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SERC

New Industrial Master Plan (NIMP) 2030

Accelerating Malaysia's New Industrial Transformation

1 September 2023

New Industrial Master Plan (NIMP) 2030

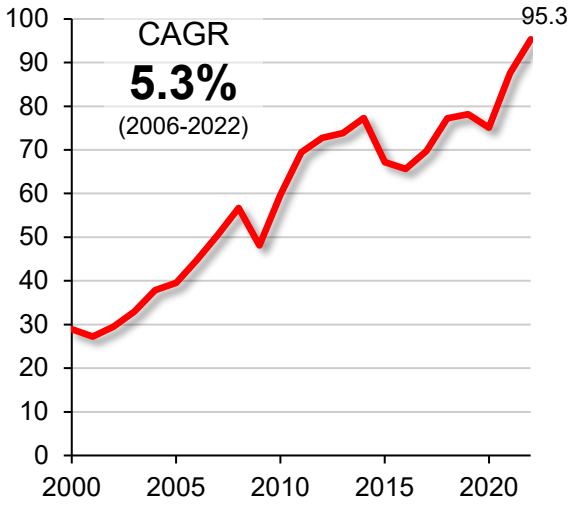
- Following the expiration of the Third Industrial Master Plan (IMP3) 2006-2020, the long-awaited New Industrial Master Plan (NIMP) 2030 was unveiled on 1 September 2023.
- Overall, the NIMP 2030 is a comprehensive industrial direction, outlined strategies and enablers with the aim of positioning Malaysia for next leg of our manufacturing transformation into new growth and catalytic industries in the years ahead.
- Unlike the IMP3, which was formulated on sector-based approach, the NIMP 2030 calls for a "Whole-of-Nation" approach and adopts a mission-based approach to drive the manufacturing transformation in four ways, that is by (i) Advancing economic complexity; (ii) Tech-up for a digitally vibrant nation; (iii) Pushing for net zero target; and (iv) Safeguarding economic security and inclusivity.
- The NIMP 2030 is supported by four enablers, 21 strategies and 62 action plans for the development of 21 sectors, including five pivotal sectors, namely (i) Electrical and electronics (E&E); (ii) Chemical; (iii) Advanced materials; (iv) Aerospace; and (v) Healthcare (including medical devices and pharmaceuticals).
- The formulation of NIMP 2030 is aligned with 32 related policies and roadmaps, with most of them were contained in existing documents such as the 12th Malaysia Plan, New Investment Policy 2022-2027, and National Trade Blueprint 2021-2025, while some of the documents are in the pipeline of launching, e.g. iESG Framework.

Manufacturing remains one of the prime engines of growth

In 2022:

24.1% contribution to overall GDP

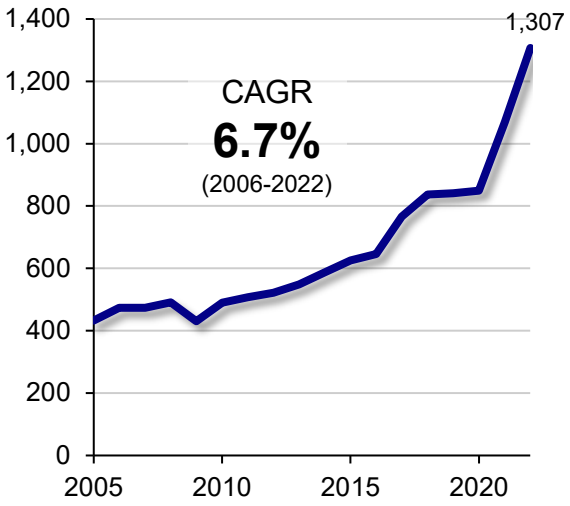
Manufacturing value added
USD billion



Source: World Bank

Major contributor to exports; 84.3% of total gross exports

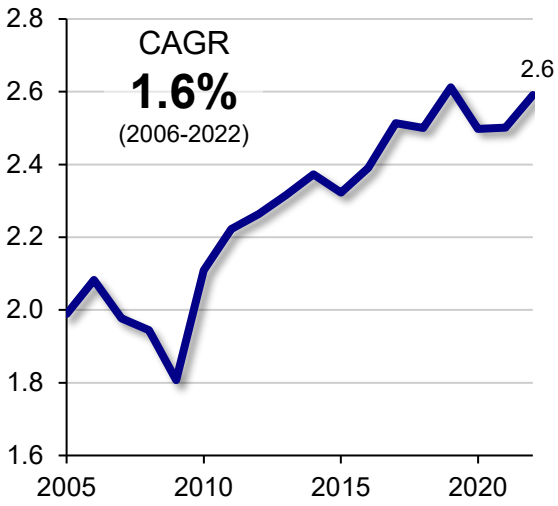
Manufacturing exports
RM billion



Source: BNM

16.8% contribution to employment

Employment in the manufacturing sector
Million persons



Source: DOSM (Labour Force Survey)

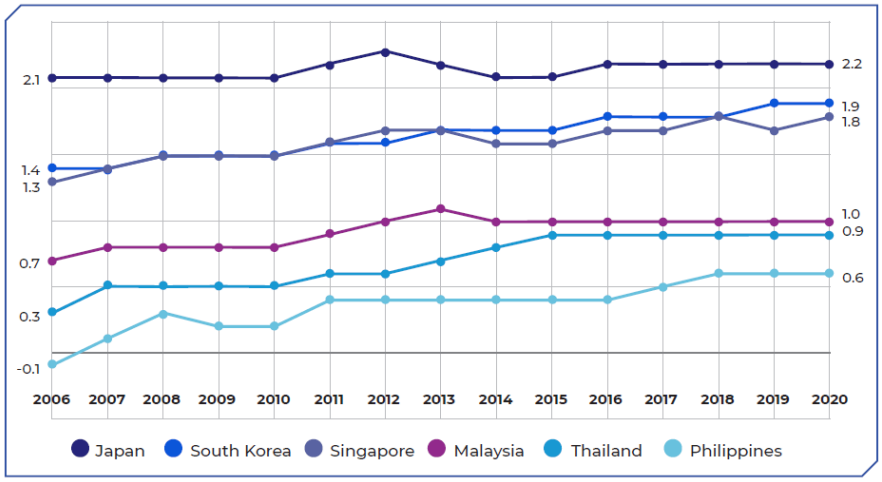
However, Malaysia has not been able to achieve breakthrough

Economic complexity behind advanced; others are catching up

Economic Complexity Index Ranking (2011, 2021)

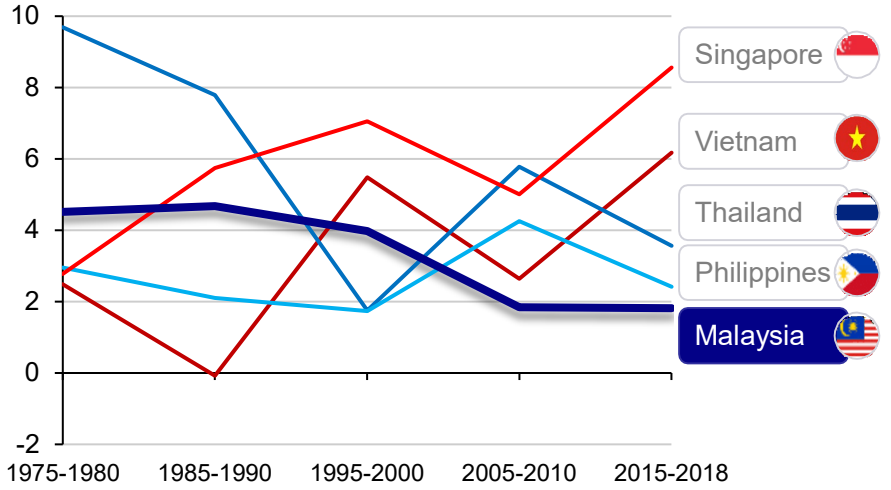
Rank	2011	2021
1	Japan	Japan
...	...	...
4	Chinese Taipei	South Korea
6	Czechia	Singapore
...	...	...
9	Singapore	Austria
10	South Korea	United States
...	...	...
24	Poland	**Malaysia**
26	**Malaysia**	Romania
...	...	...
29	Spain	Thailand
...	...	...
37	Thailand	Philippines

Economic Complexity Index of Malaysia and Selected Countries, 2006-2020



Labour productivity lagging behind peers

Labour Productivity Growth
(Manufacturing), %



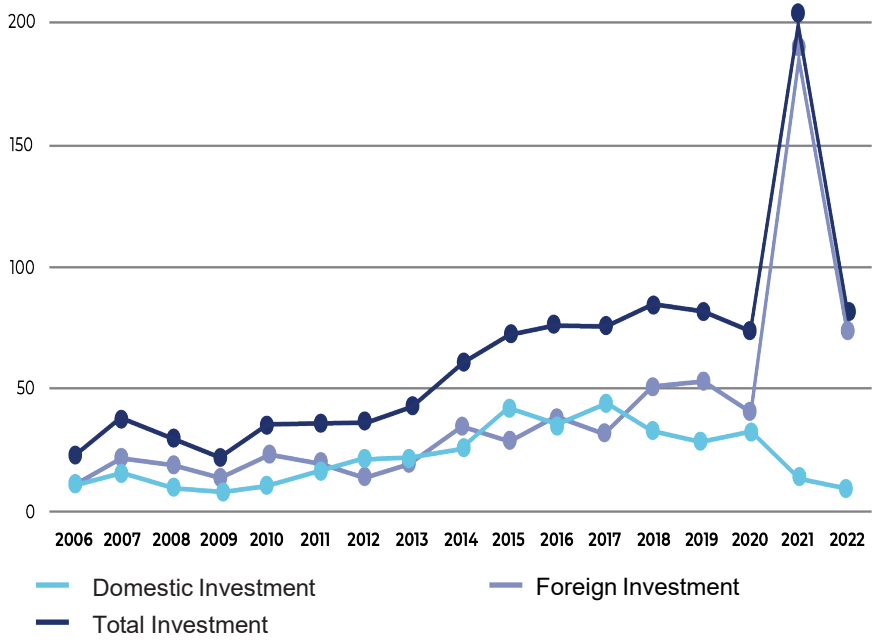
- **Labour productivity growth** has **moderated and stagnated**
- Dependency on **low-skilled foreign workers**
- **Insufficient high-skilled jobs** → graduate underemployment

Source: The Observatory of Economic Complexity; ASEAN Secretariat (Regional Study on Labour Productivity in ASEAN, 2021)

Lost opportunities from foreign investments into Malaysia

While Malaysia's implemented FDIs have increased…

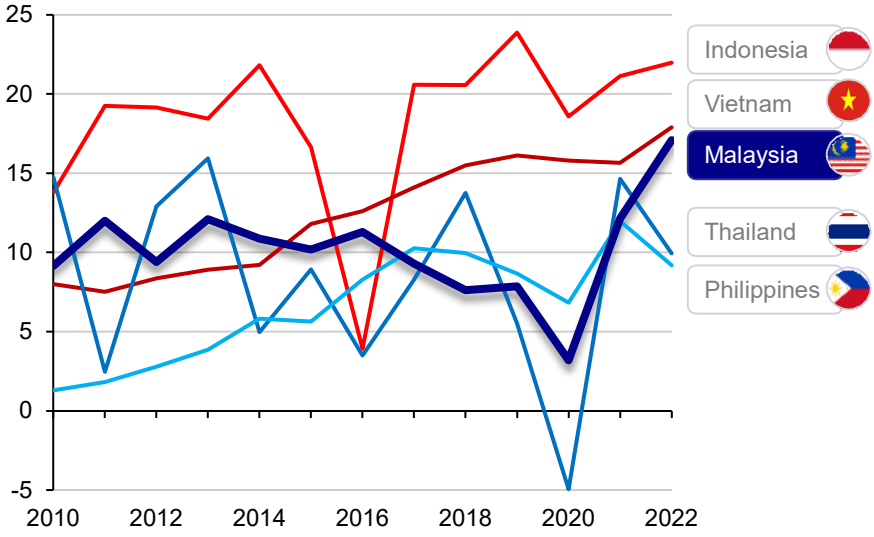
Implemented Domestic and Foreign Investments
RM billion



