Malaysia: State of Transformation

Malaysia is in a unique position; nestled between a knowledge driven economy in Singapore and a large consumer market in Indonesia. Can Malaysia tap on its position to its advantage? With elections to be held by 2013, it is a busy period for Malaysia as it continues to pursue economic goals amidst political developments. IE Singapore examines the country’s developments and lays out the strategic implications for Singapore companies seeking to do more business in Malaysia.

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Domestic resilience sustaining growth
Despite the upheavals in the global economy in 2011, the Malaysian economy recorded 5.1% growth due to stronger domestic demand and investments. Budget 2013 also maintained the Government’s position to bolster domestic demand in the face of external uncertainties.

Admirable aspirations to achieve High Income Nation Status
Since 2011, Malaysia has announced large infrastructure projects (e.g. MRT project). 2012 was also seen as a tipping point for Iskandar Malaysia; a key project that boosted the southern region significantly.

Transforming Malaysia’s country branding
The Government has announced ambitious national transformational plans to drive the country to achieve High-Income Status Nation by 2020. It has strung a series of high profile projects together under 12 National Key Economic Areas (NKEAs) through a government entity: Pemandu.

Diversifying the economy
To achieve its 2020 goals, Malaysia understands that it needs to diversify its economy for sustainable growth and to create new jobs. It has announced the liberalisation of service sectors and human capital initiatives, to support the new growth industries.
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Summary

• This paper focuses on one key theme that sums up Malaysia’s development roadmap: Transformation. Malaysia has announced its ambitious Economic Transformation (ETP) & Government Transformation (GTP) plans to achieve High Income Nation Status by 2020.

• Despite the global economic slowdown in 2011, Malaysia’s economy remains resilient, propelled by ETP projects that unlocked domestic investments, and expansionary Budget announcements in the last few years that encouraged domestic consumption.

• Within Southeast Asia, Malaysia stands out as a convenient first point of expansion for Singapore companies due to its proximity, socio-cultural similarity and larger market size (population of 28.9 million). According to the United Overseas Bank (UOB) Mid-Sized Corporate Business Sentiment Survey\(^1\) conducted in December 2011, Malaysia also stands out as a viable and preferred location for Singaporean small- and medium-sized enterprises (SMEs) with expansion plans.

• New initiatives such as human capital development and liberalisation of service sectors will open up opportunities for Singapore companies especially in the healthcare and education sectors. Singapore companies who fall into the consumerism sector (food, retail) may also stand to gain from a population with increasing disposable income.

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\(^1\) Business Times, “Singapore SMEs eyeing Malaysia, China for expansion”, March 2012
• From a geographical perspective, the oil & gas developments will be a key highlight for Southern Johor, relevant to companies such as downstream service providers in marine and logistics services. Companies who seek greenfield opportunities (eco tourism, agri-commodities related industries) can also look towards the East Coast and East Malaysia. Greater KL will remain the urbanised centre where urban solutions may be sought: green building, water treatment and renewable energy solutions.

• The Malaysian Government’s pro-business policy announcements, ambitions and directions drew praise from the business community. At the same time, economists are monitoring the 2013 General Elections and the impact it may have on the pace of transformation.

• With the above backdrop in mind, this paper will explore Malaysia’s ambitions before our in-market assessment of opportunities for Singapore companies seeking to do more business in Malaysia. The paper also highlights possible long term reforms that may affect the pace of implementation of Malaysia’s growth plans. Summing up in the last section, the market insight will provide practical broad-based recommendations for interested companies.
Setting the Stage: Transformational Era

This market insight starts off from understanding Malaysia’s current position within the context of the Economic Transformation Programme that was launched in 2010.

Backdrop: Economic & Government Transformation Programme

Following the announcement of the Tenth Malaysia Plan\(^2\) (10MP) for the period 2011-2015, the Malaysia Government also announced the “twin road maps”, Government Transformation Programme (GTP) and Economic Transformation Programme (ETP) to enable Malaysia to be a High-Income Status Nation by 2020 (refer to diagram 1). The goals include increasing per capita income from US$6,700 to US$15,000 and achieving an average GNP growth of 6% per annum\(^3\).

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\(^2\) The Tenth Malaysia Plan outlines the Government’s development plan for the next five years. It focuses on unleashing economic growth, promoting inclusive socio-economic development, developing and retaining talent, building an environment that enhances quality of life and transforming government. It identified the 12 NKEAs that will receive prioritised policy and investment focus, derived from Pemandu website: http://www.pemandu.gov.my/

\(^3\) Pemandu website: http://www.pemandu.gov.my/
Diagram 1: Overview of Malaysian Government Policies

1 Malaysia Plan 2020 Vision

10th Malaysia Plan

Government Transformation Programme (GTP) [6 Focus Areas]

Goals
- To be a high income nation by 2020
- To increase per capita income from US$6,700 now to US$15,000
- To achieve an average GNP growth of 6%

Economic Transformation Programme (ETP) [12 Focus Sectors]

Strategic Reform Initiatives [6 Horizontal Initiatives]

Government Transformation Programme (GTP)
GTP was devised in accordance with the principles of 1Malaysia4, People First, Performance Now. It strives to improve public service delivery and to address social areas of most importance to the public.

Under the GTP, seven key priority areas have been identified where challenges within each area have been divided into short-term priorities and long-term issues. These areas of development are known as the National Key Results Areas (NKRAs) and they are as follows:

a) Reducing Crime
b) Fighting Corruption
c) Improving Student Outcomes
d) Raising Living Standards of Low-Income Households
e) Improving Rural Basic Infrastructure
f) Improving Urban Public Transport
g) Dealing with rising cost of living – added in July 2011

The theoretical success of GTP lies in two principles: public sector accountability and government-citizens communication. The first is addressed by the GTP as it places each NKRA with a Ministry and allocates relevant measurable KPIs to ensure timely delivery. The second is also addressed to a certain extent through public dialogue sessions and various feedback channels. This is a long term transformation process and success can only come with time. To date, the Malaysian Government has invested efforts to identify key areas and allocated necessary resources and government agencies to address them.

