News Release

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Malaysia needs stronger future proofing to attract EU and UK investments

Malaysia is primed to be a major beneficiary of European and UK investment; however, greater adaption and adoption of trade, sustainability, technology and digital trends and reform is required to convert this potential into reality, HSBC said at a global client seminar.

Speaking at the ‘HSBC EU & UK - ASEAN virtual client roadshow’, HSBC Malaysia CEO; Stuart Milne, said that Southeast Asia’s medium-term prospects, opportunities and global relevance remain intact for MNCs.

Over the past year, export flows across electronics, pharmaceuticals, commodities, and mining have continued at pace, ASEAN’s supply chains have remained resilient, and Foreign Direct Investment (FDI) has continued. For 2020, ASEAN registered a growth of US$70 billion in greenfield investments according to UNCTAD’s Investment Trends Monitor. This was the biggest such FDI inflow of any developing world region.[1]

Malaysia too has received significant FDI volumes and is uniquely positioned to capture increasing opportunities arising from supply chains that are moving to the region. In 1Q21, the country’s FDI rose to MYR 9.1 billion from MYR 6.8 billion in the previous quarter.[2] EU and the UK remain key inbound investment sources.

But the region is not without its challenges. Vaccinations will not be substantially rolled out across the region until 2022, which will stunt its consumption growth as lockdowns continue. It will also see increasing competition for private investment from other emerging economies, like India. Moreover, as business normalcy slowly returns, regional companies have seen this period of digital adoption as a short-term switch rather than a strategic shift. To remain competitive and to appeal to a growing population of online users, companies need to forge on and not let momentum stall.

ASEAN’s labour force also remains underutilised impacting productivity. This will be a challenge for several ASEAN markets particularly as their in-country labour costs begin to rise as more demand and commercial activity start to pivot to the region. Labour reforms will be critical to maintain competitiveness.

Southeast Asia could also suffer an 11 per cent fall in GDP by 2100 if climate risks are not addressed according to the Asian Development Bank (ADB). Rapid action is needed across all areas: energy, transport, urban buildings, industrial and land to achieve the ambitions of Malaysia’s Shared Prosperity Vision 2030.

To offset these headwinds, greater policy reform to encourage greater trade flows, technological improvements to increase manufacturing productivity,and digital and sustainability adoption is needed. Some policy actions can include:

[1] https://www.asiabriefing.com/news/2021/02/asia-leads-the-global-economy-out-of-2020s-record-fdi-inflow-slump/
[2] https://tradingeconomics.com/malaysia/foreign-direct-investment

1. **Ratifying free trade agreements including the Regional Comprehensive Economic Partnership** will help to drive export growth, as it seeks to eliminate many of these barriers while opening ASEAN countries to more trade activity. Earlier this year, China and Singapore held negotiations on areas pertaining to trade and investment.[3] China is encouraging other markets to do the same.
2. **Improving investment conditions including tax.** In Malaysia specifically, one of the key focus areas under the government's PENJANA programme includes stimulating foreign business investment by offering tax incentives.
3. **Businesses taking a more strategic approach to digital adoption** by creating stronger sector ecosystems; elevating an industry's digital standards and practices; improving the way industries respond and adapt to changing payment systems.
4. **Developing levers to more strongly encourage adoption of green and sustainability practices** including linking Southeast Asia's future infrastructure projects with green and sustainable principles. This will open up opportunities to channel more private investment from countries including across the EU and the UK into these projects.

Milne said: "Southeast Asia's large demographic dividend comprising of young and relatively lower cost labour make it a very attractive destination for international companies. But it's not without its challenges including some lagging in productivity, digital and sustainable practices. The key for Southeast Asia is to regain its traditional growth drivers of trade and investment, coupled with capturing the opportunities emerging in the green and digital space. This will require the ASEAN markets to pull several policy reform levers, especially if it's to attract overseas investment."

"As a strategic hub in ASEAN with strong economic fundamentals, Malaysia provides a range of investment opportunities to organisations from the EU and the UK. In turn, these organisations can be a significant source of investment across the green and technology sectors for the country. But success will require building resilience and transforming how we do things in Malaysia now and in the future."

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Media enquiries to:

HSBC Bank Malaysia

Rhia Sarah George	+603 2075 6043	rhia.sarah.george@hsbc.com.my
Liliyati Lajman	+603 2182 5161	liliyati.lajman@hsbc.com.my

HSBC Malaysia

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[3] http://fta.mofcom.gov.cn/enarticle/enrelease/202104/44818_1.html

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