IKMAS Working Paper 1/2020

MALAYSIA'S DIRECT INVESTMENT POLICY POST-COVID 19: AN EARLY ANALYSIS OF CHALLENGES AND THE WAY FORWARD

Sufian Jusoh
Professor of International Trade and Investment
Institute for Malaysian and International Studies, Universiti Kebangsaan Malaysia

Contents

MALAYSIA'S DIRECT INVESTMENT POLICY POST-COVID 19: AN EARLY ANALYSIS OF CHALLENGES AND THE WAY FORWARD

Sufian Jusoh

Professor of International Trade and Investment
Institute for Malaysian and International Studies, Universiti Kebangsaan Malaysia

Abstract

The Covid-19 pandemic in 2020 poses a major challenge to the global trade and investment scene. Hence, Malaysia, as one of the economies relying on international trade and foreign direct investment (FDI) will be affected by the downward trend in trade and investment. However, it is to be noted that the challenge in attracting and retaining investment is not new to Malaysia. Malaysia has been facing the downward trend in FDI inflows and low quality of investment since the last few years, well before the Covid-19 pandemic. Comparatively, Malaysia is facing a worse-off position compared to the regional peer. For example, Malaysia's FDI inflow position is lower compared to the countries in the same middle income in ASEAN i.e. Thailand and the up and coming Vietnam. Furthermore, FDI into Malaysia does not bring in the quality needed, i.e. transfer of technology, management and skills enhancement as well as opportunities for forward and backward linkages with the domestic suppliers. The Covid-19 pandemic somewhat enhanced the challenges to Malaysia, which must now proceed with major structural and sectoral reform to its investment policies. Structural reforms need to be in place, i.e. by enhancing investment promotion agency such as MIDA, and co-ordination between Federal, economic corridors and State investment agencies. To target the right type of investments, Malaysia needs to rethink its incentive regimes and investment sectors entitled to incentives. Not only that, investment retention mechanism needs to be in place by enhancing the quality of investment facilitation, after care and investment grievance mechanism. Small and medium enterprises which is the bulk of domestic private investment in the country must be supported. This can be done through many ways including reducing the crowding-out impact of government-linked companies. Investments in new and emerging technologies such as digital technology, healthcare and biotechnology, and food security through investment agriculture and agroindustry would need to be attracted. Last but not least, Malaysia needs to allow changes in capital financing of start-ups and allow universities to take initiatives to commercialise their own technologies through their own start-up and spin-off companies.

Key words: Covid-19 pandemic; foreign direct investment; Malaysia; structural reform; investment retention.

1. Introduction

Since early 2020, the world has been facing a major shock in the economy due to a major pandemic caused by a novel coronavirus disease otherwise known as the COVID-19. According to the World Health Organisation (WHO), pneumonia of an unknown cause detected in Wuhan, China was first reported to the WHO Country Office in China on 31 December 2019. The WHO declared the outbreak the Public Health Emergency of International Concern on 30 January 2020. The first case outside of China was declared in Thailand on 13 January 2020, which by February 2020, infected human in Republic of Korea, Japan and Singapore. On 11 February 2020, WHO named the novel coronavirus as COVID-19.[1] And as of 3 of April 2020, the WHO reported 900,306 confirmed cases, 45, 692 confirmed death in 206 countries or territories around the world. Malaysia reported its first COVID-19 case on 25 January 2020, and as of 3 April 2020, Malaysia reported 3,333 confirmed cases with 53 confirmed death.[2]

The emergence of Covid-19 as a pandemic around the world has caused major trade disruptions in the world and related activities including direct investments. This is mainly due to the lockdown, travel restrictions and closing of borders, which disrupts supply value chain around the world. According to the South China Morning Post (SCMP), the winding down of global connectivity from airlines and vessels grounding their fleets of planes and ships is set to paralyse global trade.[3] On 26 March 2020, UNCTAD predicted that the Covid-19 will cut investments around the world by 40 percent.[4]

As a trading nation where trade is about 131 percent of the GDP in 2018[5] and a country relying on FDI, Malaysia will be badly affected by the trade and investment disruptions caused by Covid-

1 World Health Organisation, https://www.who.int/emergencies/diseases/novel-coronavirus-2019/events-as-they-happen, (last accessed 3 April 2020).
2 For reference see Ministry of Health Malaysia at http://www.moh.gov.my/index.php/pages/view/2019-ncov-wuhan (last accessed 3 April 2020).
3 Finbarr Bermingham, Coronavirus: global trade braces for 'tidal wave' ahead, as shutdown batters supply chains, South China Morning Post, 3 April 2020, https://www.scmp.com/economy/china-economy/article/3078233/coronavirus-global-trade-braces-tidal-wave-ahead-shutdown.
4 UNCTAD (2020), Global Investment Trend Monitor No.35, Impact of the Covid-19 Pandemic on Global FDI and GVC, March 2020, https://unctad.org/en/PublicationsLibrary/diaeiainf2020d3_en.pdf (last accessed 3 April 2020).
5 World Bank Group (2020), Trade (% of GDP), https://data.worldbank.org/indicator/ne.trd.gnfs.zs (last accessed 3 April 2020).

19 global pandemic. In addressing the economic impacts on its people and businesses, the Government of Malaysia had then introduced a RM250 billion (about US$ 58 billion) stimulus package.[6]

The paper intends to provide an early analysis of the impact of measures taken around the world as a result of the Covid-19 pandemic on Malaysia's investment position. The paper presents that Malaysia will be in the worse off position in attracting FDIs into the country. This is mainly caused by the pre-Covid-19 trends which have seen Malaysia receiving lesser amount of investments, both domestic and foreign and lesser quality FDI compared to its ASEAN peers. Malaysia will face an uphill task to change its investment policies, which have been made more difficult as a result of the Covid-19 pandemic.

2. Malaysia's direct investments positions pre Covid-19

According to the Observatory of Economic Complexity (OEC) at the Massachusetts Institute of Technology, Malaysia is the 19th largest export economy in the world and the 25th most complex economy according to the Economic Complexity Index (ECI).[7] In 2017, Malaysia exported US$263 billion and imported US$197 billion, resulting in a positive trade balance of US$66.4 billion. The Malaysia top exports are integrated circuits, refined petroleum, office machine parts, petroleum gas and palm oil, using the 1992 revision of the HS (Harmonized System) classification. Its top imports are integrated circuits, refined petroleum, crude petroleum, broadcasting equipment and office machine parts. Malaysia's top trading partners are China, Singapore, the United States, Japan and Hong Kong.