4 The 1Malaysia concept seeks to reinforce national unity, with respect for the values of the different communities, and is anchored on the principle of fairness and equity. In economic terms, this means that opportunities and growth will be shared equitably. People First refers to a Rakyat-centric approach to planning and delivery, and Performance Now shows the Government’s determination to focus on delivery and results (Pemandu website).
Setting the Stage:
Transformational Era

**Economic Transformation Programme (ETP)**
ETP features an initial 131 Entry Point Projects (EPPs) worth about US$444 billion (RM1.4 trillion), with more than 92% of investment slated to come from the private sector.

As highlighted in diagram 2, there are 12 National Key Economic Areas (NKEAs) with focus on Malaysia’s traditional sectors. The top 3 sectors in terms of impact and importance include Oil, Gas & Energy, Palm Oil/Agriculture and Greater Kuala Lumpur/Klang Valley.

**Diagram 2: National Key Economic Areas**

Overall, the positive spinoff will be the industry clustering effect of projects and investment. There have also been many announcements of confirmed investments and progress of the EPPs. What follows after, will be the speed of translating policy announcements with implementation.

**Strategic Reform Initiatives (SRI)**
SRIs are horizontal reforms (across all industries/sectors) which will have an impact on the business environment in Malaysia. These includes the following: a) International Standards & Liberalisation, b) Government’s Role in Business (Government-linked companies’ (GLCs) divestment), c) Human Capital Development, d) Public Service Delivery, e) Narrowing Disparities (Bumiputera SMEs) and f) Public Finance Reform.

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5 Refer to http://etp.pemandu.gov.my/annualreport/ for the full listing of EPPs and NKEAs.
6 Pemandu website: http://www.pemandu.gov.my/
7 Bumiputera is a Malaysian term used to describe the Malay race and indigenous people.
Present: Encouraging economic indicators
Moderate GDP growth driven by domestic demand
Despite the upheavals in the external economy last year, the Malaysian economy recorded 5.1% growth (vs. 7.2% in 2010) mostly due to stronger domestic demand and investments. The International Monetary Fund (IMF) outlook on Malaysia predicts GDP growth at 4.4% in 2012 (lowered from 4.9% due to global economic weakness) before rising to 4.7% in 2013. Inflation also remains manageable at 3.2% in 2011. Referring to diagram 3, real GDP growth has moderated to the 4-5% range since 2010 and is expected to continue, led by domestic demand (as shown by the blue line in diagram 4).

Diagrams 3 & 4: A consistent GDP growth from 2010 driven by domestic demand

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8 Bank Negara Annual Report 2011
Growing private consumption, fuelled in part by borrowings

Referring to diagrams 5 & 6, private consumption was a key driver of Malaysia’s growth over the past decade and it is important to understand if this trend would continue. Private consumption grew by 6.9% in 2011 and it is expected to expand by 7.1% in 2012. This is supported by broad-based growth in income, following the overall improvement in labour market conditions and higher commodity prices (encouraging rural housing spending).

However if we take a closer look at Malaysia’s domestic consumption, statistics have shown that it is partly driven by debt. The household borrowing has been on a rising trend over the last 10 years growing at an annual rate of 12.5%\(^1\) (as of Dec 2011). It reached at least 76% of GDP in 2010 which is relatively high considering Malaysia’s per capita income. The average loan taken by each Malaysian household was 140.4% of their disposable income\(^2\). Although the default rate is still low, it is a risk factor to monitor.

\(^1\) Credit Suisse Economics Research, “Malaysia: Externally challenged, internally driven”, August 2011
\(^2\) Bank Negara Annual Report 2011
\(^3\) The Star Online “Malaysia Households use almost half their income to pay off debts”, April 2011
Malaysia has taken steps to address this issue, including increasing the average Malaysian’s disposable income through a minimum wage policy, increasing salaries of civil servants and giving cash handouts to the poor and elderly. Most recently, Bank Negara has also announced tightened guidelines on consumer lending especially on car and housing loans. Over the medium term, such policies could catalyse a shift from credit-driven to income-driven consumption.

**Weaker trade position in 2012, but positive long term forecast**

Malaysia chalked an 8.7% growth in its total trade for 2011, enabling the country to record an all-time high of RM1.27tn in total trade\(^\text{13}\). Exports showed a positive 8.7%\(^\text{14}\) growth led by commodities namely liquefied natural gas (LNG), palm oil, crude petroleum and non-Electronics/Engineering (E&E) manufactured goods\(^\text{15}\). ASEAN\(^\text{16}\) remains a traditional export market, currently accounting for 25% of exports. In line with weakening global markets and moderation of the IMF’s world trade 2012 forecast, Malaysia’s trade outlook will also moderate to around 5% growth in 2012\(^\text{17}\).

Going forward, there are three trends that will strengthen Malaysia’s long term trade position:

- a) Increase in Asia’s demand for Malaysia’s commodity exports (refer to diagram 7)
- b) Shift in Malaysia’s composition of manufactured goods from E&E to non-E&E namely in higher value added products (refer to diagram 8)
- c) Diversification of its export market base from West to East (refer to diagram 9)

Therefore, we expect Singapore companies who set up in Malaysia to benefit from the trade linkages and opportunities to collaborate with Malaysia partners with export capabilities. There will also be opportunities for Singapore companies to service or invest in higher value non-E&E sectors\(^\text{18}\) such as those listed in diagrams 7 and 8.

