



Manufacturing Sector Brief
MALAYSIA



COUNTRY OVERVIEW

Malaysia comprises of two regions separated by the South China Sea with a population of 32.7 million. It has one of the most open economy and ranks 62nd in the Human Capital Index 2020. Malaysia is a unique multicultural society of which the population is made up of various ethnicities and multi-religions living in harmony. The largest ethnic group in the country is Bumiputera (Malays and other indigenous people) and Islam is the official religion. The country has one of the highest standards of living in Southeast Asia and the rising cost of living has been a key source of concern for large segments of the population. The country also benefits from a high-skilled and English-speaking workforce.

Over the years, Malaysia's economy had transformed from primary industry to high value-added industries. The economy has remained strong backed by high global demand for electronics, increased demand for commodities, such as oil and gas, an improved labour market, and ample infrastructure spending. Integration into the global supply chain expanded export activities from commodities to manufactured goods, namely electrical and electronics. Its major trading partners are China, Singapore, the United States, Japan, and Thailand.

Table 1: Percentage share of GDP according to economic sector at constant 2015 prices

● Sector	● 2018	● 2019	● 2020
Agriculture	7.3	7.1	7.4
Manufacturing	22.4	22.2	22.9
Industry (excluding manufacturing)	12.4	11.9	10.8
Services	56.7	57.6	57.7

Source: Department of Statistics, Malaysia



MANUFACTURING SECTOR OVERVIEW

Malaysia's manufacturing sector accounted for about 22.9% of GDP in 2020 (22.2% in 2019). The manufacturing sector in 2020 was led by electrical and electronics products (6.8%), petroleum, chemical, rubber, and plastic products (6.7%), and food, beverages, and tobacco (2.9%). In 2020, export of manufactured goods was valued at RM 849.5 billion, making up a larger share of total exports at 86.3% as compared to 84.5% in 2019.

Malaysia's industries are highly dependent on semi- and low-skilled workers and foreign labor force. Total employment of the manufacturing sector in 2020 was 2.16 million individuals, which was dominated by electrical, electronic and optical products; petroleum, chemical, rubber and plastic products; and non-metallic mineral products, basic metal, and fabricated metal products.

The growth in the manufacturing sector has stimulated jobs, attracted investments, and created business opportunities in downstream activities and related services sectors. The manufacturing sector is expected to continue as the catalyst of economic growth and is projected to achieve an average growth of 5.7% under the Twelfth Malaysia Plan 2021–2025 (Twelfth Plan).



SUBSECTOR/SEGMENT

Malaysia's five main manufacturing subsectors based on the contribution to GDP (in 2020) are:

- Electronic components and boards, communication equipment, and consumer electronics (20.8%);
- Refined petroleum products (11.5%);
- Chemicals and pharmaceutical products (10.5%);
- Motor vehicles and transport equipment (8.1%); and
- Food processing (5.9%)



GEOGRAPHICAL PRESENCE

A majority of the manufacturing activities are located in the states of Selangor, Pulau Pinang, Johor, Negeri Sembilan, and Melaka. This is due to advanced connectivity, supporting services, and its vicinity to major ports, such as Port Klang, Penang Port, and Johor Port (Pasir Gudang).

Table 2: Percentage share by economic activity for selected states, 2020

● States	● Agriculture	● Manufacturing	● Industry (excluding manufacturing)	● Services
Pulau Pinang	2.2	245.0	2.6	2.6
Perak	15.5	19.1	3.4	3.4
Selangor	1.4	29.2	6.0	6.0
Melaka	11.2	37.3	2.6	2.6
Negeri Sembilan	7.2	36.2	3.4	3.4
Johor	13.2	30.2	3.8	3.8

Source : Department of Statistics, Malaysia



EXPORTS BY STATE

Malaysia's exports were dominated by Pulau Pinang (31.8%), Johor (20.0%), and Selangor (18.9%). Major exports products from Pulau Pinang were electronic integrated circuits, other electrical and electronic products, and professional, scientific, and controlling instruments and apparatus. Meanwhile, major exports products from Johor were refined petroleum products, electronic integrated circuits, and other electrical and electronic products while exports from Selangor were mostly rubber gloves, electronic integrated circuits, and other electrical and electronic products.



BRIEF PROFILE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN THE SECTOR

MSMEs, which accounted for 98.5% of total firms in Malaysia and the bulk of the country's manufacturing enterprises as well as employment, are crucial components of Malaysia's strategy towards becoming a high-income nation.

Investors may take into account Malaysian MSMEs' potential to be global exporters supported by the country's initiatives, such as the National e-Commerce Strategic Roadmap 2.0 (NeSR2.0) and the National Trade Blueprint 2021-2025. These initiatives are expected to further boost MSMEs potential through the adoption of latest technologies and improvement of the business ecosystem to be globally competitive.

