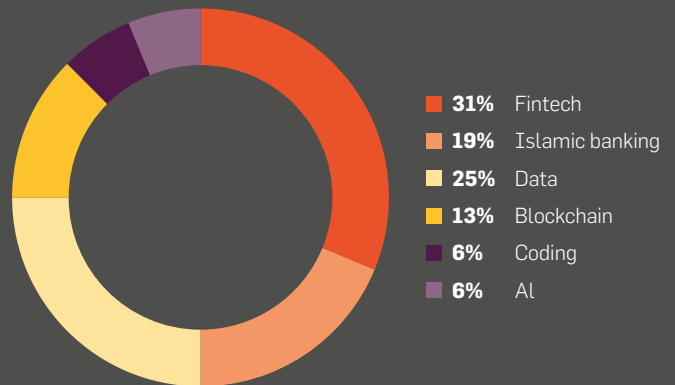
How is the adoption of Industry 4.0 affecting economic development in Malaysia?

“Industry 4.0 is essentially about improvement of productivity and traceability. We cannot yet fully rely on robots, but rather, by maximizing data usage we can identify weak spots and areas for improvement. To further push the transition to Industry 4.0, it is important for the connection with local universities to be made and knowledge among students raised. The government push is there, but what is still missing is human capital with the right skills.”

Henk Jan Jonge Poerink
SENIOR VICE PRESIDENT GLOBAL OPERATIONS,
BESI & MANAGING DIRECTOR,
BESI APAC

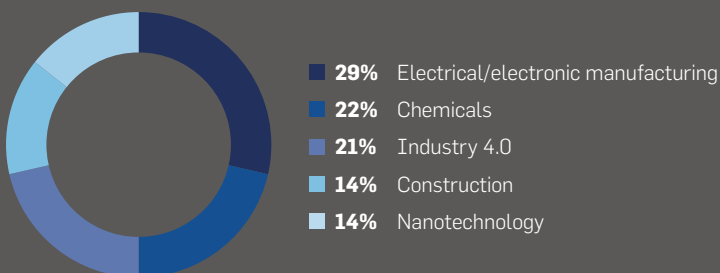
FINANCE

What are your investment focus areas?

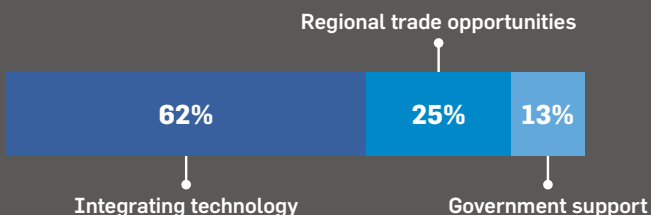


INDUSTRY

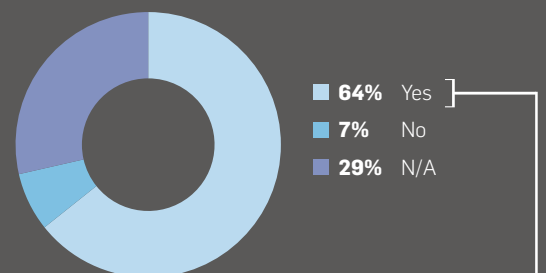
In which sub-sectors are you collaborating?



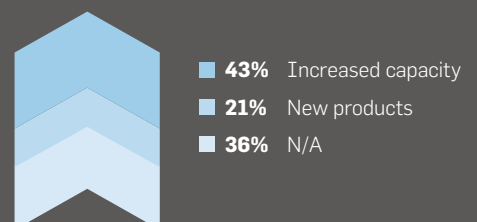
Why are you increasing capacity and/or branching into new products?



Are you looking to expand?