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\(^\text{13}\) MATRADE statistics for year 2011, “Malaysia External Trade Statistics”, February 2012
\(^\text{14}\) MATRADE statistics for year 2011, “Malaysia External Trade Statistics”, February 2012
\(^\text{15}\) Non E&E manufactured goods refer to refined petroleum, chemicals, machinery
\(^\text{16}\) ASEAN refers to Singapore, Thailand, Indonesia, Vietnam, Philippines, Brunei Darussalam, Myanmar, Cambodia and Laos.
\(^\text{17}\) Matrade’s Press Release, “Malaysia’s Trade Outlook for 2012”, May 2012
\(^\text{18}\) Some of these companies include Solar/LED (e.g. First Solar), Optical/Measuring Devices (e.g. Agilent).
Setting the Stage: Transformational Era

Diagrams 7 & 8: Compositional shift in Malaysia’s exports

Composition of Malaysia’s Commodity Exports

Composition of Malaysia’s Non-E&E Exports

Transition: Transforming Malaysia’s economy

Moving ahead, we expect Malaysia to diversify its economic base away from a resource-driven growth (dependent on oil revenues and palm oil exports) to a more service based economy like most high income nations. This will be interesting to watch as the current Government has announced plans to open up new sectors especially in financial services, healthcare, education which spells opportunities for Singapore companies.

From an investment standpoint, Malaysia has room for growth due to the Government’s pro-business policies and financing conditions which remain supportive of economic activity. More details on some of the tax incentives and schemes will be covered in the next section. For the latter, a good indication of the strong domestic confidence is clear from the strong private sector liquidity. A 2012 Bloomberg report noted that “Malaysian companies boosted borrowing by almost 40 percent this year, defying a loans slump in the rest of Asia to support a $444 billion economic development programme and expand through acquisitions”.

19 Bank Negara Annual Report 2011
20 Bank Negara Annual Report 2011
21 Bloomberg Business Week, “Malaysia loans defy Asia slump as companies invest for growth”, October 2012
Setting the Stage: Transformational Era

Future: Propelling future growth
Based on economic trends and current pro-business initiatives, Malaysia’s future growth will be sustained by 3 main areas in order of direct contribution as shown in diagram 10.

Diagram 10: Three pronged growth model

Foreign Direct Investment (FDI) – Slow & steady FDI
Malaysia’s FDI inflows declined to a low base in 2009 and have since gone on an upward trend. Malaysia’s Ministry of Trade estimates FDI inflow for 2012 to be maintained at RM30 billion – with major projects in the manufacturing sector (E&E, fabricated metal products, food) and the oil & gas/ resource sector. Since FDIs are the most dependent on external demand and subject to the global outlook, it falls at the sharp end of the growth triangle.

Exports - Oil related exports, Asian markets
Exports will still be a significant driver of growth for Malaysia, buffered by the commodities and oil sector. Due to Malaysia’s trade diversification efforts to Southeast Asia and China, the impact of US-Euro zone slowdown on Malaysia exports will be ameliorated in the mid-term. Malaysia’s key exports will be commodities driven: palm oil, LNG, crude oil and rubber.

Domestic Growth - Strongest Pillar
In the immediate term, domestic investments will be the strongest propeller of growth (refer to diagram 10), with the public sector taking the lead in unlocking projects together with the private sector’s participation. The key sectors will be infrastructure and oil & gas.
Current Market State of Play: Ambitions

This section will explore three key areas that the Government will be focusing its efforts on and the implications for foreign investors.

Ambition 1: Streamlining Government’s Role in Business

The Government has understood that direct government intervention in the business sphere will not be sustainable for long term growth. Hence it has strived to unlock more opportunities for private investments by a concerted government divestment programme. Traditionally, domestic investments have been dominated by the Government through various GLCs. It is estimated the GLCs employ an estimated 5% of the national workforce and account for approximately 36% of the market capitalisation of Bursa Malaysia (National Stock Exchange)\(^2\).

As such, the government has also announced a national divestment programme to privatise non-core assets through various means including IPOs. In 2012, we saw several large scale GLC linked IPOs such as Integrated Healthcare Holdings, Felda, Astro etc that have also boosted the local stock exchange. This divestment programme (refer to diagram 11) may attract foreign investors to be the cornerstone investors in such large company listings.

Various models for divestments:
- **Pare down** Mitsui bought a 30% stake in Khazanah owned International Healthcare Holdings, which holds assets such as Parkway Health. (April 2011)
- **Outright sale** Khazanah sold their remaining stake in POS Malaysia to DRB Hicom (May 2011)
- **IPO** Federal Land Development Authority’s (FELDA) MSM Malaysia Holdings Berhad was listed on Bursa (June 2011)

Diagram 11: Malaysia’s Divestment Model\(^2\)

Pathway to Divestment

1. Establishing government’s role in business
2. Divestment plan via a white room
3. Governance for state-owned companies

Various models for divestments:

- **Establishing government’s role in business**
- **Pare down** Mitsui bought a 30% stake in Khazanah owned International Healthcare Holdings, which holds assets such as Parkway Health. (April 2011)
- **Outright sale** Khazanah sold their remaining stake in POS Malaysia to DRB Hicom (May 2011)
- **IPO** Federal Land Development Authority’s (FELDA) MSM Malaysia Holdings Berhad was listed on Bursa (June 2011)

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23 Pemandu, ETP Annual Report 2011
We expect more government divestments from 2013 (refer to diagram 12) which will create a stronger base of privately held companies in Malaysia. Private sector led growth will also be more sustainable in the long run and a stable climate will create more assurance for foreign investors. With these expected changes in ownership, Singapore companies working with these corporates may wish to understand if there are any strategic changes that may be driven by new management and also seek new investment opportunities.