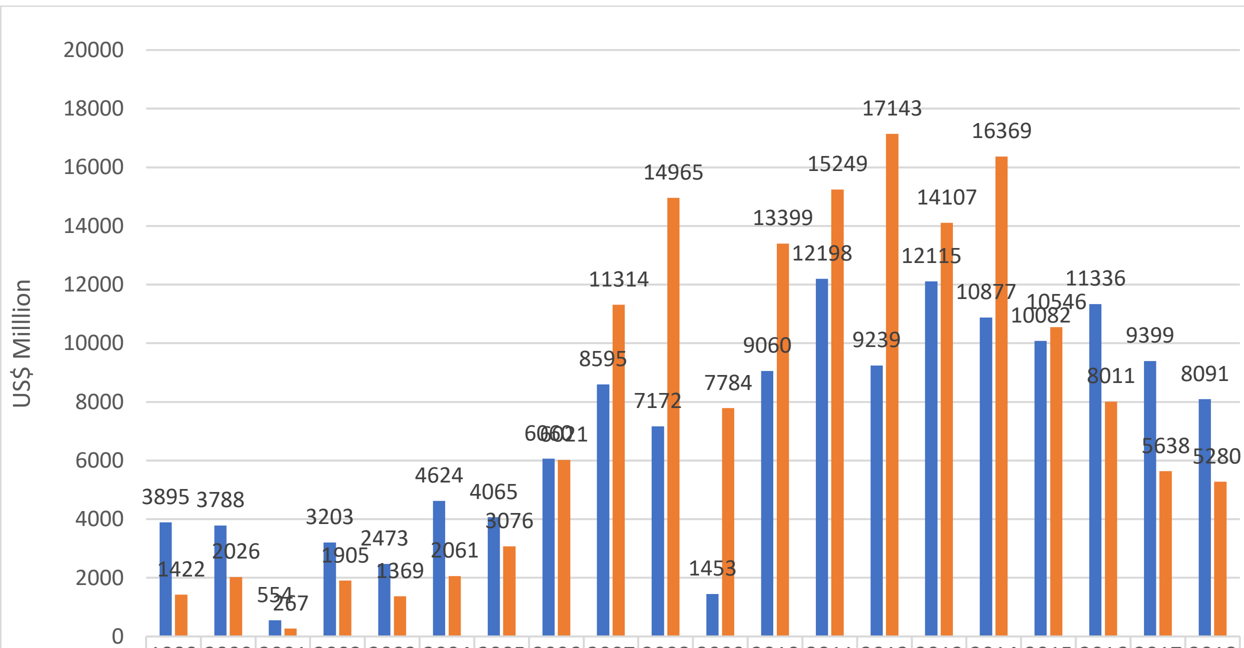
Malaysia is a party to 54 Bilateral Investment Treaties (BITs), 26 Free Trade Agreements (FTAs) with investment chapters. Malaysia has also signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2018 but has yet to ratify till today. Malaysia

6 For the speech of the Malaysian Prime Minister Muhyiddin Yassin, see https://www.pmo.gov.my/2020/03/speech-text-prihatin-esp/.
7 The Observatory of Economic Complexity, https://oec.world/en/ (last accessed 3 April 2020).

is also one of the negotiating party to the Regional Comprehensive Economic Partnership Agreement (RCEP).

Although Malaysia’s economic complexity is commendable, Malaysia’s FDI has been seeing some challenges, with some downward trend in the recent years. It could be said that Malaysia’s FDI is underperforming compared to the regional peers and is facing an increasingly competitive market for FDI, not just within ASEAN but also from other peers in the world. Figure 1 shows that Malaysia’s FDI inflow has been on the downward trend between 2016 and 2018.

Figure 1: Malaysia's FDI inflow and OFDI 1999-2018



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Inflow	3895	3788	554	3203	2473	4624	4065	6060	8595	7172	1453	9060	1219	9239	1211	1087	1008	1133	9399	8091
Outflow	1422	2026	267	1905	1369	2061	3076	6021	1131	1496	7784	1339	1524	1714	1410	1636	1054	8011	5638	5280

Source: UNCTAD Statistics, 2020.

FDI inflows into Malaysia have fallen in recent years from a high of US$12.1 billion in 2011 to US$8.1 billion in 2018, recording falls in five out of seven years over that period. This represents a fall of around 30% since 2011, compared with a fall in global FDI levels over the same period of around 9% and an increase in FDI into developing countries of around 8%.[8]

In Ringgit terms, the Department of Statistics of Malaysia (DOSM) shows that in 2018, FDI in Malaysia recorded RM32.6 billion as against RM40.4 billion in the previous year.[9] The FDI flows have been in continuous downward trend since 2017 due to lower investments in the mining and quarrying sector. In addition, DOSM states that out of the total inflows of RM32.6 billion, 44.9 percent was from Asia region, while 33.7 percent from European region. Hong Kong, China remained as the highest contributor from the Asian region. Services sector continued as the major sector particularly, Financial & insurance/ takaful and Wholesale & retail trade activities. This was followed by Manufacturing and Construction sectors.

DOSM statistic does not reveal much about investments in high technologies such as in the biotechnology, medical products or devices or in the new technologies relating to Fourth Industrial Revolution (4IR). In 2016, the Department of Statistics Malaysia predicted the digital economy would contribute to about 20 percent of the economy in 2020 (the estimate was made before the Covid-19) compared to 17.8 percent in 2017.