Source: MIDA

…other countries have received more FDIs in recent years

Inward FDI in selected ASEAN countries
USD billion



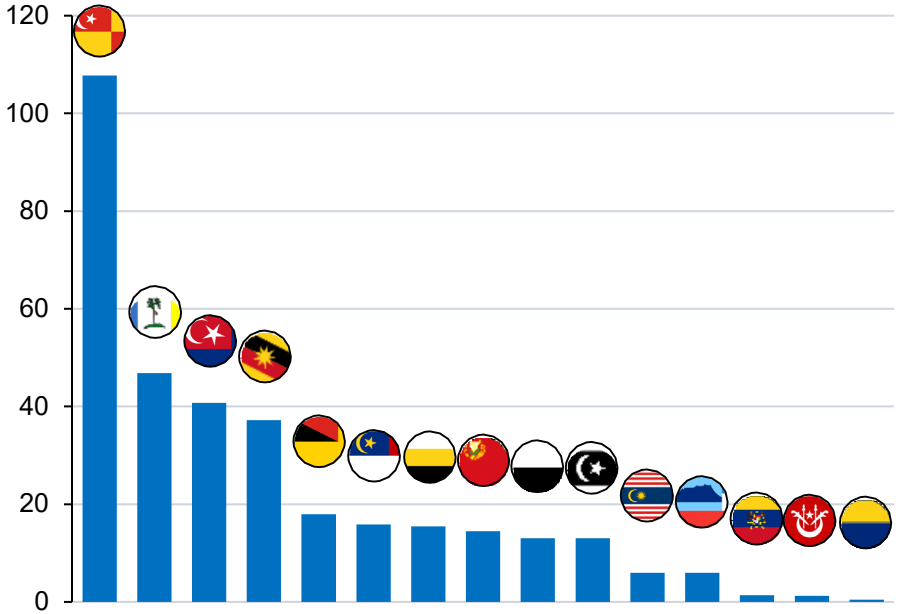
Source: ASEAN Secretariat

Reduce opportunities for Malaysia to participate in global value chains

Growth inclusiveness in industrial development remains a challenge

Disparities in manufacturing activities across states hamper inclusive growth

Manufacturing Real GDP
2021, RM billion



Source: DOSM

Large opportunity for Malaysian SMEs to grow in manufacturing

In 2022

97.4%
of establishments are SMEs

38.4%
GDP

8.5%
Exports

For manufacturing

5.6%
SMEs in manufacturing

8.1%
GDP

8.7%
Exports

Source: DOSM

IMP3's (2006-2020) report card

- The manufacturing sector's growth was below the target, disrupted by the 2008-09 Global Financial Crisis and the COVID-19 pandemic in 2020.
- Encouragingly, Malaysia has managed to attract the desired amount of investment set for the manufacturing sector, focusing on higher quality (high tech and high value-added) investment.

Selected indicators	Target	Actual (2020)	Nominal value (2022)
Manufacturing's GDP growth (constant price)	2006-2020: 5.6% pa	2006-2020: 3.5% pa	2006-2022: 4.2% pa
Manufacturing's share to GDP (constant price)	28.5% in 2020	22.8%	24.1%
Total trade	RM2.8 trillion in 2020	RM1.8 trillion	RM2.8 trillion
Total exports	RM1.4 trillion in 2020	RM1.0 trillion	RM1.6 trillion
Implemented private investment for the manufacturing sector (cumulative)	RM412.2 billion in 2006-2020	RM652.4 billion in 2006-2020	RM862.8 billion in 2006-2022

Source: IMP3; World Bank; DOSM; NIMP 2030; SERC (rebase calculation)

Malaysia's industrialisation today – 12 Key Challenges

Economic complexity
Improved marginally

Labour productivity
Stagnated

Talent
Shortage and skills mismatch

Reliance on re-exports
Increasing

FTAs by local companies
Underutilised

Non-tariff measures
Increasing

FDIs & DDIs
- FDI hampering
- GVC participation
- DDI decreasing

Disparities in manufacturing
Rising across States

MSMEs' participation
Limited in GVC
Increasing

Financing for new ventures
Insufficient

Product & market diversification
Improved marginally

Ease of doing business
Need to improve

Three (3) emerging megatrends

3 Key Trends

Geopolitical Movements

- "Plus One" Strategy – Southeast Asia as alternative
- Capitalise on US-China trade tensions as a neautral party

Digitalisation

- Malaysia ahead of most Southeast Asia (SEA) countries
- Boost digitalisation to keep ahead

Sustainability

- Global trend towards sustainabilit
- Malaysia to be Net Zero as early as 2050
- New growth opportunities in sustainability

Malaysia has a unique value proposition to capitalise on

Strategic location – middle of the world's busiest trade routes

High educational attainment and English-speaking talent

Strong rule of law – stable, good for investors

Rich in natural resources for feedstock

Quality infrastructure

NIMP 2030 is pivotal to drive industrial transformation

Aimed at delivering ACCELERATED and HOLISTIC BROAD-BASED GROWTH to achieve Malaysia's Vision on:

1. **Competitive industry with high economic complexity**
2. **High income and skilled workforce**
3. **Strong domestic linkages**
4. **Well-developed new and existing industry clusters**
5. **Balanced and inclusive participation**
6. **Sustainable development**

… which aligned with the six (6) pillars under the National Investment Aspirations (NIA)

NIMP 2030 sets aspirational top-line targets

Macroeconomic Targets for Manufacturing Sector (impact-based)

Value added (GDP)
(RM billion)

587.5
(CAGR 6.5%)

364.1 → 61%

Derived from high-impact and emerging growth sectors, e.g.

- Chemical
- E&E
- Electric vehicles (EV)
- Aerospace
- Pharmaceutical
- Advanced materials

Employment
(million persons)

3.3
(CAGR 2.3%)

2.7 → 20%

Creation of high-skilled jobs through higher value-added activities

Greater use of labour – enhancing automation and technological advancement

Median salary
(RM)

4,510
(CAGR 9.6%)

1,976 → 128%

Shift of the industry towards higher value-added activities and high-skilled jobs created

Legend: Baseline (2021) Baseline (2022) Target (2030) Value increase

NIMP 2030's ambitious goals, outcomes and targets

NIMP GOALS	OUTCOMES	MEASURES	BASELINE (2021)	TARGET (2030)
Increase economic complexity	Sophistication in economic value-added	High-tech manufacturing and services value-added share of GDP	**8.1% (2020)**	**15%**
	Malaysia as a regional innovation hub	GERD to GDP	**1%**	**3.5%**
Create high-value job opportunities	High-skilled jobs in the manufacturing sector	Number of jobs created	**-**	**700,000 in 7 years**
	Fair income in the manufacturing sector	Median salary	**RM1,976**	**RM4,510**
Extend domestic linkages	Internationally competitive SMEs	Share of export-oriented SMEs	**11.7%**	**25%**
	Deepened local supply chain integration	Domestic value-added in manufacturing	**49% (2018)**	**65%**
Develop new and existing clusters	Accelerated growth in existing core clusters by diversifying into new products	Global market share in high-tech manufacturing exports	**3.0%**	**6.0%**
	Accelerated growth in emerging markets such as 4IR and digital	Global market share in green and digital exports	**2.0%**	**4.0%**
Improve Inclusivity	Catalysed sectoral and regional development through investments	Realised FDI and DDI share of contribution to State GDP	**Average 13%**	**25%**
	High manufacturing value-added participation by less developed States	Manufacturing value-added in less developed States	**22% of State GDP**	**30%-35% of State GDP**
Enhance ESG practices	Derisked economy against ESG factors	Sustainalytics ESG Index	**56.5 (Grade C)**	**75-100 (Grade A)**
	Drive towards Net Zero aspirations	Reduction in carbon emission intensity based on NDC goals	**33%**	**45%**

The NIMP 2030 is formulated on four mission-based approach, supported by four key enablers

VISION	**Our vision for Malaysia is to have:**					
	Competitive industry with high economic complexity	High Income and skilled workforce	Strong domestic linkages	New & existing industry clusters	Balanced & inclusive participation	Sustainable development
GOALS	**Increase economic complexity**	**Create high-value job opportunity**	**Extend domestic linkages**	**Develop new & existing clusters**	**Improve inclusivity**	**Enhance ESG practices**
MISSIONS	**MISSION 1** Advance economic complexity	**MISSION 2** Tech up for a digitally vibrant nation	**MISSION 3** Push for Net Zero	**MISSION 4** Safeguard economic security & inclusivity	**Enablers**	
STRATEGIES *21 Strategies*	**5 Strategies**	**4 Strategies**	**4 Strategies**	**4 Strategies**	**4 Strategies**	
ACTION PLANS *62 Action Plan*	**15 Action plans**	**8 Action plans**	**10 Action plans**	**10 Action plans**	**19 Action plans**	
MISSION-BASED PROJECTS	**4 Mission-based projects**	**2 Mission-based projects**	**3 Mission-based projects**			

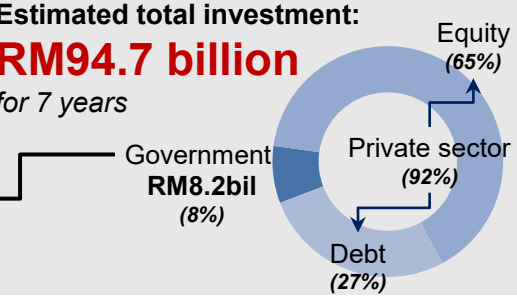
Government's catalyst and incentives

- NIMP Industrial Development Fund
- NIMP Strategic Co-investment Fund

Estimated total investment:

RM94.7 billion

for 7 years



21 sectors in NIMP 2030

- Aerospace
- Automotive
- Chemical
- Digital & ICT
- Electrical & Electronics
- Food Processing
- Global Services & Professional Services
- Halal
- Machinery & Equipment
- Manufacturing-related Services
- Medical Devices
- Metal
- Mineral
- Palm Oil-based Products
- Pharmaceutical
- Petroleum Products & Petrochemicals
- Rail
- Rubber-based Products
- Shipbuilding & Ship Repair
- Textile Apparel & Footwear
- Wood, Paper & Furniture

SME industrialisation – Building the local ecosystem

MISSION 1
Advance economic complexity

- Uplift **SME capabilities** to participate in **higher value-added** activities
- Conduct **IndustryConnect** conference to integrate SMEs in MNCs/LLCs supply chain
- Assist SMEs to **export** and **integrate in global value chain**

MISSION 2
Tech up for a digitally vibrant nation

- Encourage SMEs to adopt automation and technology
- Develop **local tech solution providers ecosystem** to provide solutions for SMEs

MISSION 3
Push for Net Zero

- **ESG framework** to **guide transition**, including financing
- Opportunities to **innovate green tech solutions**

MISSION 4
Safeguard economic security and inclusivity

- Scale up towards MTCs to build supply chain resilience
- **Industry development** across States to provide **opportunities** for SMEs **nationwide**

ENABLERS

- **Mobilise financing** from banks and capital market, supported by Government
- Provide access to **stronger talent pool**
- Improve **ease of doing business** for SMEs to invest, contributing to greater DDIs

SERC's Commentaries on the New Industrial Master Plan (NIMP) 2030

- This is a pivotal moment for Malaysia's industrial development. The Malaysian industries obviously need for new directions and development strategies to remain competitive nationally and internationally.
- In a dynamic and complex global environment as well as industry landscape, our manufacturing industries have to strengthen their resilience and competitiveness to counter operational challenges caused by geopolitical risks that disrupt supply chains, resource scarcity that threatens energy and utilities security, and adverse climate change disruptions.
- The NIMP 2030 sets the breakthrough agenda for Malaysia's manufacturing sector next take-off in new green industrial age. It has mapped out a comprehensive industrial direction, strategies and enablers with the aim of positioning Malaysia for new growth catalytic sectors and industries in the decades ahead.