**Diagram 12: Government Divestment Chart**

<table>
<thead>
<tr>
<th>Possible</th>
<th>Gov’t ownership (%)</th>
<th>Mkt value of stake (USD bn)*</th>
<th>How much we think could be sold (%)</th>
<th>How much could be raised* (USD bn)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candidates for stake sale in the next one year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Malaysia development Bhd</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>2.0</td>
<td>An IPO is likely in Q1 2013, to clear debt, according to Bloomberg.</td>
</tr>
<tr>
<td>Telekom Malaysia</td>
<td>28.73</td>
<td>1.9</td>
<td>20</td>
<td>1.3</td>
<td>Khazanah reduced its stake by 13% at the start of 2011.</td>
</tr>
<tr>
<td>Sime Darby</td>
<td>47</td>
<td>9</td>
<td>20</td>
<td>3.8</td>
<td>Skim Amanah sold 250mn shares in 2011.</td>
</tr>
<tr>
<td>Bumiputra-Commerce</td>
<td>29.9</td>
<td>5.7</td>
<td>15</td>
<td>2.9</td>
<td>Khazanah sold over 7.5% for c.USD400mn Holdings in 2011.</td>
</tr>
<tr>
<td>Malaysia Airports Holdings</td>
<td>54</td>
<td>1.1</td>
<td>50</td>
<td>1.0</td>
<td>Stake sales by Khazanah were last made in March 2012.</td>
</tr>
<tr>
<td>Malaysian Airlines</td>
<td>48.9</td>
<td>0.8</td>
<td>75</td>
<td>1.2</td>
<td>Likely seen as a non-core asset by the government.</td>
</tr>
<tr>
<td>Grand total</td>
<td>48.7</td>
<td>23.5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Candidates for stake sales after elections |
| MISC Bhd carriers | 62.7 | 4.1 | 30 | 2.0 | Largest owner-operator of LNG in the world. |
| Tenaga | 35.7 | 4.3 | 20 | 2.4 | Could be a candidate for divestment post elections. |
| Petronas Gas | 60.66 | 7.5 | 20 | 2.5 | Natural gas subsidiary of Petronas, which continues to “explore the possibility” of listing its subsidiaries. |
| Petronas Dagangan | 69.86 | 4.1 | 20 | 1.2 | Retail arm of Petronas. |
| Petronas Chemicals | 69 | 11 | 20 | 3.2 | This was the biggest IPO in Malaysia’s history. |

Note: *Potential size of stake sales is calculated from current valuation and our assessment of core holdings. Source: Factiva, Bloomberg, Barclays Research

**Government’s divestment agenda is active**

<table>
<thead>
<tr>
<th>Intention</th>
<th>Pending in 2012</th>
<th>Target 2013</th>
<th>Completed so far</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced gov’t stake</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>KLCI listing</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Outright sale</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
<td>8</td>
<td>13</td>
<td>33</td>
</tr>
</tbody>
</table>

Ambition 2: Diversifying the Economy with Liberalisation of Services Sectors

Based on the new growth sectors identified, it is clear that Malaysia plans to further develop their service sectors through liberalisation (traditionally closed to full foreign participation) and shift away from low cost manufacturing. In general, there are some key policy announcements that may benefit Singapore companies in the healthcare & education sectors, as detailed in diagram 13. Subsequently, Budget 2013 also announced more incentives for some sectors which may be relevant for Singapore companies. Please refer to Annex 1 for full details on policy announcements.

Diagram 13: Key initiatives announced in 2012

<table>
<thead>
<tr>
<th>Key initiatives</th>
<th>Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liberalisation of service sectors</strong></td>
<td>Broadly falls into</td>
</tr>
<tr>
<td>There are 17 identified sub sectors</td>
<td>a) Healthcare</td>
</tr>
<tr>
<td>which allow up to 100% foreign equity.</td>
<td>b) Telecommunication Services</td>
</tr>
<tr>
<td></td>
<td>c) Professional Services</td>
</tr>
<tr>
<td></td>
<td>d) Courier Services</td>
</tr>
<tr>
<td></td>
<td>e) Education</td>
</tr>
<tr>
<td></td>
<td>f) Distributive Trade</td>
</tr>
<tr>
<td></td>
<td>g) Environmental Services sectors</td>
</tr>
<tr>
<td><strong>Education blueprint 2013-2025</strong></td>
<td>Education companies who can do teacher training</td>
</tr>
<tr>
<td>• Funding to increase the quality of</td>
<td></td>
</tr>
<tr>
<td>teachers through various grants</td>
<td></td>
</tr>
<tr>
<td><strong>Budget 2013</strong></td>
<td>Vocational and Technical Education Sector</td>
</tr>
<tr>
<td>• Financial Services incentives</td>
<td>Early Childhood Education Centres (ECCE)</td>
</tr>
<tr>
<td>for the new Financial District</td>
<td>Financial Services</td>
</tr>
<tr>
<td>• Business Trust structure set up</td>
<td></td>
</tr>
<tr>
<td>• To increase pre-school and childcare</td>
<td></td>
</tr>
<tr>
<td>enrolment from 67 percent in 2009 to</td>
<td></td>
</tr>
<tr>
<td>87 percent in 2012</td>
<td></td>
</tr>
<tr>
<td>• Education incentives to encourage</td>
<td></td>
</tr>
<tr>
<td>more private preschools</td>
<td></td>
</tr>
<tr>
<td>• Grants to encourage teachers’ training</td>
<td></td>
</tr>
</tbody>
</table>

With the above incentives, Malaysia will be better placed to attract foreign investments. Referring to diagram 14, there was a steep fall of FDI from RM23 billion in 2008 to RM4 billion in 2009 before it rose to RM23 billion in 2010. Malaysia only captured less than 20% of FDI into ASEAN as illustrated in diagram 15. Malaysia has recognised that it is important to continue its pro-business policies to attract foreign investments to facilitate knowledge, technology and human capital transfer into the country.
Current Market State of Play: Ambitions

Diagram 14: Inward & outflow FDI flows

Diagram 15: Country Composition of FDI in ASEAN, 2000-2010

Fixed investment (index, 2000=100)

25 United Nations
26 Credit Suisse Economics Research, “Malaysia: Externally challenged, internally driven”, August 2011
Ambition 3: Addressing Inefficiencies and Reported Leakages

With the EU crisis in mind, a key focus for national governments will be on fiscal prudence. Particularly for Malaysia, it has announced a fiscal deficit of 5.4% of GDP in 2011, with the target of 4.5% in 2012 and 4% in 2013. Nevertheless, the government has maintained a broad based 2013 Budget by raising pensions, cutting personal income tax and giving cash handouts to low income families. Fiscal consolidation will likely come from a more efficient tax revenue collection and continued government diversification efforts to divest non-core entities.