The classification of digital economy in Malaysia is dominated by the ICT manufacturing and telecommunication sector. The same data also expected e-commerce to contribute about RM 110 billion or about 40 percent of the digital economy in Malaysia in 2020.[10] According to Malaysian Investment Development Authority (MIDA) in 2018, it approved two foreign-owned biotechnology projects with investments totalling RM2.7 billion, the amount was three times the six approved biotechnology projects in 2017.[11] MIDA approved RM 204,335 million worth of proposed investments in 2018, and RM148, 993.60 between January and September 2019.[12] Of the approved investments in 2018, about 33 percent were foreign-owned and the rest were by

---

8 UNCTAD, World Investment Report, 2019.
9 Department of Statistics Malaysia, Statistics of Foreign Direct Investment in Malaysia, 2018.
10 Department of Statistics Malaysia, Information and Communication Technology Satellite Account, 2016.
11 MIDA (2020), Biotechnology Industry in Malaysia, https://www.mida.gov.my/home/biotechnology-industry-in-malaysia/posts/ (last accessed 3 April 2020).
12 MIDA, (20202), Approved Private Investments in Various Economic Sectors, January - September 2019 & 2018, https://www.mida.gov.my/home/facts-and-figures/posts/ (last accessed 3 April 2020).

domestic investors. For the period between January and September 2019, about 44 percent of the approved investments were foreign-owned. According to MIDA, for the manufacturing sector, 29 percent of the approved investments were for diversification and expansion and 71 percent were for new projects.

Nevertheless, it is important to ensure that all approved investments are realized. The United Overseas Bank (UOB) Malaysia for example, projected that approved investments normally take about one to three years to be realized. UOB Malaysia projected some challenges for the realization of the approved investments in 2019, such as global policy landscape (for example, the US-China relations, UK-EU Brexit), policy clarity, government spending and economic fundamentals.[13] In the same publication, without the Covid-19, UOB did not predict the global economy to go into recession. The UOB was also concerned with the policy uncertainty over the potential change of leadership in Malaysia in 2020.[14]

Despite the approved investment figures by MIDA, according to the Bank Negara Malaysia (BNM) Report 2019, Malaysia's realised foreign investments has slowed substantially between 2011-2018.[15] BNM states that, compared to the strong average growth of 14.4% between 2011 and 2013, realised foreign investment growth has declined to an average of 1.2% between 2014 and 2018, resulting in a smaller share of foreign affiliates investment to nominal private investment of 27% in 2018. BNM attributes the slower growth mainly, in the mining and manufacturing sectors, and the relatively weak contribution of services investment by foreign affiliates. These latest developments could affect transfers of technical, management and marketing know-how, and organisational skills which provide more high-skilled jobs for Malaysian graduates.[16]

---

13 United Overseas Bank Malaysia Berhad, (2020), UOB Investment Insights, Investment Outlook 2020.

14 United Overseas Bank Malaysia Berhad, (2020), UOB Investment Insights, Investment Outlook 2020, 44. Like many other forecasts, the report implied that the change of leadership was meant for Dr. Mahathir to Anwar Ibrahim and no one predicted the change in the political landscape from Pakatan Harapan to Perikatan Nasional under Muhyiddin Yassin.

15 Bank Negara Malaysia (2020), Economic, Monetary and Financial Developments in 2019. See also Bank Negara Malaysia (2017). 'Rethinking Investment Incentives'; Bank Negara Malaysia (2018). 'Complexity and Growth: Malaysia's Position and Policy Implications'; Bank Negara Malaysia (2018). 'Are Malaysian Workers Paid Fairly?: An Assessment of Productivity and Equity'.

16 Bank Negara Malaysia (2020), Economic, Monetary and Financial Developments in 2019.

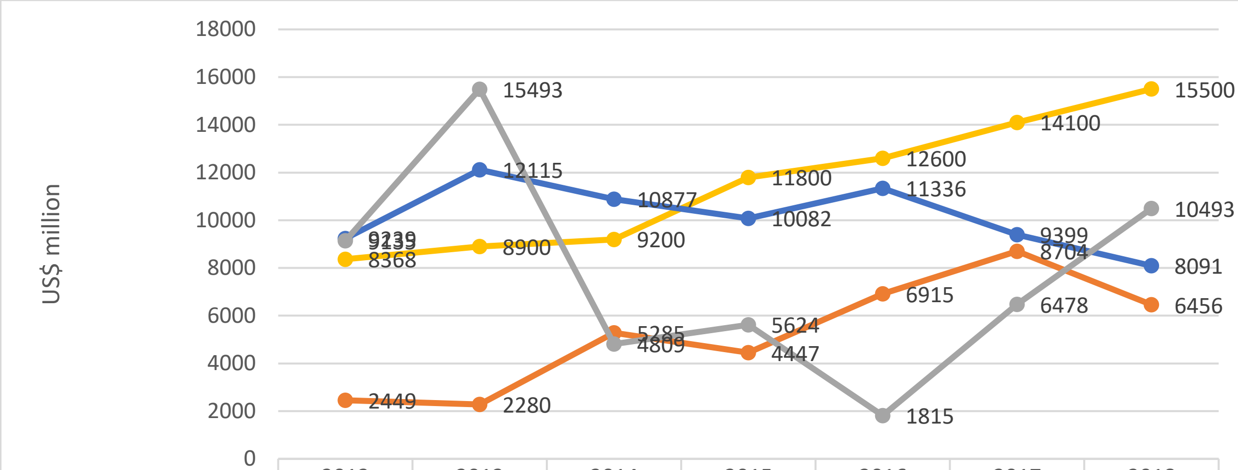
Further, BNM report shows that domestic investment growth in Malaysia has moderated from an average of 13.5% between 2011 and 2013 to 6.0% between 2014 and 2018. The reduced domestic investments may be attributed to the slower investment growth in the mining, agriculture and construction sectors.[17]

There were four factors showing reduction in the quality of investments in Malaysia.[18] Firstly, BNM is of the view that innovation creation and development of forward and backward linkages which are crucial for spill-over effects, are lower in Malaysia compared to the regional peers. Secondly, BNM is also concerned with the economic complexity gains in Malaysia which have been slower than most regional economies. Economic complexity is important as studies have documented how higher economic complexity has a positive effect on growth and levels of income. Thirdly, there has been insufficient number of high-skilled jobs created to absorb fresh graduates entering the labour force. Fourthly, the higher share of investments concentrated in broad property suggests that investment in Malaysia has not transitioned towards more productive assets (e.g. research and development, ICT equipment and computer software), which are crucial in improving labour productivity.

