

FDI crucial for M'sia's high-income target
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Though Malaysia's ability to attract foreign direct investment (FDI) has been declining over the last 10 years, the country needs inflow now more than ever to achieve the high-income nation target under the New Economic Model (NEM).

A prominent economist pointed out today that a five to 10 percent increase in FDI could raise Malaysia's GDP growth by 0.5 to 1.0 percent, inching closer to NEM's six percent annual GDP growth.

Presently, FDI matters even more to the Malaysian economy due to under-investment by the private sector," said Yeah Kim Leng (right), group chief economist of Rating Agency Malaysia (RAM), while participating in a forum titled "Does FDI still matter to Malaysia?"

Under the NEM introduced by Prime Minister Najib Abdul Razak, Malaysia needs to record an average six percent GDP growth per annum until 2020 to reach the status of a high-income economy with a per capita income of US\$15,000, a two-fold increase from the current rate of US\$7,000.

However, Yeah reminded the audience at the forum that it will be an uphill battle to increase Malaysia's FDI because, in the past decade, FDI has declined in both absolute amount and as a share of total FDI inflow to Asean countries.

"Malaysia's share of inward FDI to Asean countries has shown a sharp decline from 28 percent in the 1970s to 11 percent in the 2000s, compared to a rising trend for Thailand and Vietnam while Singapore and Indonesia show a stable trend," he said.

Further compounding the situation, China's share of global FDI rose from an average of 1.1 percent in the 1970s to 10.1 percent in the 2000s. Meanwhile, Asean countries' share plunged from 6.3 percent in the 1990s to 3.6 percent in the 2000s.

'Target not impossible'

Today's forum in Kuala Lumpur was one of the many held during the one-day CEO Forum 2011 organised by Perdana Leadership Foundation, a non-profit organisation of which former prime minister Mahathir Mohammad is the honorary president.

Other speakers in the forum included Deputy Minister of International Trade and Industry Mukhriz Mahathir and Steward Forbes, executive director of Malaysian International Chamber of Commerce and Industry.

Mukhriz (left) stressed that FDI into Malaysia shot up from US\$1.4 billion in 2009 to US\$9 billion in 2010, the highest compared to Indonesia, Singapore and Thailand.

The bounceback comes after Malaysia's 81 percent nosedive in FDI from 2008 to 2009.

To realise the high-income nation target, Forbes said Malaysia needs to push the current gross national income (GNI) of RM500 billion to RM1.7 trillion in 2020, a three-fold increase.

Investment, which makes up about 20 percent of GNI, would have to jump from the current RM110 billion to RM300 billion while the private sector have to record double-digit growth per annum.

"This is a huge target but it is not impossible," he commented.

On the issue of attracting targeted FDI - including high-technology, high value-added and knowledge-intensive industries - Forbes (right) stressed that Malaysia has to provide a an 'open' and

'right' business environment.

He also questioned the political will of the government to implement "tough decisions" that could make Malaysia a more attractive country for investors but may risk the government's political advantage.

Yeah added that about half of FDI invested in Malaysia is for the purpose of increasing a business's efficiency, while another one-third are seeking a new market in the Asean region.

The former is looking for a skilled workforce, better infrastructure and logistics, lower costs and better regulations or business climate, while the latter is seeking domestic market growth potential and proximity to markets or customers.

These are the criteria the government should monitor in order to attract FDI, Yeah said.

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