Table 3: MSMEs in Malaysia according to economic sector

● Economic Sector	● % of MSMEs (In 2020, total of 1,151,339 MSMEs registered)
Services	85.5
Construction	7.4
Manufacturing	5.1
Agriculture	1.7
Mining and quarrying	0.3

Source : SME Corp Malaysia (2020)



POLICIES AND REGULATIONS

Investors can expect minimum or no restrictions on foreign equity ownership and a liberal expatriate employment policy. Manufacturing sector policies encourage free movement of funds for foreign investments in Malaysia. Malaysia also has a relatively strong protection of Intellectual Property (IP) rights. Investors should take note of the country's manufacturing sector policies, which encourage responsible trade unions for harmonious industrial relations.



NATIONAL STRATEGY

The National 4IR Policy, Malaysia Digital Economy Blueprint, and National Policy on Industry 4.0 (Industry 4WRD) are the Malaysian government's commitment towards high productivity.

Opportunities in high technology manufacturing ecosystem await investors with Malaysia's digital revolution reflected in the Industry4WRD launched in October 2018. This policy outlines 13 broad strategies for Malaysia to embark on a journey that will transform its manufacturing industry landscape over the next decade.

Through Industry4WRD, Malaysia aims to increase the level of productivity in manufacturing, elevate the absolute contribution of the manufacturing sector to the economy from RM 254 billion to RM 392 billion, strengthen the innovation capacity and capability, and increase the number of high-skilled workers in the sector from 18% to 35%.



INVESTMENT AND MARKET ENTRY OPPORTUNITIES

Malaysia presents favorable investment opportunities for both foreign and domestic investors especially for high value-added manufacturing activities in the ASEAN region.

Top Country for total FDI Flows (RM Million)		Top Country for FDI Flows – Manufacturing sector (RM Million)	
● Country	● 2020	● Country	● 2020
Singapore	5,657.2	Singapore	1,928.5
Thailand	3,197.1	Thailand	1,790.1
China	2,611.0	China	1,504.3
Japan	2,202.5	Japan	1,359.7
Virgin Islands (British)	1,909.5	Virgin Islands (British)	1,031.6

Manufacturing of gloves is still one of the key sectors that attracts investors. Groups such as Sanichi Technology Bhd and Mah Sing Group Bhd have diversified into glove manufacturing. Kedah Rubber City (KRC) alone attracted over RM 2.2 billion committed investments in advanced latex product development, production of feedstock, manufacturing, storage warehousing, and logistics due to rising demand amidst the ongoing COVID-19 pandemic.

The Malaysian government aims to position the country as a gateway to the ASEAN market by offering various incentives to foreign companies, such as pioneer company status and tax reductions associated with investments.

In line with the Industry4WRD strategy, Malaysia is targeting investments in high technology and research and development, focusing on artificial intelligence, "Internet of Things" device design, and manufacturing, among others.



KEY CONSIDERATIONS

Malaysian MSMEs are not fully embracing the adoption of Industry 4.0 practices. Despite its enormous economic potential, awareness amongst MSMEs are still low.

Domestic investors should seize opportunities presented by Industry 4.0 as a catalyst to transform manufacturing MSMEs through improving productivity; enhancing organisational, management and production capabilities; enabling better quality and monitoring; and developing innovators and producers of Industry 4.0 technologies.



ISSUES AND CHALLENGES

Malaysia has moved away from being an investment destination for low cost labor manufacturing activities but still facing challenges posed by lower cost competitors. The main challenge confronting investors in the Malaysian manufacturing sector is related to human capital. Malaysia saw a decline in the relative share of high-skilled labor from 19.0% in 2010 to 18.5% in 2017. The labor force is also striving to keep up with the rapid development in the Industry 4.0, such as robotics and AI in the manufacturing sector.



RECOMMENDATIONS

Foreign investors may partner with domestic partners of the government to strengthen the skills and technical know-how of the workforce through partnerships in technical and vocational education and training.

Malaysia's transformation will require an approach and an ecosystem that optimise the relationships among people, process, and technology.