Compared to its regional peers, since 2015, Figure 2, shows that Thailand and Vietnam have been overtaking Malaysia in attracting FDIs into their countries. The increase of FDI into Thailand and Vietnam could be contributed to the rapid liberalization of the investment climates in these competitor countries and changes in competitor country's investment incentives regimes. According to the OEC, Thailand is 23rd largest export economy in the world, 4 positions below Malaysia, and 32nd most complex economy, 7 positions below Malaysia. On the other hand, Vietnam is 21st in the largest exporter and 83rd most complex economy. Be that as it may, these countries have a better investment promotion and investment retention initiatives compared to Malaysia.

17 Bank Negara Malaysia (2020), Economic, Monetary and Financial Developments in 2019.
18 Bank Negara Malaysia (2020), Economic, Monetary and Financial Developments in 2019.

Figure 2: FDI into selected ASEAN Member States, 2000-2018

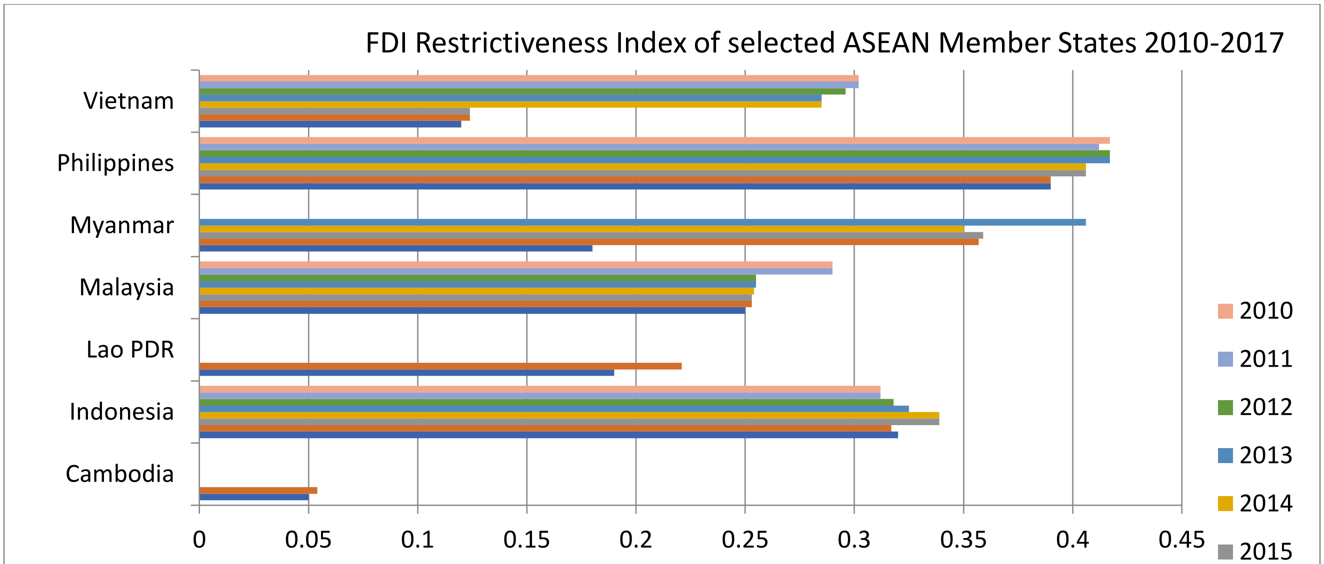


	2012	2013	2014	2015	2016	2017	2018
Viet Nam	8368	8900	9200	11800	12600	14100	15500
Malaysia	9239	12115	10877	10082	11336	9399	8091
Philippines	2449	2280	5285	4447	6915	8704	6456
Thailand	9135	15493	4809	5624	1815	6478	10493

Source: UNCTAD Statistics, 2019.

In order to enhance Malaysia's competitiveness as an FDI destination, national measures that restrict FDIs would need to be addressed. Malaysia FDI restrictions, at 0.25, according to the OECD, remain above the non-OECD average. Meanwhile, Vietnam has reduced its FDI restrictions, where the index dropped from 0.302 in 2010 to 0.12 in 2017, which is below the non-OECD average of 0.126, and the further liberalisation could be one of the factors that contribute to increased FDI inflow into that country.

Figure 3: FDI Restrictiveness Index of Select ASEAN Member States, 2010-2017



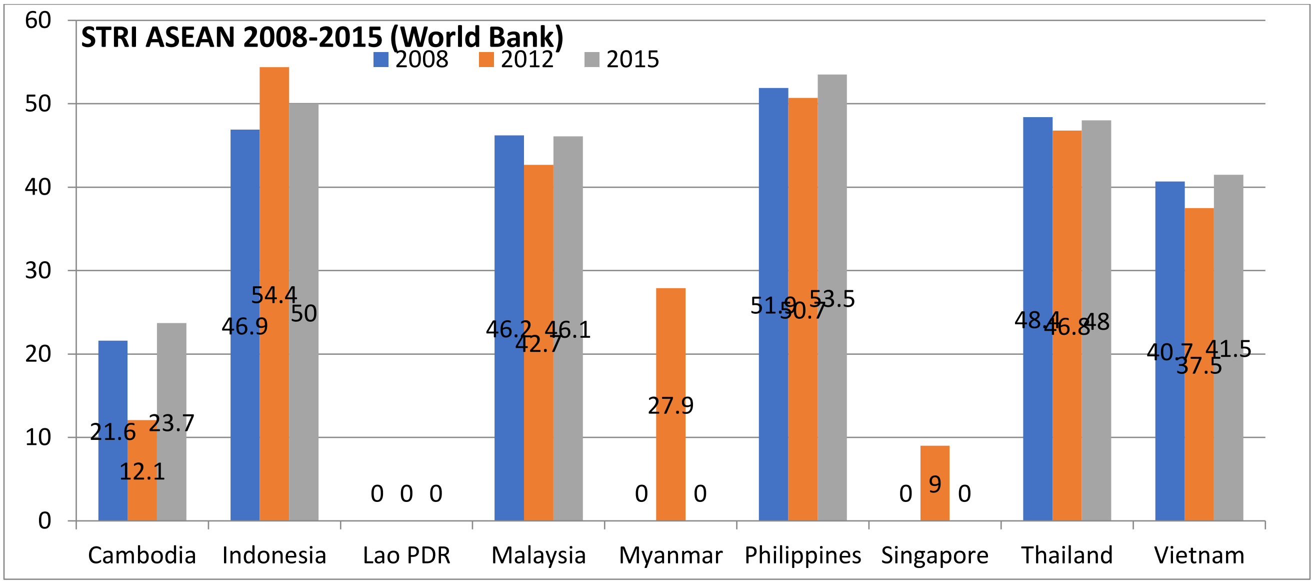
	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Vietnam
2010	0.000	0.312	0.000	0.290	0.000	0.417	0.302
2011	0.000	0.312	0.000	0.290	0.000	0.412	0.302
2012	0.000	0.318	0.000	0.255	0.000	0.417	0.296
2013	0.000	0.325	0.000	0.255	0.406	0.417	0.285
2014	0.000	0.339	0.000	0.254	0.350	0.406	0.285
2015	0.000	0.339	0.000	0.253	0.359	0.406	0.124
2016	0.054	0.317	0.221	0.253	0.357	0.390	0.124
2017	0.05	0.32	0.19	0.25	0.18	0.39	0.12

