Malaysia

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Comprehensive & Ambitious Reform Agenda

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- PM Anwar, following through on the next steps of the 'Madani Economy', introduced the New Industrial Master Plan (NIMP) 2030 on 1 September 2023 and the mid-term review of the 12 Malaysia Plan (MP) on 11 September.
- The 12 MP outlines 17 major shifts and 12 major strategies and initiatives from PM Anwar's administration to lift Malaysia towards a high income economy, build a prosperous society and strengthen governance and sustainability.
- Meanwhile, NIMP 2030 is a comprehensive, yet ambitious, blueprint for the industrial sectors. The NIMP is structured under 4 missions, with 4 enablers, 21 strategies and 62 action plans. Each mission is assigned its own strategies and action plan.
- The mid-term review and NIMP2030 taken together provide a clear reform agenda for the current administation. The path ahead will not be straightforward but we remain optimistic that these plans are a step in the right direction to boost medium-term economy prospects.
- For the near-term, we remain comfortable with our 2023 and 2024 GDP growth forecasts of 4.0% and 4.2%, respectively.

PM Anwar, following through on the next steps of the 'Madani Economy', introduced the New Industrial Master Plan (NIMP) 2030 on 1 September 2023 and the mid-term review of the 12 Malaysia Plan (MP) on 11 September.

Mid-term Review of 12 Malaysia Plan (MP)

The 12MP was originally introduced in September 2021, under the previous administration of PM Ismail Sabri Yaakob covering the period from 2021-25. At the half way mark, PM Anwar took stock of the 12MP and tied it into his broader economic agenda under the Madani economy.

The review of the 12 MP outlines '17 major shifts and 12 major strategies and initiatives' from PM Anwar's administration to lift Malaysia towards a high income economy, build a prosperous society and strengthen governance and sustainability. The objectives are prudent and the path forward for some of them (over others) is set out more clearly. In the table below, we list out some of the major objectives and our view with regards to these:

Mid-term 12MP Review: 17 Major Shifts and 71 Key Strategies and Initiatives (Summarised)		
Key theme	**Strategy**	**OCBC View**
Governance and institution	Strengthening governance and integrity to rebuild people's trust and confidence	This will help improve domestic and international investor perception around the Malaysian economy and increase credibility around public services.
Fiscal sustainability and financial system	Introduce the fiscal responsibility act	This is an important step forward in increasing fiscal credibility, setting medium-term targets, and raising accountability for the government in achieving fiscal objectives. The government plans to introduce this in October 2023.
	Broadening the revenue base	Given that petroleum revenues are accounted for ~30% of total revenues, diversifying the revenue base is prudent. The government has stated that it will introduce a capital gains tax (the rate is still not mentioned) in 2024. Importantly, it noted it is not averse to GST reintroduction.
	Reconciling surplus funds under Federal statutory bodies and related companies	This will help provide a consolidated public sector to boost quasi-fiscal spending.
	Increase cost effectiveness in project implementation	This will help save on unnecessary costs, which can be reallocated for more effective use.
Energy transition	Implementing the National Energy Transition Roadmap	The energy transition levers (e.g., renewable energy and hydrogen) and the associated flagship projects are important for the transition away from coal to a low-carbon economy. The successful implementation of low-carbon technologies can support the decarbonisation roadmaps of hard-to-abate industrial sectors.
	Increase the capacity of TBB - solar, hydro, bioenergy, and hydrogen	
	Introducing a natural gas roadmap	
	Formulate a long-term low-carbon development strategy	
Targeted subsidy	Retargeting all types of subsidies such as electricity, diesel and RON95	Subsidies & social assistance spending account for 3% of GDP (2022) and retargeting subsidy spending will provide subsidies to the required income brackets. The mechanism to implement this will be the crucial to determine if it minimises leakages and help save fiscal costs.
	Developing a household data repository, the Primary Database (PADU)	This will help identify low- and middle-income households more effectively to better target subsidies.
Social protection	Strengthening the country's social protection system through a life-cycle approach	This will help put in place safe nets not only for disadvantaged households but also set up the infrastructure to support the elderly over the next few decades as Malaysia's population ages.
	Introducing an attractive and sustainable housing financing package	The benefits will accrue not only to households who will now be able to afford homes but can lift economic growth through higher construction and associated activities.
Health services	Strengthening the financing of health protection	The importance of healthcare was brought to the forefront during the pandemic. Expanding affordable healthcare options will be improve accessibility.
Security and national defence	Improve national border security	This will boost defence expenditures and remains consistent with Malaysia's goal to build its reputation as regional powerhouse.
	Strengthen preparedness and ability to manage security threats	
Accelerating the implementation of the National Digital Identity	Accelerating the implementation of the National Digital Identity	This will help improve the efficiency of government services, aid is targeted subsidy distribution.
Electronics & Electrical appliances industry	Strengthen the front-end ecosystem to encourage the transition to higher value chains	Malaysia's semiconductors sector, for example, is currently focused on packaging and marketing. To build on its current capabilities and move up the value chain will be an important step in boosting export value add. There will be some challenges to deal with including upgrading machinery/equipment, training and supplementing labour market needs to achieve this goal.
	Focus on high-value activities in integrated circuit design, design wafer engineering and fabrication	
Rare earth industry	Develop a comprehensive business model of the rare earth industry at the upstream level, middle and downstream	There has been a demand surge for rare earth elements that are critical components of growing clean energy sectors such as electric vehicle batteries and wind turbines. To ensure the sustainable use of rare earths in Malaysia, a plan to balance the economic benefits and environmental sustainability of mineral extraction is an important step.
Public transportation	Improving the connectivity of the first and last points through the expansion of Bus Rapid Transit (BRT) and intra-city buses	Improving the bus, rail, and road system to reduce logistical hurdles is an important step in raising productivity. The government has announced 11 infrastructure projects along with BRT upgrading to improve regional and intra-city connectivity.
	Strengthen passenger mobility data	
Future Talent Availability	Implement a progressive salary policy	This is amongst the more challenging objectives, in our view. Wage/salary increases should be concomitant with labour productivity increases. There needs to be better matching of labour market needs to education. In the initial stages, this may require external expertise. This is a multi-year objective and could prove challenging to achieve it over shortened timelines.