- The NIMP calls for a "Whole-of-Nation" approach and adopts a mission-based approach to drive the manufacturing industry transformation in four ways, that is by (i) Advancing economic complexity; (ii) Tech-up for a digitally vibrant nation; (iii) Pushing for net zero target, and (iv) Safeguarding economic security and inclusivity.
- All sectors will be driven strategically to embrace these four missions for reconstructing and developing a solid and sustainable manufacturing sector and also for exporting resilience.
- In each of the missions, mission-based projects were identified, and action plans were outlined to provide context why and how to implement the project, including the coordination of resources and enablers.
- While the lead agencies and involved parties were identified to implement the NIMP, **accountability and responsibility are therefore critical to ensuring a successful implementation of the mission-based projects. A strong accountability philosophy is the first step -- to ensure alignment and coordination is to clearly define the project scope and deliverables.**

SERC's Commentaries on the New Industrial Master Plan (NIMP) 2030 (cont.)

- In this regard, **an effective implementation of one-stop centre is a crucial investment facilitation mechanism** whereby relevant Ministries and government agencies are coordinated at a single point to provide prompt, efficient and transparent services to investors to shorten and simplify administrative procedures and guidelines ultimately, thereby removing bottlenecks faced by both local and foreign investors in establishing and running businesses in Malaysia.
- **The Government has to bolster collaboration between the Federal government, State governments and local authorities to facilitate investment.** We support the MITI efforts to streamline the 31 Investment Promotion Agencies (IPAs), with MIDA leading the way.
- While Malaysia has its own diversity strengths, **swift actions must be taken to review and address the manpower planning and development programmes to support economic industrial sectors**. These include the supply of skilled manpower; adaption; reskilling and upskilling of workers that are future proof, including the hiring of foreign talent to supplement domestic pool of workforce.
- An important aspect of the NIMP is the **mobilisation of financing ecosystem, that is making availability of financing and tapping on capital market for industries and businesses, especially SMEs**.
- **A total investment funds of RM94.7 billion is needed to implement the NIMP, with the bulk of total financing needs coming from private sector**. Banks and capital markets (equity crowdfunding, Peer-to-Peer Financing (P2P)) will remain as core and alternative financing resources for the businesses.
- **The Government will allocate a total of RM8.2 billion (8% of total investment funds) via the NIMP Strategic Co-Investment Fund and NIMP Industrial Development Fund to support strategies, action plans, and mission-based projects**. Some other incentives are set to be announced in Budget 2024.

SERC's Commentaries on the New Industrial Master Plan (NIMP) 2030 (cont.)

- We support the action plans to develop a platform to show all available funding options, including raising businesses' awareness about their availability and better visibility of all funding options. **It is, therefore, necessary to broaden the range of financing instruments available to SMEs and entrepreneurs, by improving understanding about a full range of financing instruments they can access in varying circumstances, and by encouraging discussion among stakeholders about new approaches and innovative policies for SMEs and entrepreneurship financing.**

- **The platform must map out the main features of a broad range of financing techniques/modalities, profile of eligible firms, enabling factors, trends and policies for tools within these categories.** In emerging economies, asset-based finance is widely used by SMEs for their working capital needs, based on the value of specific assets, including accounts receivables, inventory, machinery, equipment and real estate, rather than on their own credit standing. Asset-based lending provides more flexible terms than collateralised traditional ending.

- The **NIMP 2030's top-line targets appear on the high side** given mounting external and domestic challenges.

- **Strategic planning is hard, but the real challenge is execution**. Without a careful, planned approach to execution, strategic goals cannot be attained. Hence, the NIMP's introduction of a whole-of-nation governance framework, including establish public-private governance structure, is critical to achieve the targets set.

- We need a pragmatic approach to monitor and track the progress of the proposed action plans and mission-based projects; and make timely interventions and facilitation across collaborations between Ministries and agencies as well as provide resolutions to achieve the deliverables.

- The NIMP dashboard system serves as a quick reference point. The periodic publication of progress and achievement shall be made on a quarterly basis for selected measurements while on an annual basis for some measurements that are not easily tracked.

Mission 1: Advance economic complexity

MISSION 1:
Advance economic complexity

1.1 Expand to high-value-added activities of the value chain

1.1.1 Create global IC design champions from Malaysia

1.1.2 Attract global leader to establish wafer fabrication in Malaysia

1.1.3 Shift from basic to speciality chemical Build Malaysian champions for game-changing advanced materials

1.1.4 Identify high value-added opportunities in the aerospace, pharmaceutical and medical devices sectors

1.2 Develop entire ecosystem to support the high value-added activities

1.2.1 Build strong local SMEs in manufacturing and related services to support the industry champions

1.2.2 Integrate value chains between:

- M&E and Medical Devices
- Semiconductor and EV
- Chemical and Pharmaceutical

1.3 Establish cooperative 'vertical integration' for global value chain

1.3.1 Leverage alliance with ASEAN countries to integrate the semiconductor, advanced materials and clean energy value chain

1.3.2 Develop vertical integration programmes through IndustryConnect conferences

1.4 Foster Research, Development, Commercialisation and Innovation (RDCI) ecosystem

1.4.1 Assign specific topics and KPIs to universities for industrial-linked R&D

1.4.2 Digitalise IP application and launch enhanced National IP Policy

1.5 Increase manufacturing exports

1.5.1 Implement national trade advocacy campaign to increase industry utilisation of FTAs

1.5.2 Rejuvenate "Made in Malaysia" branding

1.5.3 Address trade-restrictive non-tariff measures (NTMs) and compliance of standards

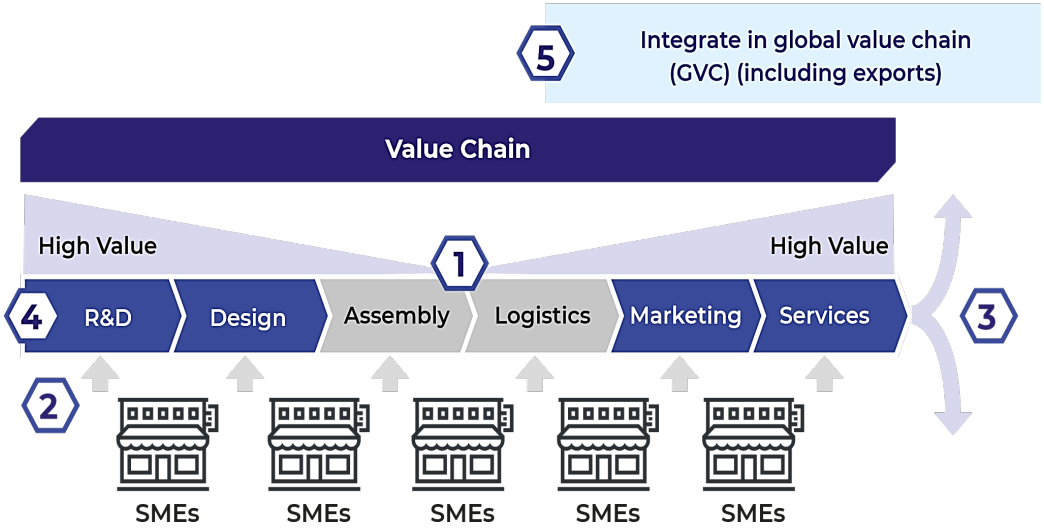
1.5.4 Update FTA based on geopolitical conditions

Mission-based Projects:

MBP 1.1	MBP 1.2	MBP 1.3	MBP 1.4
Create global IC design champions in EV, RE and AI	Attract new advanced wafer fabrication in Malaysia	Deepen to speciality chemical vertical	Groom champions in 4 game changing advanced materials

Mission 1 focuses on encouraging the industry to innovate and produce more sophisticated products to increase economic complexity.

Increase economic complexity | Create high-value job opportunities | Extend domestic linkages | Develop new & existing clusters | Improve inclusivity | Enhance ESG practices



1. **Expand to higher value-added activities**
2. **Develop an ecosystem to support high-value-added activities**
3. **Establish 'vertical integration' for GVC**
4. **Foster RDCI ecosystem**
5. **Increase manufacturing exports**

Machinery and Equipment (M&E)

- Advanced Inspection solution
- Implantable devices
- Minimally invasive surgical tool

Medical Devices

E&E

- EV chip
- Supercharges
- Smart sensors

Automotive

Chemical

- Active pharma/ ingredients
- Biologics – insulin, vaccines
- Solvents, preservatives, excipients in generic drugs

Pharmaceutical

Mission 1: Advance economic complexity

1.1 Expand to high value-added activities of the value chain

- The NIMP 2030 has identified five high-tech manufacturing sectors, namely (i) Electrical and electronics (E&E); (ii) Chemical; (iii) Advanced materials; (iv) Aerospace; and (v) Healthcare (including medical devices and pharmaceuticals).
- Certain industries exhibit a complementary nature, fostering an interconnected supply chains and ecosystem. For instance, the synergy between advanced materials and chemical products enables the production of E&E components, subsequently driving progress in the aerospace and healthcare domains.
- By propelling these industries up to high value-added activities of the value chain, it will harness a strong foundations of each sector and capitalise on the abundance of natural resources and Malaysia's strategic geographical advantages.

Attract new advanced wafer fabrication in Malaysia

- Malaysia's electrical products and electronics (E&E) sector plays a pivotal role in global semiconductor supply chains, having developed its local semiconductor industry and ecosystem over the past five decades. Malaysia is ranked as the 7th largest semiconductor exporter, with a global market share of 7%.
- Malaysia is now supplying approximately 13% of the demand for packaging and testing, along with certain levels of wafer fabrication, such as 200nm.
- Malaysia needs to continue to enhance its E&E ecosystem and seize the opportunities arising from the US-China strategic rivalry. In particular, we need to attract foreign direct investment in wafer fabrication facilities and leading-edge technologies.
- The production of chips is very globalised and at the same time extremely specialised. It necessitates large investments to produce output at the different stages of production and leads to strong global interdependencies.
- Many businesses and governments are aware of the semiconductor supply chains' vulnerability to shocks. While businesses diversify their supply base and boost regionalisation, governments are attempting to solve this issue by investing in local semiconductor manufacturing facilities and increasing their semiconductor research funding. In addition, governments around the world have introduced policy interventions and legislation to diversify or localise parts of the supply chain, for example, the Innovation and Competition Act from the US and the European Chips Act.