Malaysia has also committed some efforts to address reported leakages in the business environment in order to attract and retain foreign investments. An agency, Pemudah, has been set up since 2007 as a special task force to address bureaucracy in business-government dealings. There have been some improvements in eliminating unnecessary requirements for 395 licenses which led to savings of RM729 million in business license compliance costs when the exercise was completed in June 2012.²⁷

Such structural reforms will need to be sustained over time for maximum results to be seen.

²⁷ Article on Invest KL website, “Aiming for top 10 most competitive status”, April 2012
Ambitions to Achievements: Improving Foreign & Domestic Perspectives

Foreign perception
Malaysia has done significantly more in profiling projects and has announced a lot of new initiatives in the last couple of years. The most significant achievement thus far would have been the jump in FDIs which reaffirms foreign investors’ confidence in Malaysia’s economy (refer to diagram 16).

Malaysia’s total FDI inflows climbed by 12.3% to RM32.9 billion in 2011. The manufacturing sector accounted for the largest share of FDI inflows, comprising 50.1%, followed by the services sector with 27.3%. About 72% of FDI came from Asian countries, with Japan topping the list with RM10.1 billion, followed by Republic of Korea at RM5.2 billion, USA at RM2.5 billion and Singapore at RM2.47 billion (4th).

Diagram 16: AT Kearney Foreign Direct Investment Confidence Index 2012

<table>
<thead>
<tr>
<th>Ranking</th>
<th>2007</th>
<th>2010</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1.75</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
<td>3</td>
<td>1.60</td>
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<tr>
<td>3</td>
<td>2</td>
<td>4</td>
<td>1.52</td>
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<tr>
<td>10</td>
<td>5</td>
<td>5</td>
<td>1.52</td>
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<tr>
<td>11</td>
<td>7</td>
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<td>7</td>
<td>24</td>
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<td>4</td>
<td>10</td>
<td>8</td>
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<tr>
<td>16</td>
<td>21</td>
<td>9</td>
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<td>1.40</td>
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<td>8</td>
<td>11</td>
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<td>1.39</td>
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<td>16</td>
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<td>1.39</td>
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<td>19</td>
<td>20</td>
<td>1.39</td>
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<tr>
<td>22</td>
<td>9</td>
<td>20</td>
<td>1.34</td>
</tr>
</tbody>
</table>

Values calculated on a 0 to 3 scale

28 AT Kearney Foreign Direct Investment Confidence Index 2012
The Government’s efforts deserve some attention as Malaysia has also made some significant strides in several key global rankings; Malaysia shifted 5 notches to 21st place and 18th place for World Economic Forum’s Global Competitiveness Report 2011 and World Bank’s Doing Business Report 2012 respectively.

**Domestic perception**

It is also heartening to note that Malaysia has unlocked more domestic investments especially in the service sectors. Investments in service sectors increased by 76% to RM64.4 billion (of which 75% are domestic investments), almost reaching pre crisis levels in 2007. From this perspective, Malaysia has done well to encourage more private sector participation especially in key projects like MRT projects and other real estate related projects.
Eyes on Malaysia: Opportunities

Some sectors & economic corridors will have quick wins and hence open up immediate opportunities for Singapore companies.

Sectoral Opportunities
Greater Kuala Lumpur Developments: Consumerism & Infrastructure Projects

Intra-Kuala Lumpur (KL) connectivity is expected to improve when the Greater MRT project is rolled out. Analysts are upbeat on the downstream opportunities that may arise – land value appreciation and benefits for construction/real estate sector. The connectivity is also expected to result in more urbanisation, as new townships may develop alongside with newer stations. It will also boost consumerism with train station retailing and shopping malls that develop alongside the stations.

Greater KL also remains a natural first stop for MNCs to set up their corporate offices hence we think that this is a low hanging fruit for Malaysia. There are more efforts to create liveable and workable townships for foreign investors. Key opportunities will lie broadly in (a) consumerism-related sectors such as F&B, retail services (especially train station retailing) and (b) sustainable green sector encompassing water treatment, waste-to-energy projects and green building solutions (to cater for population growth in urban cities).
Eyes on Malaysia: Opportunities

Oil & Gas (O&G)

The O&G sector will be a clear winner as it has always been a natural sector for Malaysia with Petronas taking the lead. Focus will be on Southern Johor’s development (refer to diagram 17) – Pengerang Petroleum Hub involving players like Dialog, Vopak, Petronas and Benalec Group. With a critical mass of companies within the Petroleum Hub, we believe that there will also be opportunities in (a) infrastructure development (utilities, industrial parks), (b) downstream marine and logistics services, (c) engineering, procurement and construction (EPC) and (d) vocational training to train/upgrade skilled workers in the O&G sector.

Oil & Gas is also a major beneficiary of the 2013 Budget. The government is looking to promote Malaysia as an O&G hub and has provided various tax and non-tax incentives for the private operators, including cost of land acquisition, 100% income tax exemption for 10 years, and exemption of withholding taxes and stamp duties.