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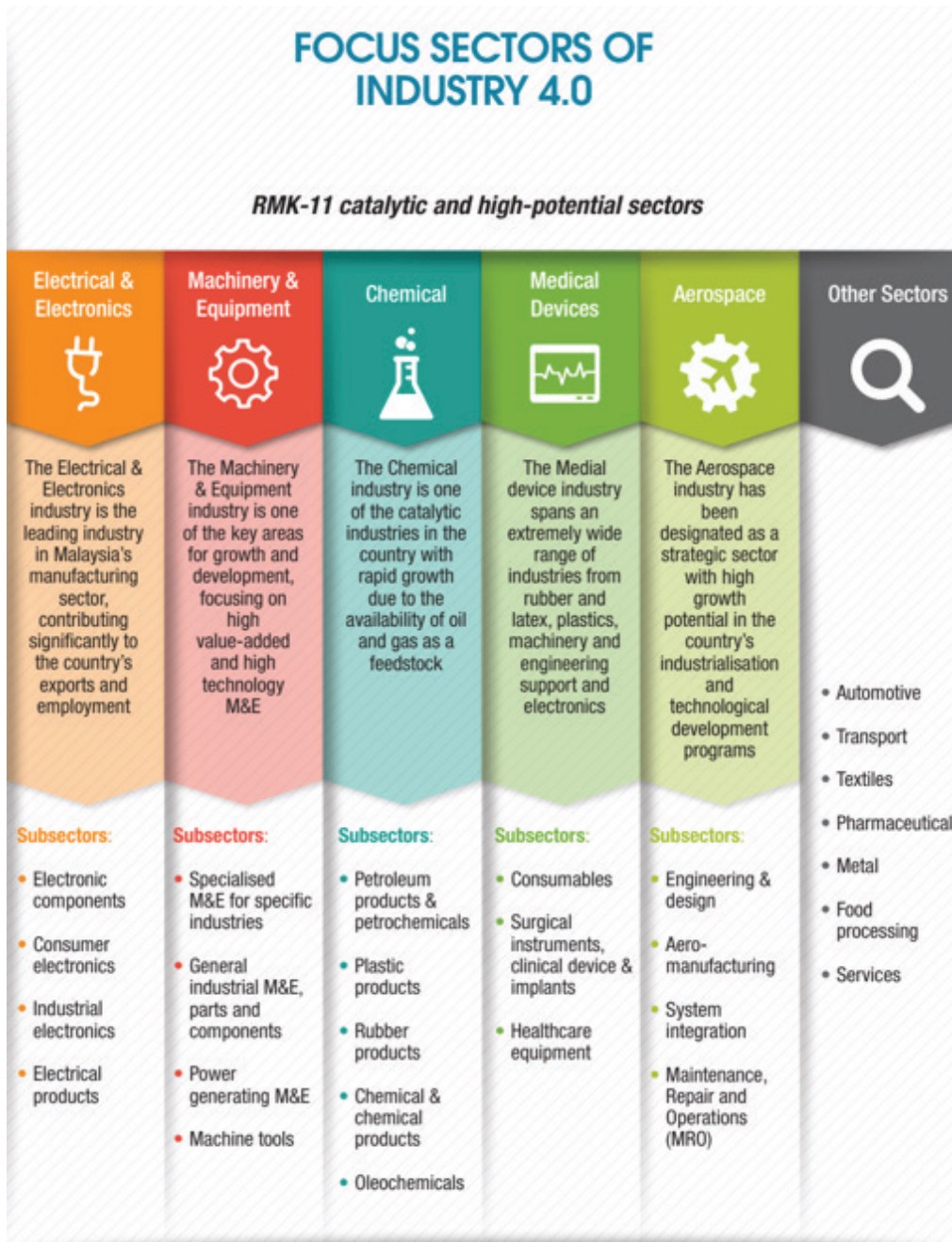
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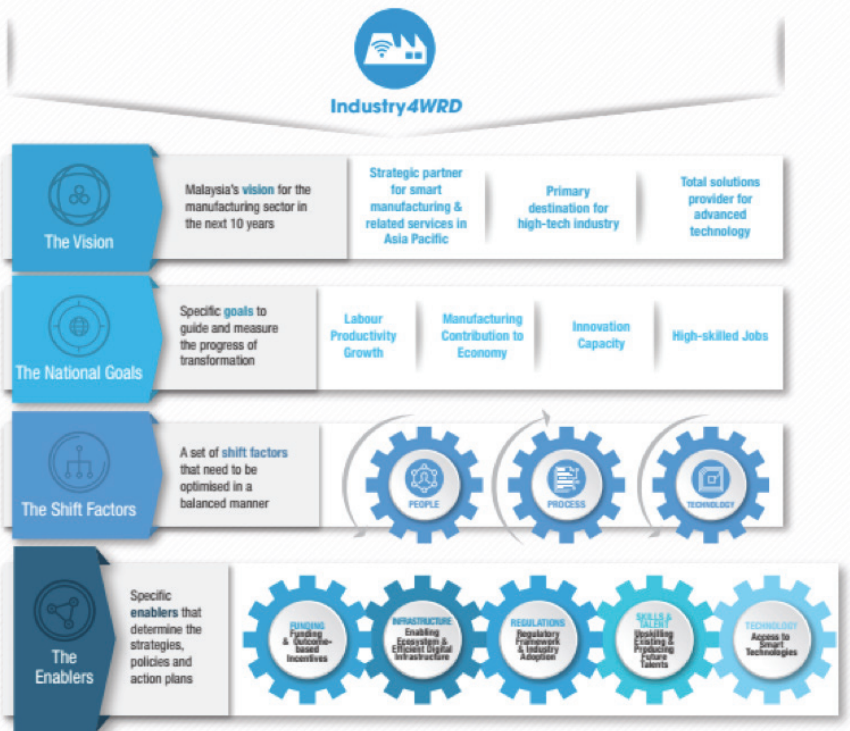
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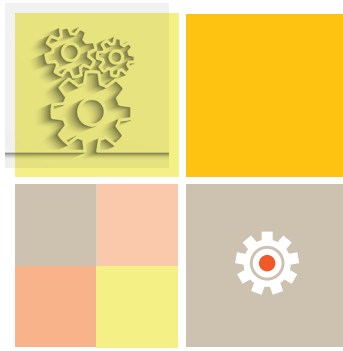


Addressing Malaysia's Issues & Challenges



THE FRAMEWORK





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