Mission 1: Advance economic complexity

1.1 Expand to high value-added activities of the value chain (cont.)

- Taiwan and South Korea together account for almost 40% of global chip fabrication capacity. High R&D and capital expenditure are needed for wafer fabrication.
- **The proposed mission project to attract one globally competitive wafer fabrication company to set up local operations**, and to expand capabilities to produce 28-40 nanometre (nm) wafer fabrication from current **200nm is a strategic move to keep pace with future demand; build competency and strengthen the semiconductor ecosystem as well as to ease the supply chains disruption arising from geopolitical shocks**.
- While some forms of subsidies/funding/grants are expected to attract large-scale investment into wafer fabrication, **should the government or GLICs invest (own an equity stake) in the proposed wafer fabrication company?** Investors' vivid memory was Khazanah Nasional Berhad's loss-making investment in SilTerra, a 200mm semiconductor wafer foundry.
- Malaysia has to act fast on this proposed mission project as Vietnam is already in talks with Samsung, and Singapore with Taiwan Semiconductor Manufacturing Company Limited (TSMC).
- Governments in the region are offering various incentives to ensure that they remain attractive to semiconductor investors. **India's** government has approved a deal to spend US$30 billion to position her country as a global hub for electronics manufacturing, with semiconductors as the foundational building block. The government will provide up to 50% co-funding for fabs and cover up to 50% of eligible expenditure for 100 semiconductor design companies.
- **Singapore's** Economic Development Board is looking to win its fair share of investments in the semiconductor assembly and integrated circuit design, focusing on the semiconductor value chain of activities.
- **South Korea's** "K-Semiconductor Belt" offers investment tax credits on semiconductor R&D up to 50% and facility investments up to 20% to attract more than US$450 billion in private sector investment in the domestic semiconductor industry by 2030.
- **Japan's** Ministry of Economy, Trade and Industry will offer subsidies worth up to 476 billion yen (US$3.5 billion) for a semiconductor plant being built in Kumamoto prefecture by Taiwan Semiconductor Manufacturing Co, Sony Group and Denso.

Mission 1: Advance economic complexity

1.1 Expand to high value-added activities of the value chain (cont.)

Groom champions in four (4) game-changing advanced materials

- **Rare earth elements (REE)** have gained increasing importance in modern technologies, including electronics, clean energy, and electric vehicles (EVs). Malaysia is fortunate to possess abundant natural resources, with an estimated 30,000 metric tonnes of rare earth ores in Peninsular Malaysia, as reported by the US Geological Survey (USGS).
- **Malaysia held metal mineral reserves worth RM732 billion in 2019** in the form of coal, tin ore, iron ore, gold, manganese, silica sand, and kaolin, which are yet to be fully explored.
- Malaysia can leverage its resources to produce advanced materials that can be further integrated into downstream production. However, **appropriate regulations and enforcement are needed to promote a balanced industrial development and environmental sustainability**.
- However, environmental concerns about the development of rare materials are associated with the controversial issue of Lynas rare earth. Past incidents of illegal mining and theft in Kedah have raised alarm bells, necessitating the implementation of sustainability management and a practical implementation strategy to close the material loops and improve resources efficiency.
- Nevertheless, advanced materials facilitate recycling, reducing carbon footprint and energy demand while minimising the reliance on raw materials, aligning with new global technological revolution, including areas such as nanotechnology.
- While these industries strive for higher value-added and innovative activities, their development must align with the commitment to achieve carbon neutrality by 2050. Additional support measures can include consistent funding for Research and Development (R&D), the implementation of regulations to ensure ethical practices, strong protection of intellectual property (IP), sustainability measures, attracting high-quality foreign investments that meet specific requirements and fostering a supportive ecosystem and supply chain dynamics that strike a balance between demand and supply.

Mission 1: Advance economic complexity

1.2 Develop the entire ecosystem to support high-value-added activities

Build strong local SMEs in manufacturing and related services to support the industry champion

- SMEs are crucial for supporting industrial ecosystem. They should be provided with opportunities to gradually scale up their industries through horizontal and vertical integration. This necessitates capital investment in advancing technological and digitalisation capabilities, ensuring an ample supply of highly skilled and knowledge-based human capital, and more importantly, creating a conducive and competitive investment environment.
- As SMEs often encounter challenges in accessing financial resources and credit facilities, capabilities, **we support the action plan to develop a platform to show all available funding options, including raising businesses' awareness about their availability and better visibility of all funding options**.
- It is, therefore, necessary **to broaden the range of financing instruments available to SMEs and entrepreneurs, by improving understanding about the full range of financing instruments they can access in varying circumstances, and by encouraging discussion among stakeholders about new approaches and innovative policies for SMEs and entrepreneurship financing**.
- **The platform must map out the main features of a broad range of financing techniques/modalities, profile of eligible firms, enabling factors, trends and policies for tools within these categories.** In emerging economies, asset-based finance is widely used by SMEs, for their working capital needs, based on the value of specific assets, including accounts receivables, inventory, machinery, equipment and real estate, rather than on their own credit standing. Asset-based lending provides more flexible terms than collateralised traditional lending.
- Foster an environment that encourages risk-taking, innovation, and access to relevant information. Tailored programs that address the specific needs of SMEs, including capacity building, financial assistance, and mentorship initiatives, can be implemented. SMEs should also be supported to elevate their participatory role in providing support services for manufacturing activities.
- **Promote collaboration and partnerships between SMEs, larger domestic enterprises, and foreign MNCs** that can facilitate knowledge transfer and establish mutually beneficial relationships that support the industry champions.

Mission 1: Advance economic complexity

1.3 Establish cooperative 'vertical integration' for the global value chain

ASEAN and ASEAN+ FTAs

- No single country can produce a final output alone, especially in the context of high-end and emerging products, as the value chains are inter-connected across countries in the region.
- Geoeconomics fragmentation has divided countries aligned with major economies sitting on the fault lines, rendering the supply chains vulnerable to disruptions. Hence, integrating supply chains is inevitably important, while a seamless vertical integration within the region is a good start for Malaysia. As proposed in the NIMP, Malaysia has to establish an alliance with ASEAN to develop vertical integration of the value chain in the semiconductor, advanced materials and clean energy.
- Malaysia should make use of the Rules of Origin (ROO) under ASEAN and Regional Comprehensive Economic Partnership (RCEP) to produce and sell her goods in ASEAN and RCEP markets. Harmonising the ROO leads to lower trade costs between Malaysia and member states as it is costly and nearly impossible to cover every aspect of the supply chains.
- Malaysia can also utilise its participation in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to deepen trade with Canada, Mexico and European (where the United Kingdom just signed as a signatory party). Taiwan's application into CPTPP could also enhance the growth potential in the semiconductor sector in the future. Malaysia should draw on the investment chapter of these agreements to promote Malaysia as an attractive investment destination.

Mission 1: Advance economic complexity

1.4 Foster Research, Development, Commercialisation, and Innovation (RDCI) ecosystem

Assign specific topics and KPI to universities for the industrial-linked R&D

- Assigning specific topic-centric R&D for industrial applications is ideal, however, Malaysia may not have sufficient fundamental skills and talents to pursue the desired outcome amid having limited funding resources. Consideration can be made for the prioritisation of topics and having a pilot industrial application project as a role model for others to follow if it is a successful one. Collaboration and learning from the industry players as well as with the established foreign universities and industrial research institutes.
- Despite emphasising R&D&C&I and calls for higher learning institutions to focus on R&D applications for industrial use for many years, we still see less than half of gross R&D expenditure were from business enterprises (43.9% in 2018); experimental development type of research only constituted 24.5% while basic research accounted for 39.3% (which mainly contributed by higher learning institutions), resulting in unavailability of commercialisation. It is estimated that Malaysia's commercialisation rate is as low as 5%-10%, much lower compared to some highly developed nations such as the United States and Japan, whereby the commercialisation rate is as high as 60%. What can be done? We need a breakthrough in the commercialisation of R&D and innovation?
- **We must establish effective relations between research institutes (universities) and the potential industrial users of research produced by these institutes.** The Government can consider setting up an industrial technology research institute alike The Industrial Technology Research Institute (ITRI), which is located in Taiwan. ITRI is a world-leading applied technology research institute to drive industrial development, create economic value, and enhance social well-being through technology R&D. It nurtures new tech ventures and deliver its R&D results to industries. ITRI has set up and incubated companies such as TSMC, UMC, Taiwan Mask Corp., Epistar Corp., Mirle Automation Corp., and Taiwan Biomaterial Co. ITRI is dedicated to creating new value and identifying emerging demands for partners while facing global challenges and opportunities, such as urbanisation, ageing societies, new production and consumption patterns, climate change caused by global warming.

Mission 1: Advance economic complexity

1.5 Increase manufacturing exports

Implement national trade advocacy campaign to increase industry utilisation of FTAs

- We support the action plans to drive promotional activities of FTAs and export consortia, given the low utilisation rate and awareness among the business community.
- **Enhance awareness and increase the utilisation rate of RCEP and CPTPP**: (a) Step up efforts in collaborating with the business chamber and industry associations to promote both RCEP and CPTPP aggressively so they can take advantage of this big opportunity for exporting; and (b) Identify the barriers and rationale of low participation rate for certain exporters' development programmes. Revamp and promote RCEP and CPTPP effectively.
- **Design a Tariff Finder to support traders to maximise benefits from the RCEP and CPTPP** to help businesses, especially MSMEs, to get up-to-date information on the preferential tariffs applied by RECP and CPTPP member states. It also sets out the rules of origin criteria used to determine a product's eligibility for preferential tariff treatment.

With this search engine, traders will save time and resources in their transactions, since all tariff information they need is now readily available on the website.

- **Establish a Central Agency under the Ministry of Investment, Trade and Industry (MITI) to facilitate and address issues relating to non-tariff barriers/measures** imposed in domestic and international markets.
- **Set up a one-stop advisory centre for all FTA-related enquiries from businesses**; gather feedback on trade-related issues so that the Government can better facilitate trade and investment.
- **MITI regularly reviews and upgrades our trade agreements** to take into account new business models and regulations in light of changing economic circumstances.
- Challenges may be faced in aggregating local companies to compete in the global market based on complementary competencies in terms of ensuring the consistency of quality and product differentiation.
- Implement a national trade advocacy campaign to increase industry utilisation of FTAs.

Mission 1: Advance economic complexity

1.5 Increase manufacturing exports (cont.)

Rejuvenate "Made in Malaysia" branding

- To help enhance "Made in Malaysia" branding, the following thrusts are important: (a) **Create a value product with purpose; (b) Integrate with the creativity industry; and (c) Promote creativity and innovative marketing strategy**.

- The Government should look into how to make "Made in Malaysia" products stand out in domestic and international markets, including formulating niche marketing strategies. One of the approaches is to tie with Malaysia's worldwide confidence and acceptance of halal food products produced locally.

- Strengthen Malaysia's brand and position on the world stage. We have to rebrand the campaign of buying "Made in Malaysia" manufactured goods.

  i. Organise annually "Made-in Malaysia Fiesta and Award" event to give recognition as well as encourage domestic manufacturers and businesses to showcase locally made products of quality and meeting international accredited standards. The event also promotes consumers' awareness of Malaysia-made products;

  ii. Set up One Focal Agency to centralise all initiatives to build a Malaysian brand globally through a collective and integrated approach;

  iii. Strengthen the enforcement of buying "Made in Malaysia" in Government's and GLCs' procurement, particularly in infrastructure projects by Government and GLCs; and

  iv. Promote the commercialisation/transfer of technology for new products among universities/innovators with the industry players.