Source: OECD FDI Restrictiveness Index.

The World Bank STRI index (Figure 4) below shows that Malaysia, together with Indonesia, Philippines, Thailand and Vietnam, tend to impose higher degree of restrictions on services trade, which is above the global means of 32.7248.[19] With reduction in the STRI, Malaysia could further enhance investment in services, and increase trade in services contributions to its GDP.

19 J. Francois and M. Manchin, Francois, F and M. Manchin, Technical note on services NTM database, 2016, Pronto Project, World Trade Institute.

Figure 4: STRI Index of Select ASEAN Member States 2008-2015



Source: World Bank STRI Index.

Malaysia's outward FDI (OFDI) has also been decreasing in the same period. This means, more Malaysian investors abroad, mainly the government linked companies (GLCs) are reducing their investments abroad and bringing their capital and profits home. There could be several explanations on this downward trend, including uncertainties over global growth trends, low international oil and commodity prices, and a reduction of OFDI in the services sector.[20]

3. Challenges for Malaysia's Direct Investment Post-Covid 19

As one of the globalised economies in the world, Malaysia's domestic and foreign investments post-Covid19 depends on the development around the Southeast Asian region and the world at large. As an open and export-oriented economy, Malaysia will be experiencing a tough challenge from post-COVID-19. Various international development organisations issued early reports on

20 Jan Knoerich, (2019) Outward Foreign Direct Investment (OFDI), Home-Country Measures and Sustainable Development Outcomes in Asia and the Pacific, 9th Meeting of the Asia-Pacific FDI Network, Bangkok, 4 December 2019.

the economic impacts of Covid-19, and the reports tend to agree that Covid-19 will have a severe impact on the global economy.

Whereas Baldwin and di Mauro are of the view that Covid-19 has become more predictable as it has become “everybody problem” and no longer just China’s or Italy’s problem.[21] They also state that Covid-19 causes both the medical and economic shock as it hits all the major economies in the world at the same time, where two thirds of the world economies are in the containment.

The World Bank predicts that the most affected economies are those with open economies in terms of trade and FDI, significant exporters of services (which Malaysia is not) and host countries experiencing the outbreak most severely, which can only be ascertained at the end of the outbreak. [22] The Asian Development Bank (ADB) states that the magnitude of the economic impact will depend on how the outbreak evolves.[23]

Both the ADB and the World Bank agree that [24] the Covid-19 outbreak affects the economies through several factors including the sharp declines in the domestic demand, lover tourism and business travel trade and production linkages and production networks, supply disruption and health effects. These factors contribute to the disruption of international production networks and globalized consumption have resulted in the supply and demand shocks in all countries. In addition, the World Bank is of the view that preventive behaviour of individuals and the transmission control policies of governments, also contributes to the disruption in demand and supply.[25] These actions first hit the Chinese economy, by disrupting supply and freezing demand, and other partner economies by limiting flows of trade and tourists.[26]

---

21 R. Baldwin and B. di Mauro, (2020) Introduction, in R. Baldwin and B. Di Mauro, Mitigating the COVID Economic Crisis, Act Fast and Do Whatever it Takes, London, CEPR Press.

22 World Bank. (2020). East Asia Pacific Economic Update April 2020: COVID-19 and the EAP Region.

23 Asian Development Bank (2020), ADB Briefs No, 128, the Economic Impact of the Covid-19 Outbreak in Developing Asia, 6 March 2020.

24 The World Bank Group, (2020), Supporting Businesses and Investors Investment Climate Policy Responses to Covid-19.

25 The World Bank Group, (2020), Supporting Businesses and Investors Investment Climate Policy Responses to Covid-19.

26 The World Bank Group, (2020), Supporting Businesses and Investors Investment Climate Policy Responses to Covid-19.

In another report, the World Bank states that the ongoing COVID-19 outbreak has led to major negative spill-overs in Malaysia's domestic economy. They include electrical and electronics (E&E) manufacturing sector, which is closely integrated into China-centric production networks and the cyclical slowdown in the global technology cycle, and in the tourism and retail industries due to lower tourist arrivals mainly from China, which represents 11 percent of total tourist arrivals in 2018.[27] Further, supply disruptions contribute to the negative effects on the commodities, such as the sharp contraction in liquefied natural gas exports and agriculture sectors.[28]

Two, there is an increasing shortage of labour across many sectors due to quarantine, lockdown and movement controls, such temporary closure of production facilities resulted in a sharp slowdown in production and disruptions in global value chains and decline in confidence and lower consumption demands. The COVID-19 outbreak is expected to have a significant negative impact on employment and incomes, especially on the informal sectors which account for more than 40 percent of the labour force that is not covered by employment-based social protection, and workers in retail, manufacturing, tourism, and other hard-hit sectors.[29] Further to the World Bank reports, the author also predicts a higher level of protectionism, disruptions to trade over certain products such as food and medical supplies and the increasing level of protectionism and anti-competitive behaviour.