Source: RMK12; Ministry of Finance, OCBC

Specifically, the government remains committed to achieving the fiscal objectives listed in the 12MP. It aims to bring down the fiscal deficit to 3.5% of GDP by 2025 from a budgeted 5.0% in 2023. To achieve this, the country will need to "broaden the tax base, diversify tax sources as well as improve taxation through technology", according to PM Anwar. The government has stated that it will introduce a capital gains tax for 2024[1] and has not ruled out the re-introduction of GST[2]. We expect the reintroduction may not be slated as early as 2024.

The government also plans to follow through on its targeted subsidy mechanism for retail fuels allowing for greater fiscal savings. With these savings and additional revenues, the government plans to boost expenditures by an incremental MYR15bn. We believe these expenditures will be directed towards productive infrastructure spending. Indeed, the 12MP review also introduced 11 new infrastructure/logistics projects to increase connectivity across the country.

11 New Transport & Logistic Projects introduced	
1.	Pan Borneo Highway Sabah Phase 1B
2.	Penang Light Rail Transit (LRT) Project
3.	Expansion of Penang International Airport
4.	Redevelopment of Sultan Abdul Aziz Shah Airport, Subang
5.	Upgrade of the East-West Highway from Gerik, Perak to Jeli, Kelantan
6.	Expansion of Bus Rapid Transit (BRT) and intra-city bus services including in Johor Baru and the Klang Valley
7.	Upgrading the Senai-Desaru Highway
8.	Widening of the North-South Expressway (from Yong Peng to North Senai) in phases
9.	Construction of Sarawak-Sabah Link Road II
10.	Upgrading the road from Tanah Rata to Kea Farm, Cameron Highlands
11.	Development of a new port on Carey Island

Source: Mid-term Review of 12MP; OCBC

Some objectives introduced with the review of the 12 MP are tied into PM Anwar's economic objectives under the NIMP2030.

What is NIMP 2030?

The NIMP is structured under 4 missions, with 4 enablers, 21 strategies and 62 action plans. Each mission is assigned its own strategies and action plan. It identifies and sets up Malaysia's manufacturing sector for the next step in terms of sectoral value-add, labour market improvements and sustainability. This presents all participants with greater opportunities for involvement in various aspects of this master plan.

The first mission is to advance economic complexity, the second mission to bolster digitisation, the third mission is to push net zero emissions and the fourth mission is to

[1] 12MP review: Prudent fiscal handling, new taxes on the cards, The Star, 11 September 2023.
[2] 12MP: GST could be reintroduced, New Strait Times, 11 September 2023.

safeguard economic security and inclusivity. Importantly, NIMP 2030 aims to foster growth in established industries, such as in the electronics and palm oil, to move up the value chain.

These missions are ascribed relevant strategies and action plans. There are four main enablers including mobilising the financing ecosystem, fostering talent development, strengthening investor journey to boost investment flows and a governance framework.