Mission 2: Tech up for a digitally vibrant nation

MISSION 2:
Tech up for a digitally vibrant nation

2.1 Accelerate technology adoption

2.1.1 Enhance Industry4WRD programmes to increase technology adoption

2.1.2 Accelerate digital infrastructure rollout (JENDELA)

2.2 Shift away from low-skilled labour model

2.2.1 Introduce multi-tiered levy mechanism for low-skilled labour to accelerate automation

2.2.2 Introduce automation condition in new Manufacturing Licence

2.3 Spur technology innovation

2.3.1 Nurture local technology solution providers to support Technology Adoption Programme

2.3.2 Develop generative and industrial AI solution leaders and system integrators

2.3.3 Drive data analytics through a national digital platform for manufacturing

2.4 Accelerate government digitalisation and integration

2.4.1 Digitalise end-to-end government touch points across business life cycle

Mission-based Projects:

MBP 2.1

Transform 3,000 smart factories

MBP 2.2

Establish Malaysia as Generative AI Hub

Mission 2 aims to embrace technology and digitalisation to drive innovation, enhance productivity and create new opportunities for economic growth.

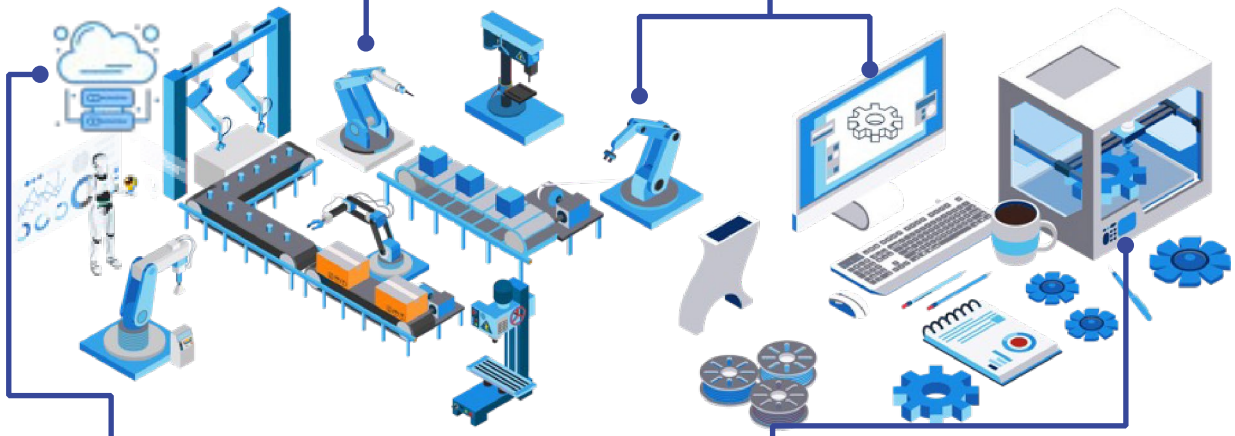
Increase economic complexity | Create high-value job opportunities | Extend domestic linkages | Develop new & existing clusters | Improve inclusivity | Enhance ESG practices

Advanced automation and robotics

Automate tasks such as welding, assembling, inspecting defects, and packaging

Artificial intelligence

Predictive analytics for:
- Continuous self-optimisation
- Product design and development



Cloud computing

Large data storage and analytics to:
- Track production output
- Identify improvements

Additive Manufacturing

Rapid prototyping of new products

Key areas to drive digitalisation

Accelerate tech adoption

Spur innovation by solution providers

Accelerate Government

- Automation condition in Manufacturing Licence
- Multi-tiered levy mechanism

Develop National Digital Platform for the manufacturing sector

Mission 2: Tech up for a digitally vibrant nation

2.1 Accelerate technology adoption

Industry4WRD programmes and Jalinan Digital Negara (JENDELA)

- Equipping the industry, especially SMEs with the technology and technical know-how as well as skilled manpower to embrace digitalisation and shift towards IR4.0.
- Enhancing the scope of Reinvestment Allowance (RA) and intervention funding programmes to include a follow-through on the technology implementation and post-implementation review. This is to ensure the long-term sustainability of technology intervention.
- The Government to provide some forms of financial guarantee in collaborating with the investees to raise funds in the capital market and from financial institutions to co-funding the technology intervention projects.
- There is no mention of a continuation of 5G for phase 2. The Government needs to hasten the process of expanding the 5G rollout nationwide.

2.2 Shift away from low-skilled labour model

Introduce multi-tiered levy mechanism for low-skilled labour to accelerate automation

- We support the implementation of a multi-tiered levy model (MTLM) to facilitate the industry to reduce over-dependency on foreign workers (FWs) overtime to achieve the government's threshold to lower the number of foreign workers to not more than 15% of total workforce. The number of foreign workers totalled 1.46 million or 8.7% of the total labour force (16.73 million at end-Dec 2022).
- **Staggered implementation of the levy structure.** It is suggested that the MTLM come into effect in 2H 2024 so as to allow the industry to adjust their cost structure. Businesses are already burdened with increased costs (higher minimum wage and labour cost, raw materials cost, transportation cost, the impact of the Employment (Amendments) Act, and higher interest rate). The anticipated implementation of subsidy rationalisation on fuel will add to cost pressure. Alternatively, the model can be implemented for levy amounts up to Tier 2 at the initial stage (from 2H 2024) and subsequently move to Tier 3 from 2025 onwards.

Mission 2: Tech up for a digitally vibrant nation

2.2 Shift away from low-skilled labour model (cont.)

- **Periodically review every 3 to 5 years, taking into account the economic and business environment as well as labour market conditions.** The MTLM must be mutually acceptable market-based mechanism by both Malaysian Manpower Council and Joint Consultative Committee.
- **Payment of levy on a monthly basis.** In Singapore, the levy is calculated on monthly and daily basis, while the payment is made on monthly basis, whereas Malaysian employers have to pay the annual levy upfront, which incurs huge cost at one-time.
- **We strongly support that the levies collected be ploughed back to support the industry's automation and reskilling of manpower.** In efforts to increase labour productivity and production efficiency, the levies should be ploughed back into a Designated Industrial Revolution/Adjustment Fund that provides financial support or technical assistance to firms to facilitate automation, mechanization and technological development. Digitalisation and Industrial Revolution 4.0 requires new future workforce that equipped with high technical skills to operate new processes.

Digitalisation and automation lead agency

- It is proposed that **Malaysia Digital Economy Corporation (MDEC) be appointed as the lead agency, given its familiarisation of digitalisation and automation business development**. The Government has access to most of the MSMEs information through other Government agencies, and that these agencies can coordinate and link-up to provide this information. This will enhance the efficiency as well as expedite the approval process.

Mission 2: Tech up for a digitally vibrant nation

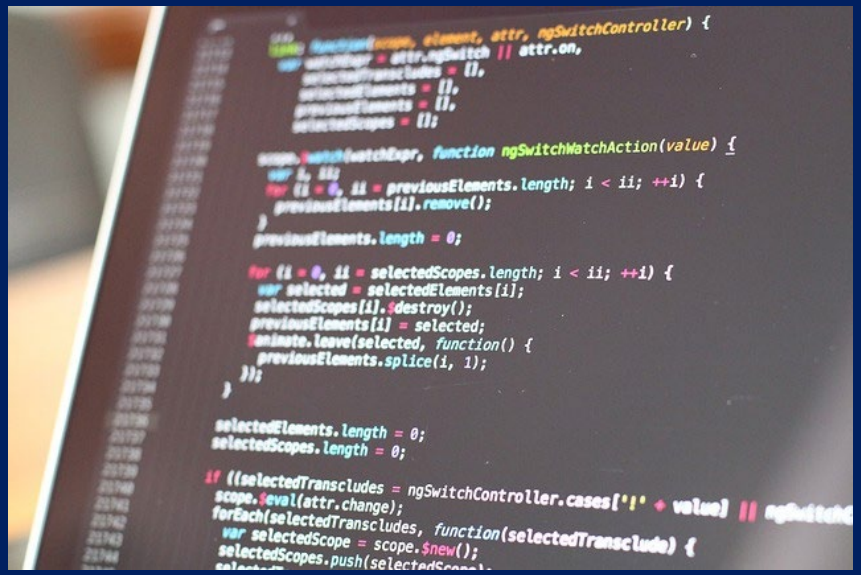
2.3 Spur technology innovation

- **Tapping on foreign students who graduated from local universities.** If a foreign digital/engineering student has graduated from a local university and has a job offer from a locally registered company, the Government can automatically issue a work visa for digital/ engineering students for a duration of two years. This policy can help to retain such skills for our own advantage, rather than losing them and benefitting other nations. In this regard, it is proposed that to implement the issuance of work permit for foreign STEM students who have graduated from local and foreign incorporated universities and has a job offer from a locally registered company.
- **Education focuses on STEM and TVET.** Malaysia must emulate Japan, Germany and the United States in focusing on Science, Technology, Engineering and Mathematics (STEM) subjects and technical and vocational education and training (TVET). The education syllabus needs to incorporate technology, computer science, coding, programming, and the like to future-proof our STEM talent in Malaysia. India's success in the IT industry starting from their education in school that inculcated cultures of creativity, resilience and problem-solving as well as critical thinking, instead of adherence to rules.

Mission 2: Tech up for a digitally vibrant nation

2.4 Accelerate Government digitalisation and integration

- We support the government's intention to introduce the Omnibus Act (as announced by the Economic Affairs Minister in June), which aims to facilitate data sharing among various government agencies through the Malaysian Main Database (PADU).
- It is necessary to build an institutional and legal framework that encourages pro-active sharing of information and data across agencies, working with other departments, and developing services to best fit people's needs in a user-friendly and impactful manner. Open source enables more agile processes and further develop the capabilities of the public sector office while ensuring effective use of our resources.
- A centralised depository of data and information making them accessible to inter-government departmental users and also public with sufficient protection would help both public and private sectors to make effective public policy to better serve the interest of the rakyat and informed business decisions for private sector to offer better products and services to consumers.
- Setting up a standardised framework for the digitalisation of documents and applications, and improving data security. Using smart solutions like digitalised public services, digitalised public assets, public data management and citizen engagement. Big Data analytic and AI can be utilised to analyse the granular data and information to make more market- and industry-driven policies and regulations. Accessible government information would allow better policy advocacy and improve governance.



