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'Industry-specific measures needed to stimulate FDI'

MINISTER of International Trade and Industry Datuk Seri Rafidah Aziz said

yesterday that the measures to stimulate foreign direct investment (FDI) will be industry-specific, not covering across the board.

"Yes (the plan will zero on specific industries) but we will wait for the PM (Prime Minister Datuk Seri Dr Mahathir Mohamad) to announce the details," said Rafidah on the sideline of the KLIA Consultancy Services Sdn Bhd's ISO 9001:2000 award presentation in Kuala Lumpur yesterday.

Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi had said on Thursday the package would lengthen the period for pioneer status and investment tax allowances, making research and development (R and D) grants available to foreign investors, and allowing them to have double tax deduction for R and D expenditure incurred overseas.

At the same time, the Government is expected to relax its policy for skilled foreign labour by allowing them to stay longer than the current five-year limit. The package is also expected to promote investment training and streamline the state bureaucratic procedure for foreign investors.

Malaysia currently offers 70 per cent tax exemption for five years for new foreign investment under Pioneer Status. High-technology companies, small and medium enterprises producing parts and components, and contract

R and D companies will get 100 per cent exemption for the same period.

In order to encourage longterm investment, these companies are also eligible to deduct between 60 and 100 per cent of the value of its capital expenditure for up to seven years from the date of its first investment.

Economists are expecting the main beneficiaries of this package to remain among the high value-added industries, which include high-end manufacturing, bio-chemistry industries as well as information technology firms.

The proposed measures, which have been agreed by principal, will go through two meetings before being tabled to the Cabinet, said Rafidah.

"Once the Cabinet agrees, then the Prime Minister has the option to either announce it with the stimulus plan, or even anytime before (the budget). We are recommending some of those will come up with the stimulus

package in March," she said.

Malaysia, as the rest of the South-East Asian countries, is seeing marked decrease in the flow of FDI in the years after the financial crisis

in 1997. FDI is even more pressured by China's emergence as an economic power house. The country gets some 40 per cent of FDI from Asia, said economists, via its tremendous cost advantage.

The US\$2.6 billion (US\$1 = RM3.80) FDI for Malaysia in the first nine months of 2002 showed vast improvement for whole year 2001 FDI of US \$0.7

billion, but a far cry from the amount before the crisis, said economists.

"We will see the effect of the incentives package in medium term. In the

near term, businesses are still too occupied grappling with the global economic recovery," said a senior economist at a major brokerage.

Economists said Malaysia may need to tailor its incentives to be more firm-specific, similar to what is done in Singapore, in its bid to attract

investments in the biotech industry.

Nonetheless, some think firm-specific incentives, or supply-side incentives, may be just a medium-term solution that may not improve Malaysia's competitiveness in the long run. The country is now facing a permanent cost differential with countries like China.

Malaysian Institute of Economic Research said in its study of labour competitiveness said Malaysia now is trapped in technological trap, between low-cost countries like China and Vietnam, and highly-industrialised Singapore and South Korea, affecting its attractiveness for FDI's.

"While the labour force is no longer cheap to compete on the basis of costs, they are not skilled enough to move on to higher value-added activity. The gaps of human skills and technological capabilities, unless

closed, would surely prevent the resumption of high economic growth," said

the country's economic think-tank.