NIMP Goals	Outcomes	Measures	Baseline (2021)	Targets (2030)	OCBC View
Increase economic complexity	Sophistication in economic value-added	Value added for complex products or high-tech mfg. and services	8.1% (2020)	15%	Whether the numerical target is achieved is hard to tell but this objective is required to boost export value add
	Regional innovation hub	Gross expenditure on R&D to GDP	1%	3.5%	Boosting R&D for certain sectors such as pharmaceuticals and medical devices may be easier than for other sectors.
Create high value job opportunities	High skilled jobs	Number of jobs created	n.a.	700k	This will be closely tied to improvements in the labour market and may prove challenging to achieve within a 7-year runway.
	Fair income	Manufacturing median wages	MYR1976	MYR4510	Wages increases should ideally mirror productivity improvements; the absence of this could hurt competitiveness
Extend domestic linkages	Internationally competitive SMEs	Share of SME exports within total exports	11.70%	25%	SMEs will require assistance on labour, market assess, financing assess. Government policy will need to be adjusted to accommodate these needs in order to make this objective more achievable.
	Deepened local supply chain integration	Domestic value added in mfg and services in gross exports	49% (2018)	65%	Similar to the objective above, building manufacture sector linkages for SMEs will require some assistance.
Develop new & existing clusters	Accelerated growth in existing core clusters	Global market share in high tech mfg exports	3%	6%	These are prudent objectives especially since they focus on developing already existent clusters.
	Accelerated growth in emerging markets such as 4IR and digital	Global market share in green and digital exports	2%	4%	
Improve inclusivity	Catalysed sectoral and regional development through investments	Total investments (FDI and DDI realised) as a share of state GDP	Average 13%	25%	Raising the spatial diversification of the growth through greater investment will tap local expertise and help create job opportunities in less developed areas. This ultimately bodes well for medium-term growth prospects.
	High manufacturing value added participation by less developed states	Increasing mfg value added in less developed states	22%	30-35%	
Enhance ESG practices	De-risked economy against ESG factors	Country ESG factors rating (Sustainalytics Index)	56.5 (Grade C)	75-100 (Grade A)	Achieving these ambitious ESG targets would require successful implementation of the energy transition roadmap, to reduce exposure to physical and transition risks for a climate resilient economy.
	Drive towards Net Zero aspirations	Reduction in carbon emission intensity based on national determined contributions goals	33%	45%	

Source: NIMP 2030, OCBC

Missions	
Mission 1: Advance economic complexity	Expand to high-value added activities of the value chain
	Develop entire ecosystem to support the high value-added activities
	Establish cooperative 'vertical integration' for global value chain
	Foster research, development, commercialisation and innovation ecosystem
	Increase manufacturing exports
Mission 2: Tech up for a digitally vibrant nation	Accelerate technology adoption
	Shift away from low-skilled labour model
	Spur technology innovation
	Accelerate government digitalisation and integration
Mission 3: Push for net zero	Accelerate transition towards sustainable practices
	Transition to renewable and clean energy
	Catalyse new green growth areas
	Shift towards green infrastructure
Mission 4: Safeguard economic security and inclusivity	Develop resilient supply chain
	Foster climate resilient development
	Strengthen industrial clusters for regional development
	Empower Bumiputera participation and create inclusive workforce
Enablers	
Enabler 1	Mobilise financing ecosystem
Enabler 2	Foster talent development and attraction
Enabler 3	Establish best in-class investor journey for ease of doing business
Enabler 4	Introduce whole-of-nation governance framework

Source: NIMP 2030, OCBC

Mission 1 and Mission 2 relate to boosting Malaysia's economic value-add, its position in global supply chains and making the economy more technologically advanced. Importantly, mission 1 aims to build capabilities in areas (for example, E&E) where Malaysia already has an advantage. The government has also outlined strategies to help achieve this mission, albeit not without its share of challenges.

Mission 2, is also a step in the right direction, but will need a strong push from government incentives to boost innovation and technological adoption. It also requires matching higher education outcomes with labour market needs to lift jobs from low-skilled to higher skilled levels. These will prove challenging within the stipulated 7 year timeline, however, it provides the government with opportunities to set in motion policies which may yield desirable outcomes event into the medium-term.

Accelerating Net Zero Pathways and Enhancing Climate Resilience

Mission 3 (push for net zero) and mission 4 (safeguard economic security and inclusivity) cover Malaysia's plans for a low-carbon and climate-resilient future. They represent a positive shift in Malaysia's industrial planning with net zero strategies in mind. The push for net zero presents new economic and employment opportunities in green sectors for Malaysia, that can accelerate the country's progress towards a more sustainable and low-carbon future.

Under mission 3, one strategy is to catalyse new green growth areas such as electric vehicles and carbon capture, utilisation and storage (CCUS). To create a sustainable and viable market for CCUS in Malaysia, national policies are important to provide the framework required to scale up CCUS implementation in terms of technological development, capability development and costs. International collaboration and knowledge sharing can also further propel CCUS implementation and contribute to the abatement of emissions from hard-to-abate sectors. Malaysia has already kickstarted international collaboration in green growth areas, such as the Shepherd carbon capture and storage (CCS) Project with South Korea that aims to capture carbon in South Korea for storage in Malaysia.