Mission 3: Push for net zero

MISSION 3:
Push for Net Zero

3.1 Accelerate transition towards sustainable practices

- 3.1.1 Develop sectoral decarbonisation pathways to guide transition
- 3.1.2 Decarbonise “hard-to-abate” sectors
- 3.1.3 Introduce carbon policy, accounting and tax
- 3.1.4 Launch iESG framework and transition programmes

3.2 Transition to renewable and clean energy

- 3.2.1 Enhance adoption scheme for energy efficiency or renewable energy
- 3.2.2 Accelerate availability and accessibility of renewable energy source for the industry

3.3 Catalyse new green growth areas

- 3.3.1 Catalyse EV as a key growth driver
- 3.3.2 Grow carbon capture, utilisation and storage (CCUS) as a new sector
- 3.3.3 Develop circular economy framework for the industry

3.4 Shift towards green infrastructure

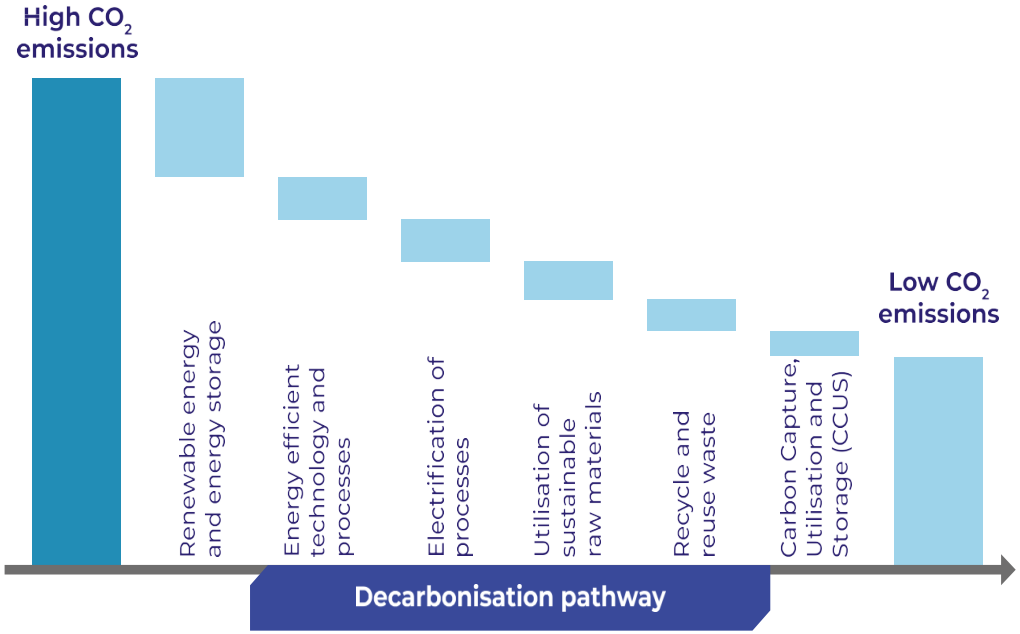
- 3.4.1 Accelerate transformation of industrial estates into eco-industrial parks

Mission-based Projects:

MBP 3.1	MBP 3.2	MBP 3.3
Create decarbonisation pathway role models	Launch locally-manufactured EV	Deploy large-scale CCUS solutions

Mission 3 aims to decarbonize the manufacturing sector to achieve Net Zero emissions as early as 2050 while capitalizing on new green growth areas.

Increase economic complexity | Create high-value job opportunities | Extend domestic linkages | Develop new & existing clusters | Improve inclusivity | Enhance ESG practices



Note: The decarbonization pathway above is illustrative

Mission 3: Push for net zero

3.1 Accelerate transition towards sustainable practices

Introduce carbon policy, accounting and tax

- **Carbon pricing is an effective instrument.** A comprehensive package of measures is needed to enhance the overall effectiveness and acceptability of carbon dioxide (CO2) and other greenhouse gases mitigation strategies. Key elements potentially include a balance between carbon pricing and reinforcing sectoral instruments; supporting public investment and technology policies; productive and equitable use of carbon pricing revenues; and measures for a just transition, to address industrial competitiveness, and to reduce broader greenhouse gas emissions.
- It is important for the Government to:
  i. Provide clear guidelines and timeline for a progressive introduction of carbon tax;
  ii. Provide across-the-board incentives for firms and households to reduce carbon-intensive energy use and shift to cleaner fuels. Carbon pricing increases the price of carbon-intensive fuels, electricity, and consumer goods produced with fuels and electricity;
  iii. Provide government-funded GHG Emissions-related training and courses; and
  iv. Introduce a low carbon tax rate initially to promote awareness.

Appoint a lead Ministry to oversee the ESG agenda

- On ESG, the Government should **appoint a lead Ministry to oversee the entire national ESG agenda**, together with the participation of all other Ministries and agencies. This lead Ministry can be the Ministry of Investment, Trade and Industry or Ministry of Economy or co-lead by both Ministries.

Mission 3: Push for net zero

3.2 Transition to renewable and clean energy

- Once the leading solar PV module manufacturer in the region, Malaysia has lost her leading position to Vietnam after 2019. Under the scenario of 1.5°C with 90% renewable generation (1.5-S RE90), Malaysia needs to expand its solar capacity by 1.4 GW annually until 2030 and 4.3 GW annually until 2050.
- The challenge is how to drive the households and industries towards renewable and clean energy given the less encouraging responses.
- In order to further facilitate the solar industry, it is recommended that (a) 3,000 MW NEM quota be allocated from now until 2025, with the NOVA programme (a sub-programme under NEM 3.0) be given priority; and (b) Individuals' residential houses installing solar PV systems be given a personal income tax relief of RM10,000 per year, and up to a maximum amount of RM30,000 over a period of three years. According to studies, every megawatt (MW) of rooftop solar system procurement generates 4.36 direct jobs and 28.5 indirect jobs.
- Provide corporate tax credits could encourage investment in renewable energy production, such as wind and solar. For example, companies that invest in solar power plants can claim a credit of up to 25% of their capital costs against their corporate tax liability.

Mission 3: Push for net zero

3.3 Catalyse new green growth areas

- In the new Budget 2023, the Government has provided a series of incentives for electric vehicles as well as carbon capture and storage (CSS). This is aligned with the NIMP's direction.

- We propose the following incentives to facilitate the electric vehicles (EV) ecosystem and infrastructure:

  i. Provide tax incentives for companies to encourage the building of EV charging infrastructure, including EV charging stations at existing petrol stations and commercial parking lots.

  ii. Provide grants and soft loans to encourage the building of EV charging infrastructure at residential strata buildings.

  iii. Tax reliefs for individuals that install EV charging ports at their houses.

  iv. Review the calculation of road tax for EVs. EVs are currently exempted from road tax from January 1, 2022 until December 31, 2025. The general rule is the higher the power output of an EV, the more road tax you'll be paying. If the goal is to make EVs affordable for the masses, it's not just the purchase price that needs to be considered, but also the cost of ownership in relation to road tax.

- It is a niche market and rightly targeted on the exports of carbon capture, utilisation and storage (CCUS) services. The capacity building and development are crucial. At the initial stage, the Government should facilitate for collaboration with more international peers, particularly those with significant carbon emissions and a strong interest in sustainability, to jointly develop and export CCUS solutions. At the same time, the Government should engage in technology transfer agreements and knowledge-sharing initiatives with partner countries.

Mission 3: Push for net zero

3.3 Catalyse new green growth areas (cont.)

Facilitating the green transition for SMEs

- SMEs face challenges toward green practices – access to finance, regulatory barriers, skill and technical knowledge, and information deficits. Through a variety of policy tools, government can create the conditions to support the uptake of green practices by SMEs.

  i. Creating a web-based tool in partnership between the industry associations and environmental regulator, to provide free environmental guidance to SMEs. The web-based tool is linked to trade associations and other sources of environmental guidance and business support. The content will include guidance by business type; a researchable library of environmental topics; provides regular updates on changes in the environmental legislation; interactive learning modules on green practices; video case studies illustrating good green practices.

  ii. Offer grants for the purchase of environmental technologies and/or to subsidise a share of consultancy costs for the identification and implementation of resource efficiency and other environmentally oriented measures. For instance, reimburse SMEs the full cost of an initial environmental audit.

  iii. Government should encourage larger firms to form partnerships with smaller suppliers to improve environmental performance and provide public recognition to those who do so.

Mission 3: Push for net zero

3.4 Shift towards green infrastructure

- In addition to transforming the traditional industrial park into eco-industrial park with a circular system, the Government should also look into the development of green buildings.
- In Malaysia, there are currently 644 green building index-certified projects as of 31 March 2023, about 36.8% of the targeted 1,750 certified buildings by the year 2030 under the Green Technology Master Plan. These green buildings have contributed to a reduction of approximately 1,720 ktCO2e/annum in carbon dioxide emissions, showcasing their potential to make a significant positive impact. However, only 36% of these projects have achieved silver, gold, or platinum ratings, indicating the need for greater adoption of higher-rated certifications.
- Recognising the significance of sustainable growth, regional peers have initiated building standard reforms by incorporating minimum green elements. Singapore, for example, mandates a minimum environmental sustainability standard for new buildings and existing buildings undergoing significant retrofitting, with a gross floor area of 2000 m2 or more.
- To ensure a smooth transition towards sustainable building practices, **it is strongly recommended that to gradually implement a minimum green building standard**. This can be supported by additional assistance, including awareness-building initiatives and financial facilitation, to help stakeholders embrace the transition and overcome potential challenges. By establishing and enforcing such standards, Malaysia can advance its sustainability agenda and contribute to the creation of greener and more resilient built environment.
- For a start, the Government and GLCs should set an example by implementing green building practices in their buildings and showcase successful green building projects to inspire private sector's adoption.

Mission 4: Safeguard economic security and inclusivity

MISSION 4:
Safeguard economic security and inclusivity

4.1 Develop resilient supply chain

4.1.1 Identify specific supply chain resilience strategies for critical sectors
4.1.2 Establish supply chain cooperation and collaboration through G2G and G2B programme
4.1.3 Introduce National Mineral Policy for downstream processing of critical minerals

4.2 Foster climate resilient development

4.2.1 Develop sectoral adaptation pathways to guide transition
4.2.2 Foster an adaptation industry to provide adaptation products and services (including exports)
4.2.3 Instil climate resilience measures for critical economic infrastructure

4.3 Strengthen industrial clusters for regional development

4.3.1 Expand clusters for spillover regional impact

4.3.2 Align industrial development plan between Federal and States

4.4 Empower Bumiputera participation and create inclusive workforce

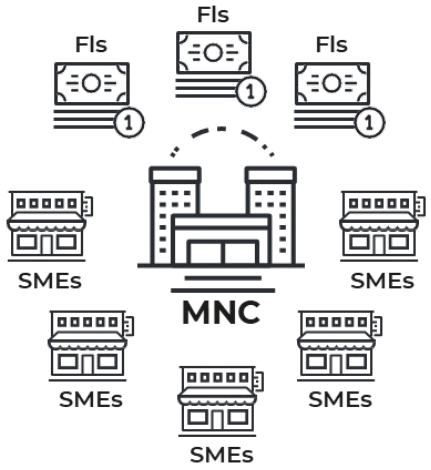
4.4.1 Uplift capabilities of Bumiputera companies in manufacturing via Tindakan Pembangunan Bumiputera 2030
4.4.2 Develop programme to increase women participation in high-skilled manufacturing employment

Mission 4 aims to create an enabling environment with supply chain resilience, fosters entrepreneurship, supports SMEs, and promotes equitable participation in economic activities.

Shift

Focus on manufacturing in one country

Other countries + "Plus One" Strategy



Build local SMEs

- Build local supply chain resilience
- Integrate with Global Value Chains (GVCs)

FIs – Financial Institutions

Inclusive growth

Across all States

SMEs

Bumiputera

Female labour force participation

Mission 4: Safeguard economic security and inclusivity

4.1 Develop resilient supply chains

- Safeguarding the supply chains is essential to ensure the continuous flow of goods and services, reduce dependency on high-risk regions, mitigate economic impacts, protect national security, and strengthen resilience to geopolitical shifts. The supply disruptions inflicted by the COVID-19 Great Lockdown and Russian-Ukraine war underlined the significance of developing resilient supply chains in times of economic, financial and health shocks as well as geopolitical uncertainties. Government and businesses must proactively assess and strengthen their supply chains to navigate through such challenging circumstances.

- In addition to encouraging the diversification of raw materials sources as well as produced locally, it is also vital to secure re-shoring and on-shoring of manufacturing production by attracting foreign players into Malaysia, particularly those affected by the geopolitical conflicts. Malaysia needs to leverage its strategic location to be considered as one of the choices of investment destination in “China plus one” strategy.

- Malaysia also can consider collaborating with the regional peers to consummate the supply chains in the region where the region has less involvement in the global conflict context.