Business Services (Education)

The service sectors contributed 57.7% to Malaysia’s GDP in 2010 as compared to most developing countries where the average contribution is about 70-80%. The 10th Malaysia Plan has targeted services to contribute 65% of the GDP by 2020. This will require services to grow by 7.2% p.a. with an average annual investment of RM45.8 billion. Hence growth and opportunities will arise in accordance with the liberalisation of some services sectors, from which we see the most potential in business services.

Specifically, education is one of the most critical drivers for Malaysia’s transformation with Vocational and Technical Education (VTE) and early childhood education (ECE) being key areas. Both are consistently featured in the Education NKEA (refer to diagram 18).

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29 Pemandu Annual Report, Section on Oil, Gas and Energy, 2011
30 Article on Pemandu’s website, “Tapping the Full Potential of the Service Sectors”
31 Pemandu website: http://www.pemandu.gov.my/
There has been some traction in this field with Malaysia bringing in some world renowned companies in Educity, Iskandar. However the policies have so far focused on supply side stimulus (providing the schools). To complete the picture, the demand side will have to be addressed including attracting student demand and also improving the software elements (teachers’ quality and quantity, curriculum). With this, there will be more opportunities for companies who can attract the demand side (e.g. attract foreign students) and address the “software” element. Singapore companies with experience in teachers’ training may wish to touch base with the Early Childhood Care & Education (ECCE) Council (set up to improve the quality of teachers in ECCE via training), to explore business collaboration. Singapore companies who are operating international schools may also wish to explore setting up in Malaysia with equity liberalisation and local Malaysians permitted to enrol in international schools.

Eyes on Malaysia: Opportunities

Diagram 19: Economic Corridors

Geographical Opportunities
Geographically, Malaysia has identified 5 focus economic corridors (refer to diagram 19): Iskandar Malaysia, East Coast Economic Region (ECER), Northern Corridor Economic Region (NCER), Sabah Development Corridor (SDC) and the Sarawak Corridor of Renewable Energy (SCORE). Each economic corridor will have their own investment incentives governed by the respective promotional agencies and one can visit the respective websites for information.

Southern Region, Iskandar Malaysia:
From a Singapore investment standpoint, there has been an increased interest in Malaysia especially in the economic corridor: Iskandar Malaysia (IM). With its proximity to Singapore, it appeals to Singapore manufacturing companies who seek industrial developments for capacity building (expansion of their existing manufacturing output). This industry demand has also led to Singapore industrial park developers like Kingsland and Ascendas pursuing industrial park projects there. It is also assuring to investors that federal and state authorities have committed efforts to ensure that infrastructure is established (an example is the construction of coastal highway). The timely delivery of catalytic projects such as Johor Premium Outlet, Legoland and Educity will boost the liveability factor of the development. Since Iskandar Malaysia is a greenfield development, the supporting downstream industries such as retail, food & beverage will follow suit once the critical mass of companies and population is established. Furthermore, Singapore companies in Iskandar can continue to leverage on the geographical proximity to Singapore, tapping on its financial, logistics and other corporate services.
Eyes on Malaysia: Opportunities

**Northern Corridor, Penang:**
Within NCER, Penang has had 40 years of manufacturing history and currently houses many MNCs. With this, some of our Singapore precision engineering companies can explore setting up secondary manufacturing bases or exporting services to support the MNCs such as Honeywell (aerospace) or St Jude Medical (medical devices). Another sector worth exploring will be the healthcare segment. Penang accounted for 60% of 555,000 foreign medical tourists to Malaysia in 2011 for healthcare services and seven private hospitals from the Penang Health Association (PHA) recorded revenue of RM280bil in 2011.\(^{33}\)

**East Coast, Terengganu and Kuantan:**
There have also been more investments in ECER totalling at least RM32.7bil of investments from 2007 – 2012.\(^{34}\) Out of the total investment size, a total of RM12bil were in the first half of this year, with the tourism cluster accounting for 55% of the investments. As this region is blessed with a coastline of beaches, coastal cities such as Terengganu and Kuantan will likely be the first stop for investors who are keen to explore the tourism industry there. Pahang being a resource rich state will also be another key focus for investors, with projects such as Kuantan Port City (marine, logistics opportunities) and Halal Park of Gambang (agriculture related manufacturing). The Malaysia-China Kuantan industrial Park (MCKIP)\(^{35}\) in Gebeng may also create a critical mass of industries.

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\(^{33}\) The Star Online “Penang tops list for medical tourism”, October 2012

\(^{34}\) The Star Online, “ECER attracted more than RM32.7b investments”, July 2012

\(^{35}\) Malaysia Prime Minister Najib proposed the development of the 600ha MCKIP, to reciprocate China’s efforts for the construction of Qinzhou Industrial Park in Nanning (China). Both parks are joint venture projects between Malaysia and China.
Behind the Scenes: Structural Reforms

This section will highlight three macroeconomic challenges facing Malaysia as it drives towards high income nation status by 2020.

**Attracting Human Capital**

Talent mobility has become very fluid in developed countries and Malaysia is not spared either. The local news agency Bernama has reported that as of 2011, there are a million talented Malaysians working overseas. World Bank senior economist Philip Schelleken also estimates that the number of skilled Malaysians living abroad has tripled in the last two decades with two out of every ten Malaysians with tertiary education opting to leave. The outflow is also not replaced by inflows – 60% of immigration into Malaysia has only primary education or less.

This has implications on Singapore companies who need very specific talent or skilled workers for their Malaysia operations. On the flipside, this opens up opportunities for educational players (vocational training) to enter the market, especially with the equity liberalisation act.