There are also plans to develop a carbon pricing mechanism e.g. carbon tax, which will be critical for the decarbonisation of hard-to-abate sectors in Malaysia. The carbon tax would need to be appropriately priced to urge businesses to reduce emissions and transition towards more sustainable operations, while remaining competitive as an economy. Reducing emissions from hard-to-abate sectors will also reduce the impact of global regulations on Malaysia's long-term trade competitiveness, such as the EU's Carbon Border Adjustment Mechanism (CBAM) which is expected to impact Malaysia's key export sectors like iron and steel.

The NIMP 2030 detailed climate adaptation plans under mission 4 such as the installation of climate resilience measures for critical economic infrastructure, which reduces climate risks faced by the country. This is especially important for Malaysia as a coastal nation that faces physical risks from floods and rising sea levels. Greater clarity on Malaysia's plans in addressing transition risks (e.g. stranded assets), given increased renewable energy adoption and decarbonisation plans for hard-to-abate sectors in the pipeline, could promote accelerated adoption of emissions-reduction measures. This could come in the form of support for companies in defraying expenses associated with reinvestment or replacement of less energy efficient assets.

Show Me The Money

The government estimates that NIMP 2030 will require an estimated total investment of RM95 billion through its seven years, predominantly from the private sector mobilised from private equity, capital and the financial markets. To support Malaysia's low-carbon transition, Malaysia is exploring the issuance of a Sustainable Development Goal (SDG) Bond (e.g. green bond, sustainability-linked bond) to channel financing to sustainable activities. According to the Ministry of Investment, Trade & Industry, the government will allocate a total of MYR8.2bn to fund the NIMP 2030 through its implementation period. Two funds will be set up and other incentives will be announced with the tabling of the 2024 Budget on 13 October.

Challenges Along The Way

The government is realistic in acknowledging 12 key challenges. These include stagnant labour productivity, talent shortages, increasing reliance on re-exports and increasing non-tariff measures.

Indeed, some challenges are easier to start addressing than others, in our view. The more challenging objectives are likely to be in terms of labour market reforms including raising labour productivity concomittant to wage rises and addressing the skills mismatch in the labour market. Improving the investment journey and mobilizing the financing ecosystem may yield more tangible results within the stipulated seven year timeframe.

There are also challenges for Malaysia's low-carbon transition, such as its high reliance on coal for power generation. Diversifying the country's energy mix to bolster energy security would require an accelerated ramp up of cleaner energy sources and its associated infrastructure to transiton away from coal.

Importantly, the government has set up a delivery management unit to closely monitor progress on this plan. This will likely help identify gaps and needs over the course of the plan, putting it on track to yield better outcomes.

NIMP 2030 Financing Ecosystem

Banks	Debt financing for industrial projects, such as:		
	i.	Technology adoption - BNM SME Automation and Digitalisation Facility	
	ii.	Green initiatives: BNM high tech and green facility	
	iii.	Supply chain: banks provide facility to MNCs or LLCs to finance SMEs suppliers in their supply chain	
	iv.	CGC can provide credit guarantee to:	
	v.	Reduce risks for banks and capital market	
	vi.	Increase SME financing accessibility	
Capital Markets	Various financing options across companies' growth cycles:		
	i.	Bonds and Sukuk for large financing requirements	MYR 300mn
	ii.	Equity market for mature, late-stage companies	MYR 450-565mn
	iii.	Equity crowdfunding for smaller companies and start-ups	MYR 1.7mn
	iv.	P2P financing for growth to late-stage companies raising working capital	MYR 70k
	v.	VC & PE for start-ups at early to growth states, and late-stage for PE investments	Varies
NIMP Industrial Development Fund (NIDF)	Government funding for industrial development, covering:		
	i.	RDCI	
	ii.	Technology adoption	
	iii.	Licensing or purchase of new or high technology	
	iv.	Talent and capacity building	
	v.	International standards or certification	
	vi.	Infrastructure development (eco-industrial parks)	
	vii.	Regional development (industrial cluster)	
NIMP Strategic Co-Investment Fund (CoSIF)	Part-fund between Government and private sector funding		
	Funds catalytic and high-impact projects such as Mission-based Projects in:		
	i.	Electronics and electrical	
	ii.	Advanced Materials	
	iii.	Electric Vehicles	
	iv.	Chemicals	
	v.	Sustainability	

Source: NIMP 2030, OCBC

Steps In the Right Direction

The mid-term review, NIMP2030 taken together provide a clear reform agenda for the current administation. The path ahead will not be straightforward but we remain optimistic that these plans are a step in the right direction to boost medium-term economy prospects.

For the near-term, we remain comfortable with our 2023 and 2024 GDP growth forecasts of 4.0% and 4.2%, respectively.

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