The ongoing COVID-19 outbreak has led to major negative impacts on the domestic economy, including broad-based disruption of economic activities.[30] The GDP growth projection for 2020 has been revised sharply downwards, from 4.5 percent to –0.1 percent, reflecting the severity of the economic impact of the COVID-19 outbreak. The ADB projects that in the worst case scenario, Covid-19 will knock 1.5 percent of Malaysia's GDP.[31] The Bank Negara Malaysia predicts that the

27 See Asian Development Bank (2020), ADB Briefs No, 128, the Economic Impact of the Covid-19 Outbreak in Developing Asia, 6 March 2020, figure 5, quoting the World Tourism Organisation.
28 World Bank. (2020). East Asia Pacific Economic Update April 2020: COVID-19 and the EAP Region.
29 World Bank. (2020). East Asia Pacific Economic Update April 2020: COVID-19 and the EAP Region.
30 World Bank. (2020). East Asia Pacific Economic Update April 2020: COVID-19 and the EAP Region.
31 See Asian Development Bank (2020), ADB Briefs No, 128, the Economic Impact of the Covid-19 Outbreak in Developing Asia, 6 March 2020, figure 10.

economic growth will be between -2.0% and +0.5% in 2020.[32] The same report also predicts that the exports of goods and services will be slowing down, at the rate of -8.7% compared to -0.8% in 2019. This is mainly due to the weak global demand, supply chain disruption and lower foreign tourist receipts. As a result, private investment will be lower, only contributing -1.6 % of the real GDP growth, compared to +0.3% in 2019. The weaker private investment is due to weak demand and business sentiments.

The World Bank predicts that growth in China is projected to decline to 2.3 percent in the baseline and 0.1 percent in the lower-case scenario in 2020, from 6.1 percent in 2019. At the same time, growth in the rest of the developing EAP region is projected to slow to 1.3 percent in the baseline and to negative 2.8 percent in the lower-case scenario in 2020, from an estimated 4.7 percent in 2019.

Further, Malaysia and the region will be facing a higher level of competition for FDIs. UNCTAD estimates future decline in global FDI in 2020 caused by COVID-19 will range from 30-40 percent.[33] Highly impacted sectors cover basic materials, consumer cyclicals (including airlines, hotels, restaurants, and leisure), energy, and industrials (including automotive and electronics).[34] The hardest-hit sectors are the energy and basic materials industries (-208% for energy, with the additional shock caused by the recent drop in oil prices), airlines (-116%) and the automotive industry (-47%).[35]

The world's largest multinational corporations (MNCs) in the automotive, airlines, and tourism sectors have reduced their 2020 earnings estimates by 44 percent, 42 percent, and 21 percent, respectively, on average.[36] Major hotel companies are expecting to reduce 70 percent of hourly

---

32 Bank Negara Malaysia (2020), Economic, Monetary and Financial Developments in 2019.
33 UNCTAD (2020), Global Investment Trend Monitor No.35, Impact of the Covid-19 Pandemic on Global FDI and GVC, March 2020, https://unctad.org/en/PublicationsLibrary/diaeiainf2020d3_en.pdf (last accessed 3 April 2020).
34 The World Bank Group, (2020), Supporting Businesses and Investors Investment Climate Policy Responses to Covid-19, Worldbank.org/en/topic/investment-climate (last accessed 3 April 2020).
35 UNCTAD (2020), Global Investment Trend Monitor No.35, Impact of the Covid-19 Pandemic on Global FDI and GVC, March 2020, https://unctad.org/en/PublicationsLibrary/diaeiainf2020d3_en.pdf (last accessed 3 April 2020).
36 UNCTAD (2020), Global Investment Trend Monitor No.35, Impact of the Covid-19 Pandemic on Global FDI and GVC, March 2020, https://unctad.org/en/PublicationsLibrary/diaeiainf2020d3_en.pdf (last accessed 3 April 2020).

hotel employees, and airlines will cut their employees' pay by 25-50 percent.[37] The World Bank also predicts that Covid-19 will indirectly reduce FDI via reduced economic activity mainly, in cyclical industries such as energy, basic materials, retail, garments and entertainment.

The Movement Control Order (MCO) in Malaysia has also caused grave concerns to some Multinational Companies (MNCs) investing in Malaysia. According to the American Chambers of Commerce Malaysia (AMCHAM), "…*the temporary halt on SME due to the movement control order (MCO) will cause MNC that work closely with them to either scale-down operations or move somewhere else. AmCham in a statement said that MNCs and direct clients overseas are unable to access much-needed products made in Malaysia due to the MCO*."[38]

Malaysia also cannot discount the China factor. China (including Hong Kong) is one of the largest investors in Malaysia and many businesses in Malaysia are linked with China through the global and regional value chain. According to the OECD, output contractions in China are being felt around the world, reflecting the key and rising role China has in global supply chains, travel and commodity markets.[39] The OECD predicts that economic prospects for China have been revised markedly, with growth slipping below 5 percent this year, before recovering to over 6 percent in 2021, as output returns gradually to the levels projected before the outbreak.

In terms of food security, Malaysia also needs to take stock of the Covid-19 situation on investment in agriculture, agroindustry, agriculture logistics and value chain. During the SARS epidemic, countries in the East and Southeast Asia like China, Taiwan, Singapore and Vietnam showed resilience, because they have enough food reserves and boast of vibrant value chains linking the domestic and international markets. However, Covid-19 is different as countries are locked down with much restriction on the movement of goods and cargo between territories. In the overall ranking of the Food Security Index 2019, Malaysia is ranked 28th in the world, the

37 OECD (2020), OECD Interim Economic Assessment, Coronavirus: The World Economy at Risk, 2 March 2020.
38 The Malay Mail, (2020) MCO Malaysia runs risk of some SME Relian MNCs taking business elsewhere https://www.malaymail.com/news/money/2020/04/03/mco-malaysia-runs-risk-of-sme-reliant-mncs-taking-business-elsewhere-warns/1853142, 3 April 2020.
39 OECD (2020), OECD Interim Economic Assessment, Coronavirus: The World Economy at Risk, 2 March 2020.

second highest in ASEAN after Singapore, which ranked first in the world.[40] Based on the ranking, Malaysia's main concern should be on food availability to sustain for its more than 30 million population.