Malaysia recognised that the human capital deficit will be a huge impediment to their drive to achieve high income nation status by 2020. Hence, they have recently announced the set up of an agency, Talent Corp, to address this issue.
Behind the Scenes: Structural Reforms

Managing Resource Reliance
Having an abundance of resources may create a resource curse situation – overdependence on oil revenue. On average, about 40% of federal government income comes from O&G, and O&G/ resources revenue contributed at least 20% to Malaysia’s GDP in 2009. This has an impact on the government’s balance sheets as resources are subjected to price volatility and the external environment. This situation has prompted the Malaysian government to assess their current tax structure to consider a broader tax scheme such as a Goods & Services Tax (GST). Bearing in mind that this tax review was implicitly mentioned in Budget 201336, Singapore companies will need to be aware of such tax policy announcements and its business implications.

Narrowing Fiscal Deficit
Malaysia has also been managing its budget deficit for over a decade, as it strives to balance its revenues and expenditures amidst a global rise in food and energy prices. It is important that this issue is addressed.

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36 Budget 2013 has announced “a review of Malaysia’s taxation system” from “income based taxation to a more comprehensive and fair taxation system”.
Moving Ahead

This section will lay out some practical recommendations on the next steps to take towards exploring business opportunities in Malaysia.

**Sharp business acumen**
As with most developing countries, politics and economics are closely intertwined. The political backdrop and coming elections may have a bearing on business decisions, especially for companies planning on making large investments in the country. The Government is divesting its stakes in businesses through the various GLCs to encourage more private sector growth, and has also initiated the liberalisation of 17 sub-sectors (covered in section 2). Companies may also wish to take into consideration other factors such as the implementation timeline and the extent of liberalisation. Key sectors like telecommunications and financial institutions are likely to remain tightly regulated.
Moving Ahead

Private partnership is key

With the priority on seeding private sector-led growth, companies should pursue private sector projects and partners in planning their market entry. Some level of localisation (e.g. incorporating a local entity, setting up a representative office, collaborating with a local partner) is often required for any project tender and in navigating the business tender processes. Hence, it is also important for Singapore companies to understand how to localise and select relevant projects that they can add value to.

The good news is there are handfulls of gems around. So do a good background check on your prospective partner such as a basic internet search, Companies Commission (SSM) search and requesting for financial statements/ company profiles. It is advisable to check with established in-market associations and other trusted partners to gather market intelligence.

Malaysia has its own star companies (examples include but not limited to: MMC, Dialog, Maxis, Petronas, CIMB, Maybank). Singapore companies should seize the opportunities to work alongside star companies for technology transfer and market expansion.

Right partners also mean the right government agencies to go to. The government structure in Malaysia can be quite complex due to the number of overlapping agencies (state to federal) that can be in charge of one industry. Companies must realise the differences in roles between promotional agencies (from federal level like MIDA to state levels like Invest KL and regulatory bodies e.g. Ministry of Health, Customs). It is useful to get a single coordinating body to arrange for a roundtable session involving all the necessary government agencies, which most promotional agencies would be happy to facilitate.

37 SSM refers to Suruhanjaya Syarikat Malaysia or Companies Commission of Malaysia similar to Accounting and Corporate Regulatory Authority (ACRA) system in Singapore. The web link is http://www.ssm.com.my/
Moving Ahead

Blue ocean strategy
In the region, Malaysia stands out as a mature market and hence it is important to keep the blue ocean strategy in mind by identifying pioneer projects or seeking areas to value-add. Companies should examine their own products and services to determine if they can add value to Malaysia companies or consumers. Understanding the competitive landscape is important. This allows companies to create a whole new market segment for themselves instead of competing in traditional market segments.

Another way of creating new markets is to partner Malaysian companies in third markets. Malaysia is also well known for some sectors such as agri-commodities (palm oil, rubber), civil construction, Halal Industries (Halal manufacturing) and Islamic Finance. Singapore companies can also explore working with Malaysian companies in these star sectors to create new product segments or conquer new overseas markets. For instance, Singapore companies with halal manufacturing operations in Malaysia can explore exporting their products to Indonesia, a huge consumer market that is geographically close and culturally similar.
Conclusion

Malaysia stands out as a compelling and convenient investment destination for Singapore companies, with opportunities in the priority areas under the Economic Transformation Program.

The Malaysian economy is expected to expand moderately in the next few years, fuelled by domestic investments and consumer spending. Recently announced pro-business and foreign investment friendly policies have also attracted some considerable investments in Malaysia. Singapore companies should look for opportunities in the priority sectors and economic corridors that the Economic Transformation Programme has identified.

Malaysia could be a convenient option for Singapore companies seeking business expansion (to capture more market share for consumer-related sectors) and capacity development (to expand manufacturing capacity and capability).

With its geographical proximity to Singapore and stable macroeconomic conditions, Malaysia may also suit the risk appetite of some Singapore companies especially SMEs who are venturing abroad for the first time. Ceteris paribus, Malaysia will continue to be a top priority for most Singapore companies.
Further Information

A selection of useful resource sites on Malaysia. These are cited chiefly as a reference and do not constitute an endorsement or recommendation of their views.