Mission 4: Safeguard economic security and inclusivity

4.2 Foster climate resilient development

- Malaysia is frequently beset by a myriad of climate-induced disasters, particularly floods, which have affected some states every year. Living quarters and vehicles, businesses, including premises, factories, and agriculture and plantations were severely impacted.
- In 2021, the floods had caused a loss of RM6.1 billion as estimated by DOSM. The damage on houses and vehicles were enormous. While it disrupted the business operation, the finance and insurance industry have also incurred huge financial claims. Hundreds of million ringgit losses in the agriculture sector, especially for the production of paddy, crops and livestock, also caused shortages in food supply, driving food prices higher.
- More than a billion of ringgit was allocated under the new Budget 2023 for the flood mitigation plan. The implementation of both structural and management adaptation measures have to be expedited given the economic and financial risks arising from the climate change hazards.
- To complement the flood mitigation measures and strategies, some forms of financial relief/tax deduction can be given to individuals and businesses such as higher tax deduction for insurance premium and flood mitigation expenses.

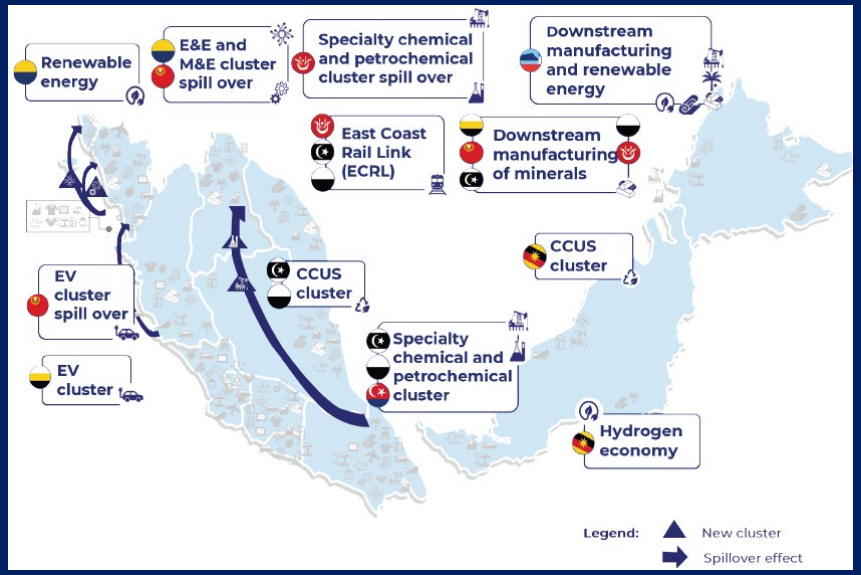
Mission 4: Safeguard economic security and inclusivity

4.3 Strengthen industrial clusters for regional development

- While continuing to enhance existing economic clusters, there is a need to establish more well-designated clusters, especially along new development areas, such as alongside the West Coast Highway. Besides the focussed states, it is also equally important to continue elevating the industrial clusters in the central and southern Peninsular Malaysia.

- Focussing on new emerging economic clusters such as biotechnology and medical devices as well as a wide range of renewable energy; and consider further developing existing strengths such as palm oil cluster as it contributes to employment, foreign exchange earnings, and various downstream activities such as palm oil refining and oleochemical production.

- How to build strong economic linkages with existing industry clusters to develop the food manufacturing in Perlis and Halal industry in Kelantan? The agro-based industry should be given due emphasis in the production and supply of food as well as agricultural produce domestically and regionally to safeguard the national food security. Besides, other than training the manpower locally, the Government will also need to think of pull or push factors that can lure the interests of manpower from other states migrating to these poor developing states.



Mission 4: Safeguard economic security and inclusivity

4.4 Empower Bumiputera participation and create inclusive workforce

Renavigating the Bumiputera assistance policy

- While various Bumiputera assistance policies are in place, some have questioned why the capable Bumiputera be given the same treatment or privileges as the vulnerable Bumiputras who are in need of assistance. Hence, there is a need to make Bumiputera policy more targeted instead of a blanket assistance.
- The Shared Prosperity Vision (SPV) 2030 also acknowledged that Bumiputera agenda was plagued by corrupt practices as well as distribution leakages in the supply chain, instead of improving Bumiputera economic condition as was intended. The preferential treatment based on ethnicity should be gradually phased out, and if needed, only targeted time-bound assistance be given to small contractors, regardless of race. Effective measures are needed to ensure that affirmative action does not result in wastage of taxpayers' money, reduce competition, create rent-seeking environment, or increase the risks of corruption.

Enablers: Addressing systemic and institutional challenges

Enablers

E.1 Mobilise financing ecosystem

- E.1.1 Introduce NIMP Industrial Development Fund and NIMP Strategic Co-Investment Fund
- E.1.2 Boost financing for digitalisation and decarbonisation transition
- E.1.3 Establish green sukuk to facilitate transition
- E.1.4 Establish supply chain financing for SMEs
- E.1.5 Increase utilisation of the capital market
- E.1.6 Expand the imSME platform to show all available funding options including government funding and capital market
- E.1.7 Review government funding for consolidation

E.2 Foster talent development and attraction

- E.2.1 Leverage Mynext and MYFutureJobs for strategic workforce planning to address long-term demand-supply requirement
- E.2..2 Introduce progressive wage system policy
- E.2.3 Improve policy to enable fast and hassle-free access to high-skilled foreign talents
- E.2.4 Expand TVET programmes for high-skilled jobs in critical sectors
- E.2.5 Raise profile of high-tech manufacturing career to attract interest in STEM subjects

E.3 Establish best-in-class investor journey for ease of doing business

- E.3.1 Establish a unified investment strategy and align investment evaluation to new parameters under NIA
- E.3.2 Harmonise and streamline functions and KPIs across IPA landscape
- E.3.3 Review and design competitive, agile and relevant incentives
- E.3.4 Improve One-Stop Portal for seamless investor experience

E.4 Introduce whole-of-nation governance framework

- E.4.1 Establish public-private collaborative councils
- E.4.2 Set up NIMP 2030 Delivery Management Unit
- E.4.3 Develop NIMP 2030 dashboard system

NIMP 2030 Financing Ecosystem

Banks

Debt financing for industrial projects, such as:

- **Technology adoption –** BNM SME Automation And Digitalisation Facility
- **Green Initiatives –** BNM High Tech and Green Facility
- **Supply Chain –** Banks provide facilities to MNCs or LLCs, to finance SMEs suppliers in their supply chain

CGC can provide credit guarantees to:

- Reduce risks for banks and capital market
- Increase SME financing accessibility

Capital Market

Various financing options across companies' growth cycles

RM300 mil	**Bonds and *Sukuk*** – for large financing requirements
RM450-565 mil	**Equity Market** – for mature, late-stage companies
RM1.7 mil	**Equity Crowdfunding** – for smaller companies and start-ups
RM70k	**P2P Financing** – for growth to late-stage companies raising working capital
Varies	**VC and PE –** for start-ups at early to growth states, and late-stage for PE investments

NIMP Industrial Development Fund (NIDF)

Government funding for industrial development, covering:

- RDCI
- Technology adoption
- Licensing or purchase of new or high-technology
- Talent and capacity building
- International standards or certification
- Infrastructure development (eco-industrial parks)
- Regional development (industrial cluster)

NIMP Strategic Co-Investment Fund (CoSIF)

Part-funding between Government and private sector funding

Funds catalytic and high-impact projects, such as Mission-based Projects in:

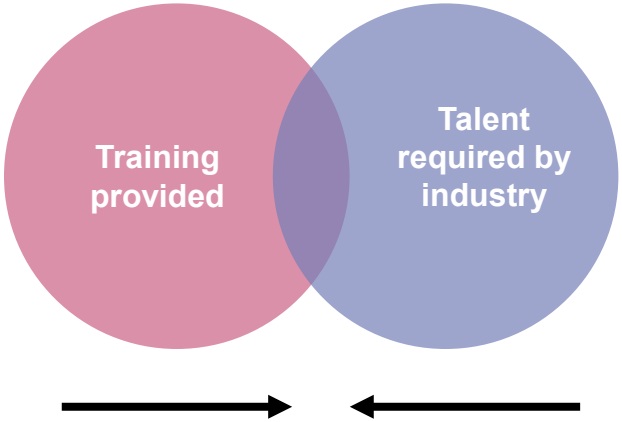
- Electronic and Electrical
- Advanced Materials
- Electric Vehicle
- Chemicals
- Sustainability

Legends:

Indicates potential total fund size for each company

Enabler 2: Foster talent development and attraction

Address skill mismatch

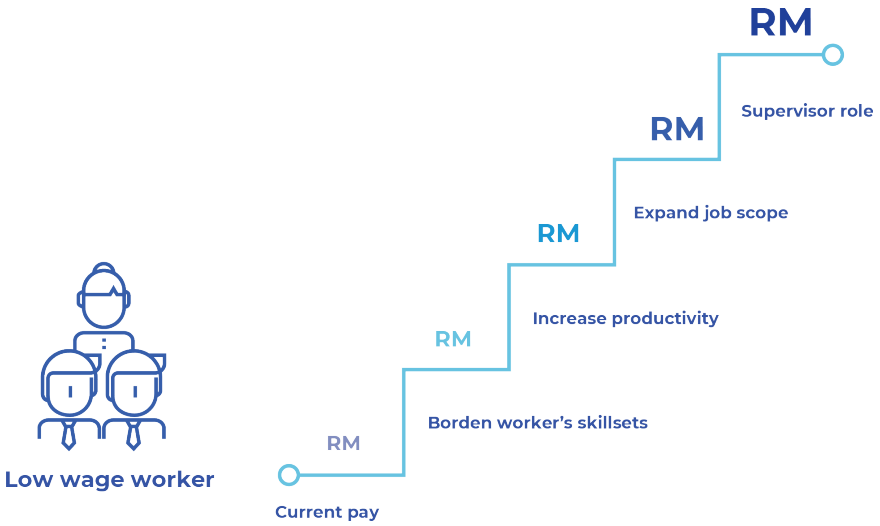


Expand TVET programmes for high-skilled jobs in critical sectors

Improve manufacturing career profile to attract interest in STEM subjects

Improve access to high-skilled foreign talent by introducing green lane process for critical jobs

Progressive Wage System (PWS)