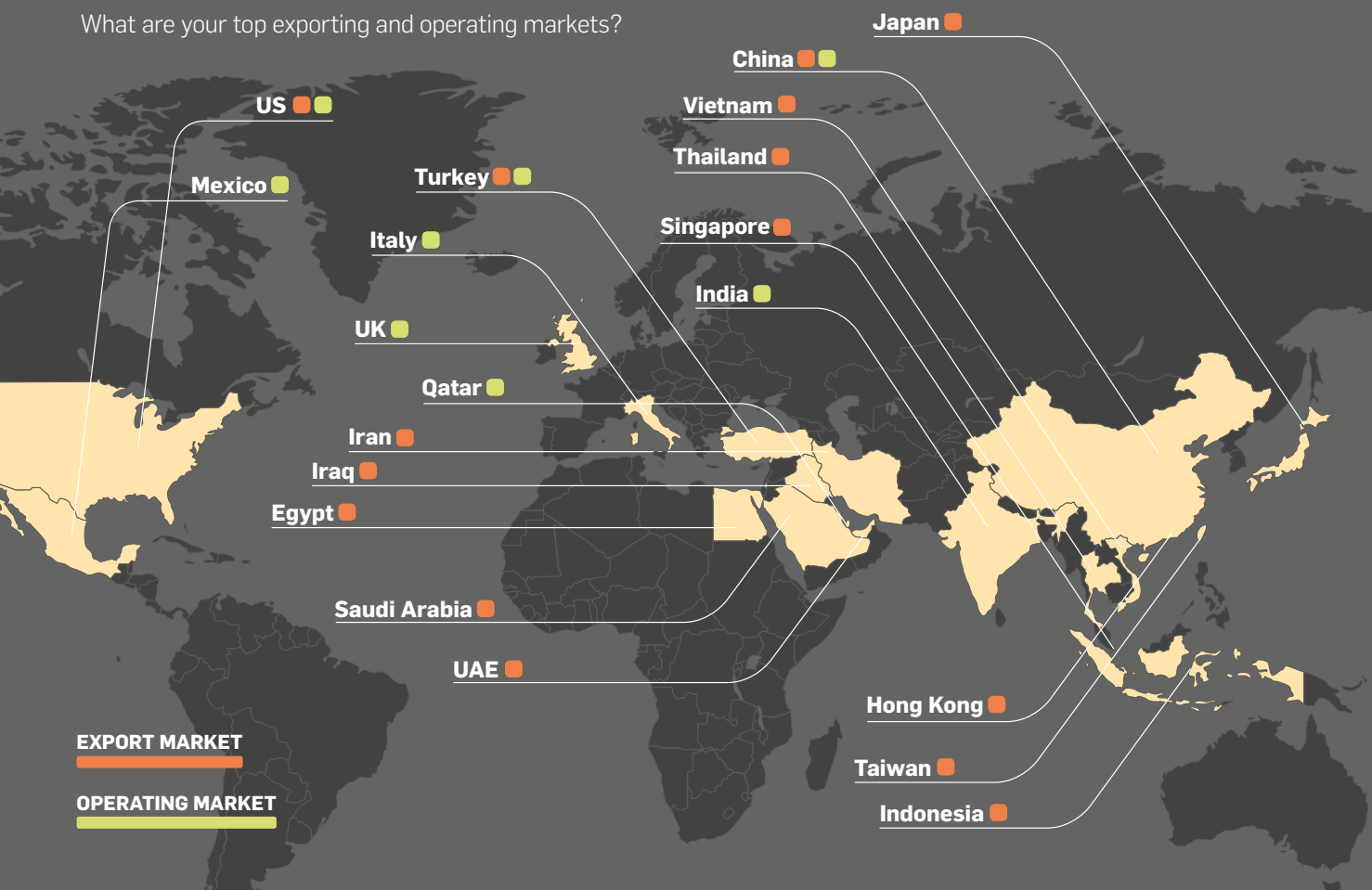


In what ways are you expanding business?



EXPORT & OPERATING MARKETS

What are your top exporting and operating markets?



HEALTH

Are you providing digital health services for your patients?

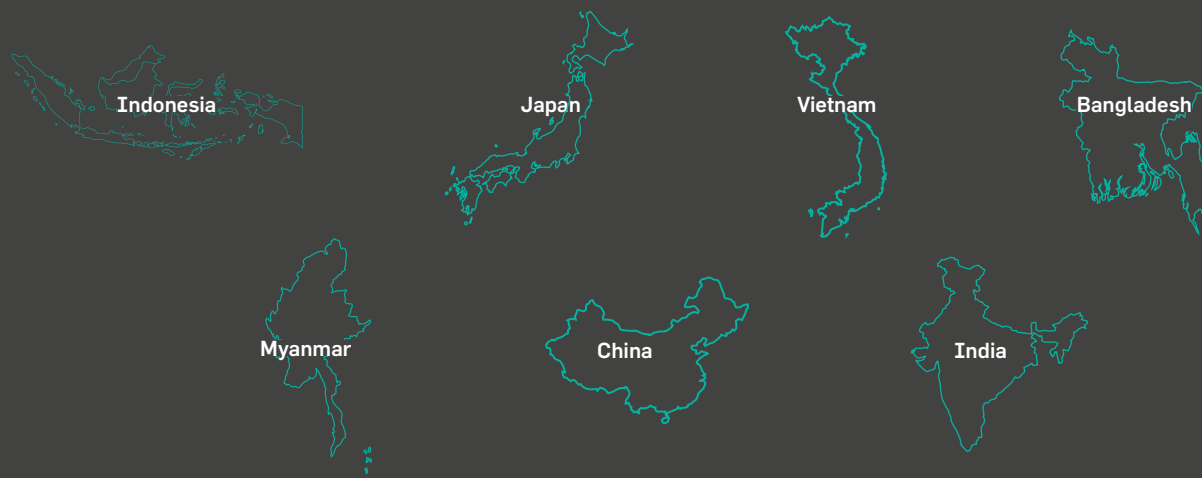


71%
YES



29%
N/A

Malaysia is known as one of the leading global healthcare destinations. From which countries are you receiving travelers seeking health services?



Did you know?

Malaysian expertise is helping
to unlock **oil shale's potential** in
Jordan's energy sector.

Intrigued? Find out more

The Business Year: Jordan 2019

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