**Major Newspapers**


**Magazines**

**Business Websites**


**Public Opinion or Statistical Data**

## Annex 1: Incentives & policies to drive Malaysia Service sectors

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Key initiatives &amp; status</th>
<th>Malayisa Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Healthcare</strong></td>
<td>√ 100% foreign equity allowed for private hospitals</td>
<td>Ministry of Health</td>
</tr>
<tr>
<td></td>
<td>∆ 100% foreign equity allowed for medical specialist services and dental specialist services</td>
<td><a href="http://www.moh.gov.my/">http://www.moh.gov.my/</a></td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>√ 100% foreign equity allowed for technical and vocational schools (including those for special needs)</td>
<td>VTE</td>
</tr>
<tr>
<td></td>
<td>∆ 100% foreign equity allowed for skills training centers</td>
<td>Ministry of Education <a href="http://www.moe.gov.my/">http://www.moe.gov.my/</a></td>
</tr>
<tr>
<td></td>
<td>∆ 100% foreign equity allowed for Private Universities and International schools</td>
<td>Ministry of Higher Education <a href="http://www.mohe.gov.my/">http://www.mohe.gov.my/</a></td>
</tr>
<tr>
<td></td>
<td>• Encouraging skills training through training subsidies</td>
<td>MOHR <a href="http://www.mohr.gov.my/">http://www.mohr.gov.my/</a></td>
</tr>
<tr>
<td></td>
<td>• Establishment of a graduate employability centre with an allocation of RM200mil to strengthen employability of</td>
<td>Manpower Department <a href="http://www.jtm.gov.my/">http://www.jtm.gov.my/</a></td>
</tr>
<tr>
<td></td>
<td>unemployed graduates under Graduate Employability Blueprint by end-2012</td>
<td>Jobs Malaysia <a href="http://www.jobsmalaysia.gov.my/">http://www.jobsmalaysia.gov.my/</a></td>
</tr>
<tr>
<td></td>
<td>• Allocation of RM440 million to the Skills Development Fund Corporation (PTPK) to provide loans for trainees to</td>
<td>Early Childcare Sector</td>
</tr>
<tr>
<td></td>
<td>undergo skills training</td>
<td>Ministry of Education <a href="http://www.moe.gov.my/">http://www.moe.gov.my/</a></td>
</tr>
<tr>
<td></td>
<td>• Tax incentives for employers who provide childcare centres for employees</td>
<td>ECCE Council <a href="http://eccecouncil.org/">http://eccecouncil.org/</a></td>
</tr>
<tr>
<td></td>
<td>• Tax incentives for operators of new and existing private childcare centres including tax exemption at the</td>
<td>Social Welfare Department <a href="http://www.jkm.gov.my/">http://www.jkm.gov.my/</a></td>
</tr>
<tr>
<td></td>
<td>statutory level on all income for a period of 5 years; and Industrial Building Allowance at an annual rate</td>
<td>Malaysia Investment Development Authority (MIDA) <a href="http://www.mida.gov.my/">http://www.mida.gov.my/</a></td>
</tr>
<tr>
<td></td>
<td>of 10% for buildings used as childcare centres.</td>
<td></td>
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<tr>
<td></td>
<td>∆ To streamline the processes and timeline for approval of ECCE centres such as setting up a one stop centre for</td>
<td></td>
</tr>
<tr>
<td></td>
<td>all submissions and applications</td>
<td></td>
</tr>
</tbody>
</table>

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38 This is a collation by IE Singapore based on various announcements by Pemandu, Budget 2013 etc and is a non-exhaustive listing.

39 The ECCE Council was conceived in the NKEA Lab under the Economic Transformation Programme. Its members consist of representations from institutions such as the Institute of Early Years Development, Kolej Dika, TAJ International College, Institute CECE, Alfa International College (REAL Education Group), The Children's House, and Kirkby International College.
<table>
<thead>
<tr>
<th>Sectors</th>
<th>Key initiatives &amp; status</th>
<th>Malaysia Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td><strong>Teacher Training</strong></td>
<td><strong>Ministry of Health</strong></td>
</tr>
<tr>
<td>√ Implemented</td>
<td>Requirements for all ECCE practitioners to have the minimum qualification of a diploma in early childhood education (ECCE training centre cluster was set up to train 218,500 ECCE educators by 2020). Funding to increase the quality of teachers improving the quality of private preschools through various grants An additional allocation of RM500 million to enhance teaching skills in core subjects and Higher Order Thinking Skills approach</td>
<td><a href="http://www.moh.gov.my/">http://www.moh.gov.my/</a></td>
</tr>
<tr>
<td>Δ In progress</td>
<td></td>
<td></td>
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<tr>
<td>• Budget 2013 announcement</td>
<td></td>
<td></td>
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<tr>
<td><strong>Financial Services</strong></td>
<td>▪ A newly announced new financial district; Tun Razak Exchange is expected to attract 250 international companies and offer 40,000 jobs; it offers 10-year tax exemption for companies with TRX status Capital market stimulants such as Business Trust structure set up Training incentives for graduates to be employable in the securities/derivatives industry</td>
<td><strong>Malaysia Investment Development Authority (MIDA)</strong></td>
</tr>
<tr>
<td>• Budget 2013</td>
<td></td>
<td><a href="http://www.mida.gov.my/">http://www.mida.gov.my/</a></td>
</tr>
<tr>
<td><strong>Other service sectors to allow up to 100% foreign equity</strong></td>
<td>▶ Departmental &amp; Specialty Stores ▶ Incineration Services ▶ Accounting/Taxation ▶ Courier Services ▶ Legal Services ▶ Telecommunications ▶ Real Estate including Architectural Services, Engineering Services and Quantity Surveying Services</td>
<td><strong>Malaysia Investment Development Authority (MIDA)</strong></td>
</tr>
<tr>
<td>▶ Implemented</td>
<td></td>
<td><a href="http://www.mida.gov.my/">http://www.mida.gov.my/</a></td>
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<tr>
<td>△ In progress</td>
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<td>△ Legal Services</td>
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<tr>
<td>△ Telecommunications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>△ Real Estate including Architectural Services, Engineering Services and Quantity Surveying Services</td>
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</tbody>
</table>
International Enterprise Singapore

International Enterprise (IE) Singapore is the government agency driving Singapore’s external economy. We spearhead the overseas growth of Singapore-based companies and promote international trade. Our vision is a thriving business hub in Singapore with Globally Competitive Companies (GCCs) and leading international traders.

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Vol.2/ Jul 2012: Myanmar: Opportunities in Asia’s Last Frontier Economy
Vol.5/ Nov 2012: Indonesia: Partnering the Private Sector for Growth
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