Post-Covid-19, food security is no longer the same as before. During the Covid-19 crisis, some countries have imposed restrictions on the export of important food items. For example, Vietnam imposes restriction on exports of rice, which is a staple food for Malaysia and the rest of Southeast Asia.[41] Thailand, through the notification to the World Trade Organisation (WTO) banned the export of eggs.[42]

At some stage, there was a media report that rice supply in Malaysia would only last 2.5 months[43] which was later denied by the Minister of Agriculture as inaccurate.[44] In addition to rice, there are other essential foods like vegetables, poultry and fish that must be continuously produced for Malaysians. Hence, farmers must receive continuous supports and continue working to ensure there will be no shortage of food items on Malaysians' household. In the Malaysian stimulus package announced on 28 March 2020, the Government of Malaysia allocated RM 1 billion to the Food Security Fund. The amount is in addition to the RM 100 million fund allocated for the development and infrastructure food storage and distribution and crop integration

---

40 Global Food Security Index, https://foodsecurityindex.eiu.com/Index (last accessed 3 April 2020).

41 See for example, South China Morning Post (2020), Coronavirus, Vietnam Stockpiles Rice as outbreak spreads and food security concern grown, 28th of March 2020, https://www.scmp.com/week-asia/economics/article/3077272/coronavirus-vietnam-stockpiles-rice-outbreak-spreads-and-food (last accessed 4 April 2020).

42 World Trade Organisation (2020), Notification Pursuant To The Decision On Notification Procedures For Quantitative Restrictions (G/L/59/REV.1)G/MA/QR/N/THA/2/Add.3 2 April 2020. Bird Eggs of fowls of the species *Gallus Domesticus*, on the ground of "Due to the global outbreak of COVID-19, the relevant measure was adopted with the aim to prevent the critical shortage of food stuffs in Thailand. This measure has been expanded effective period, starting from 02 April 2020 – 30 April 2020." For those interested in tracking food restriction measures during Covid-19, see https://public.tableau.com/profile/laborde6680#!/vizhome/ExportRestrictionsTracker/List (last accessed 4 April 2020).

43 The Malaymail (2020), Ministry: Malaysia has rice stock for two-and-half months as Vietnam curbs exports, 27 March 2020, https://www.malaymail.com/news/malaysia/2020/03/27/malaysia-has-rice-stock-for-two-and-half-months-as-vietnam-curbs-exports/1850864 (last accessed 4 April 2020).

44 The New Straits Times (2020), 'Malaysia's rice stock stable', 28 March 2020, https://www.nst.com.my/news/nation/2020/03/579071/malaysias-rice-stock-stable (last accessed 4 April 2020).

program, and smaller amount of RM 64.4 million for the local Farmers' Association to develop short-term "agro-food" projects.[45]

Processed food such as bread will have to continue given the reliance of many Malaysians' family on bread as the second staple food after rice. There is also the challenge of responsible consumption due to panic buying which causes shortage of food and uncontrollable increase in food prices. With food supply, comes the question of logistic and storage. Here, there is a need for a technology to ensure proper food supply management within the value chain to ensure harvest are properly managed, produces are properly stored and delivered to every nook and cronies of the country, in urban, sub-urban and rural areas. If not properly managed, the current Covid-19 episode could lead to incidents of Ebola in Africa, where production was disrupted due to road blockages, limited access to inputs like seeds and fertilisers and acute labour shortage, and delay in transportation system causing produces not able to reach the intended consumers.[46]

In addition to meeting and addressing the above challenges, Malaysia has to pay attention to the development of investment policies made by its regional peers in response to the Covid-19. Some of the policies are more liberalizing, whilst some countries are rather restrictive . According to UNCTAD, China, India, Indonesia and Vietnam, among others, have imposed new measures to attract, to promote or to facilitate investments[47] whilst some countries, mostly in the European Union imposed a higher level of barriers like increased screening. For example, in the region, China introduced a set of measures to promote and facilitate foreign investment. On 18 February 2020, through the "Circular Responding to Novel Coronavirus" China provides for paperless management of foreign investment records and issuance for foreign companies failing to execute contracts during the Covid-19 crisis. In addition, on 9 March 2020, China introduced measure to enhance government assistance to foreign-invested projects and enterprises in resuming business and production post-Covid-19. Among others, the measure introduces simplified

45 For the speech of the Malaysian Prime Minister Muhyiddin Yassin, see https://www.pmo.gov.my/2020/03/speech-text-prihatin-esp/ (last accessed 4 April 2020).
46 Shenggen Fan, Preventing Global Food Security Crisis under Covid-19 Emergency, 6 March 2020, China Daily, https://www.chinadaily.com.cn/a/202003/06/WS5e61b922a31012821727ce20.html (last accessed 3 April 2020).
47 UNCTAD (2020), Investment Policy Monitor, Issue 23, April 2020.

approval procedures, optimising tax exemptions for imported equipment and protection of rights of investors.[48]

Further, China, India, Indonesia, Vietnam adopted new policy measures to further encourage entry of foreign investments. China allowed Chinese natural persons to establish foreign-funded enterprises with foreign investors directly; India opened coal mining sectors to non-mining companies; Indonesia introduced measures to allow foreign banks to transform into Indonesian banks directly and set-out tax incentives for business investing in specific business and provinces; whilst Vietnam increased foreign ownership ceiling for domestic airlines.[49]

The G20 countries also agree to lay a strong foundation for the economic recovery post-Covid-19. In the G20 Trade and Investment Ministerial statement dated 30 March 2020, the G20 trade and investment ministers are committed towards seeking to mitigate the impact of Covid-19 on international trade and investment. The ministers are committed "*to work together to deliver a free, fair, nondiscriminatory, transparent, predictable and stable trade and investment environment, and to keep our markets open*."[50]

The G20 ministers also commit themselves to ensure the continued flow of vital medical supplies and equipment, critical agricultural products, and other essential goods and services across borders and to take measures to facilitate trade in those essential goods. Further, the ministers agree that emergency measures designed to tackle COVID-19, if deemed necessary, must be **targeted, proportionate, transparent, and temporary, and that they do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules**. They also commit to ensure smooth and continued operation of the logistics networks and to explore ways for logistics networks via air, sea and land freight to remain open.