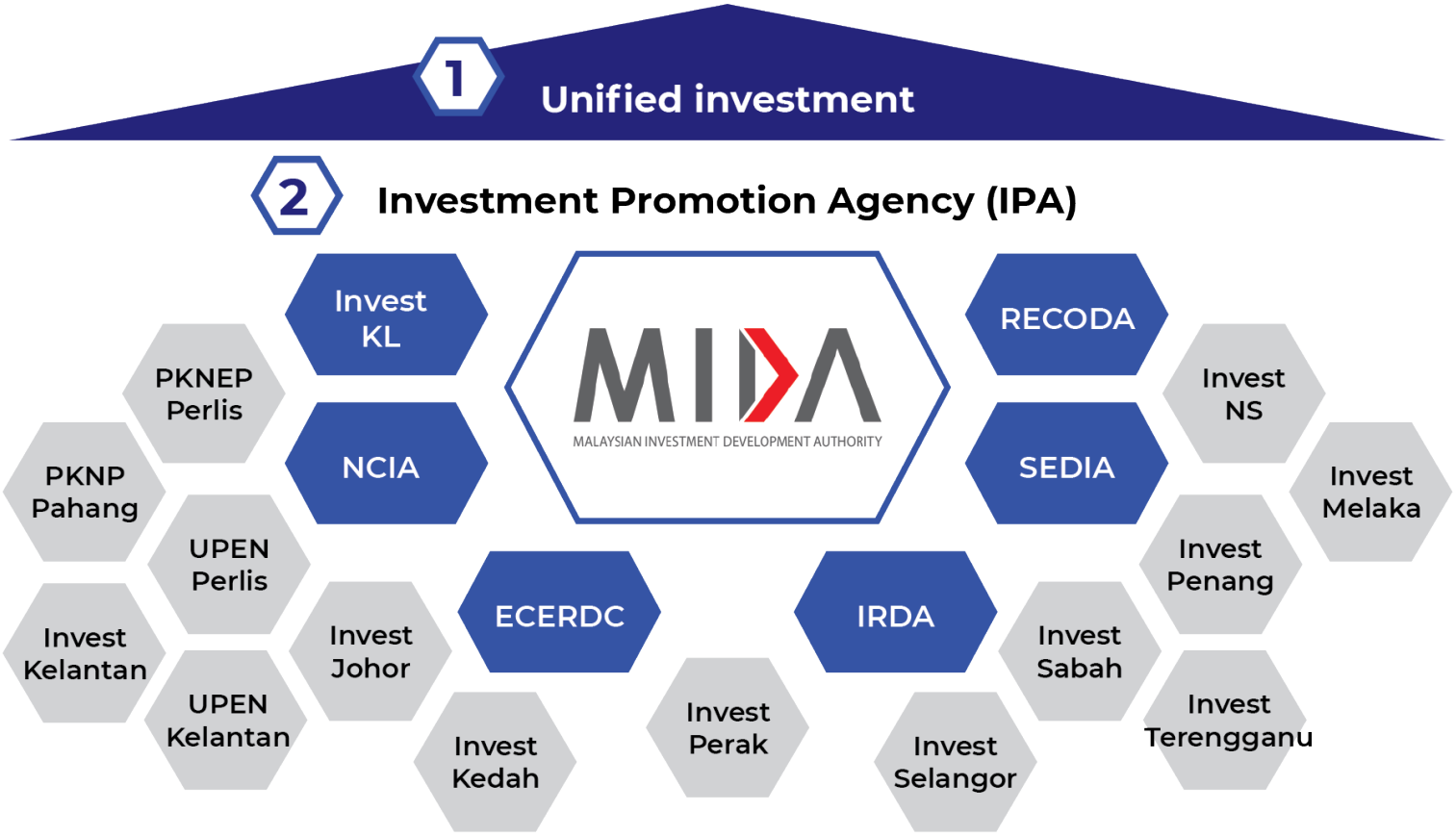


High-skilled jobs

Quality talent

Higher wages

Enabler 3: Best-in-class investor journey for ease of doing business



4 Investor One-Stop Portal

Integrate multiple touchpoints to ease the navigation

Provide seamless experience to investors

Pre-approval

1 Promotion and Marketing

MIDA Website
Access requirements for setting up of business

2 Deal Negotiation

Manufacturing Licence

- Tax incentives
- Grants
- Import duty, sales tax and tax exemption
- Expatriate posts
- Post-incentive
- Monitoring and compliance

Approval

State Authorities
Approval for site / infrastructure build

3 Investment Implementation

4 MyIPO Portal

LHDN and SSM Portal

- Company registration
- Registration of tax account

5 Utilities
Approval for utility installation

Facilitation & Aftercare

6 Human Resources

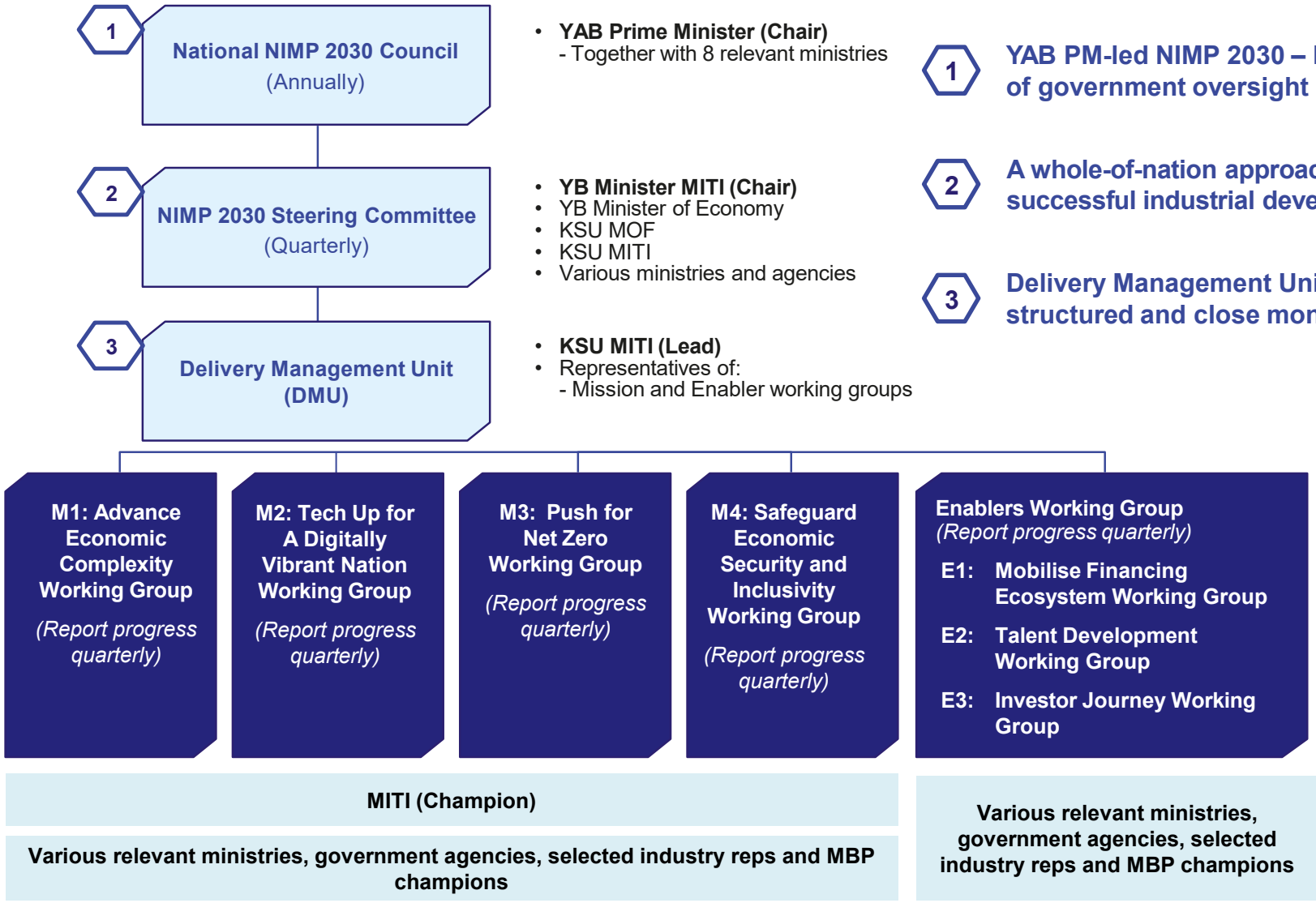
KDN
Immigration Portal
EPF/ SOSCO Portals

7 Financing

8 Aftercare

9 ON-TRACK Portal
Monitoring and provision of approved projects

Enabler 4: A public-private governance with highest level support



1 **YAB PM-led NIMP 2030 – highest level of government oversight**

2 **A whole-of-nation approach for successful industrial development**

3 **Delivery Management Unit (DMU) – structured and close monitoring**

SERC's commentaries on Enablers

Consolidation of incentives and agencies with enhanced monitoring mechanism

- The consolidation of incentives and investment promotion agencies (IPAs) are deemed necessary, including considering removing certain incentives that did not meet the changing industry needs and economic objectives, in tandem with the dynamic and complexity of the investment environment.
- Put in a proper monitoring mechanism to monitor the effectiveness of these incentives; measurable outcome-based and published regularly at a one-stop centre for the transparency of public information disclosure and evaluation.

Introduce Progressive Wage System (PWS) policy

- The progressive wage system (PWS) has stirred discussions among the business community, academicians and employees. PWS is a wage structure to uplift the low wages of workers through upgrading skills and improving productivity. It aims to create a win-win wage model for both employees and employers. Some have argued that PWS is better than a minimum wage. The minimum wage is a rung, but progressive wage model is a ladder.
- The latest minimum wage of RM1,500 per month was set on 1 May 2022, an increase of 5.2% per annum from the very first minimum wage of RM900 per month for Peninsular Malaysia and 6.5% per annum from RM800 per month for Sabah and Sarawak on 1 Jan 2013. Over the same period 2013- 2022, labour productivity increased by 2.3% per annum.
- The goal of the PWS is to mandate specified annual salary increases in the wages of low-skilled workers over a number of years. Hence, compared to the minimum wage, PWS may be an appropriate and feasible substitute wage model to improve the income of low-skilled workers to have a living wage.

SERC's commentaries on Enablers (cont.)

Introduce Progressive Wage System (PWS) policy (cont.)

- However, the skill-linked component of PWS makes it relatively difficult for aged low-skilled workers to upskill themselves. More so, in some low-skilled occupations such as cleaning, cleaning, security services, and landscape as well as gardeners, the productivity is not largely determined by the workers' skills but more by the investment in equipment and machinery as well as digitalised technology that can help to boost higher productivity.
- Depending on the job specifications and workplace, some occupations require low skill and need to be augmented by the willingness of the employers to invest in productivity-enhancing technologies and work organisation for all workers in an entire job category.
- As the PWS benefits workers by mapping out a clear career pathway for their wages to rise along with training and improvements in productivity and standards, the employees may choose to stay within the same sector and employer and move to higher-value work within the sector and employer.
- The PWS must be implemented in synchronisation with the quotas and foreign worker levies to manage and regulate the supply of foreign workers.
- In terms of administration and enforcement, the implementation of PWS is more bureaucratically complex and costly than the minimum wage. It requires the tripartite mechanism, enforcing agencies and manpower to design, monitor and enforce the PWS.
- There are valid concerns, grey areas and challenges for the implementation of PWS. It requires a thorough study and consideration to assess the viability of PWS so as to strike a balance between increasing the income of our low-skilled workers through productivity-linked performance and ensuring business profits due to the improvement in productivity.

SERC's commentaries on Enablers (cont.)

Review the incentives system

- Reviewing the current incentives, particularly tax incentives, is vital, to address the global minimum effective tax rate of 15% under the Pillar II of Base Erosion and Profit Shifting (BEPS). The Government should shift towards more non-tax incentives such as enhancing a better investment environment, facilitation and friendly regulations and compliance-efficient in attracting investment. According to the i-Incentive portal, there are at least 116 types of incentives, covering tax incentives, grants, soft loans and others, involving at least 32 ministries and agencies.
- All Ministries and government agencies should effectively facilitate businesses and industries as this could result in more investments and business activities. When businesses make profits, more income tax revenue will be collected in addition to generating economic growth and employment.

Governance and monitoring mechanism

- It is commendable that the monitoring mechanism entails quarterly reporting with relevant dashboard as better decision-making tool. The dashboard shall be publicly available for transparency. Progress and deliverables should be made as the KPIs of respective champions and stakeholders.
- The data should be more clearly defined and updated. For example, the historical rebased data was not provided, and hence, incomparable data; and different categorisation of products by different Ministries/agencies. It is also important to provide the rationale and details of estimated or forecasted data for better clarity.
- While a mid-term review of the NIMP will be conducted by end-2026, some milestones could be set on a more frequent basis, says annually or biennially in order to track the progress more timely.

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THANK YOU

Address : 6th Floor, Wisma Chinese Chamber,
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.
Tel : 603 - 4260 3116 / 3119
Fax : 603 - 4260 3118
Email : serc@acccimserc.com
Website : http://www.acccimserc.com