48 See UNCTAD (2020), Investment Policy Monitor, Issue 23, April 2020.
49 UNCTAD (2020), Investment Policy Monitor, Issue 23, April 2020.
50 The G20 (2020), G20 Trade and Investment Ministerial Statement, 30 March 2020,
http://www.g20.utoronto.ca/2020/G20_Statement_Trade_and_Investment_Ministers_Meeting_EN_300320.pdf
(last accessed 4 April 2020).

4. Conclusion and Way forward

Malaysia as a trading nation relies on the uninterrupted supply chain to its products and services. As a country that has been relying on FDI for its economic growth, post Covid-19, Malaysia's position as an attractive investment destination is weakened by several factors such as the lesser appetite of MNCs to invest, weaknesses of the SMEs and other domestic private investors, the slowing growth and the increasing competition for FDIs from regional economies. This is further exacerbated by the downward trend in the amount and quality of FDIs into Malaysia in recent years.

Comparatively, Malaysia is facing a worse-off position compared to the regional peer. For example, Malaysia's FDI inflow position is lower compared to the countries in the same middle income in ASEAN i.e. Thailand and the up and coming Vietnam. Furthermore, FDI into Malaysia is seen to not deliver the quality needed, i.e. transfer of technology, management and skills enhancement as well as opportunities for forward and backward linkages with the domestic suppliers. During this difficult time, we see regional peers announcing numerous measures to further attract foreign investors into their countries. Some could argue that these measures have been in the pipeline but making the necessary announcement during the time crisis makes these countries stand-out over other competing economies.

To ride out the Covid-19 shock, Malaysia must undertake a major and bold structural and sectoral reform in its FDI policy. Further, Malaysia must conduct aggressive investment promotions in attracting high quality investments by focusing on certain sectors that could revive Malaysia's economic growth. The investment priority sectors must include areas that could assist Malaysia overcome any potential economic, health care system, emergency preparedness and food security in the future. Hence, it is proposed for Malaysia to undertake the following policy approaches:

1. **Structural Reform**
   (a) To re-look at the investment promotion efforts.

MIDA is currently the main agency looking into the investment policies in Malaysia. However, there are other agencies looking into similar angle, e.g. the MATRADE (OFDI), corridor development authorities and the investment agencies at the States level. It is imperative that there is a higher level of co-ordination for investment promotion which should be vested with a single agency, and for it to facilitate investment implementation with the corridors and the States.

(b) To increase efforts to increase investment retention.

Priority policy actions include retaining existing investment by providing targeted "investor aftercare initiatives" to key FDI sectors and their lead local suppliers thorough higher level and coordinated linkages, in order to preserve supply chains. Investment Promotion Agencies like MIDA should play an important role in the investment retention and investment facilitation. The Federal agencies must co-ordinate well with the Corridors and States' agencies. For example, InvestKorea and InvestIndia have set up daily web-based updates on COVID-19 cases and policy responses related to foreign investors.

(c) To introduce conflict management system through investor grievance mechanism (IGM).

The IGM essentially provides minimum institutional infrastructure that enables governments to identify, track and manage grievances arising between investors and public agencies as early as possible. Reforms are undertaken to enable a designated Lead Agency within the Government to manage and implement IGM. IGM ensures that the Government responds to investor grievances in a responsive manner and in accordance with the country's international investment agreements, laws and regulations. Many countries have started to establish their own versions of dispute prevention and general aftercare systems, which provide the following valuable good practice elements for designing IGM.

(d) Revisit the investment fiscal and non-fiscal incentive schemes.

The incentive schemes should be more targeted towards achieving high quality investments in Malaysia. Cost benefit analysis should also be done to ascertain that the selected sectors are capable of contributing into economic development and transformation. The incentives need to be targeted, automatic and properly managed. This includes the need to design ta transparent and reliable application process and the monitoring and evaluation system.

(e) Encourage higher private sector investment.

Malaysia needs to enhance liberalisation and access. Currently, there are still high level of restrictions for FDI in the services sector. Further, to increase private domestic investment, the Government needs to look after the SMEs, which provide most jobs. Supporting their survival and operations requires financial supports and regulatory flexibilities. It is time for Malaysia to re-set the policies on SMEs and private investments like facilitating companies' strategic re-orientation and re-purposing towards production of in-demand goods and services, and relaxing regulatory and administrative requirements and fees. In ensuring survival of the private sectors, the Government needs to liberalise the economy by re-setting the role of the government linked companies (GLC). GLCs should be the driver of certain sectors but must not crowd out private investments.

(f) To invest in the ex-ante emergency preparedness.

According to the UNESCAP, the Covid-19 crisis has shown the need to invest in ex-ante health emergency preparedness. [51] A shown by various reports, at early stage of the crisis Malaysia and most countries face shortages in essential medical supplies, such as protective clothing, surgical masks, thermometers and ventilators. In that, not only that Malaysia need to invest in soft infrastructure like the human resources and technology development to be less dependent on third countries, also to consider regional cooperation in health risks.

2. **Sectoral Reform**

(a) Malaysia should focus on select and niche investment sectors. There has to be increased linkages between foreign investors and domestic investors. Accelerating

51 UNESCAP (2020), The Impact of Policy Responses for COVID-19 in Asia and the Pacific, UNESCAP, Bangkok.

technological diffusion and absorption in key areas with large spill-overs to the rest of the economy should be one goal. Exploiting synergies with science, R&D, and innovation could make Malaysia a leader in emerging market niches.

(b) Facilitate investment and growth in the supply side. Domestic connectivity is also important in providing public services (electricity, water, sanitation, and telecommunications) where they are most needed and in linking peripheries to urban centres, allowing remote areas to unlock their development potential. Enhanced connectivity is crucial for improving competitiveness in all aspects of economic activity, including participation in production networks and supply chains.

3. **New frontier technologies**

(a) Increase the uptake of new technologies by investing in universities and other start-ups whose activities promote the use of new technologies such as the IR4.0 and modern biotechnology.

Universities should be allowed and encouraged to set-up businesses in the relevant technology fields. The Government should encourage more private sector-university collaboration to enhance digital expertise and skills.

(b) Encourage out-of-the-box e-commerce linkages with the logistic systems.

As shown during the MCO, e-commerce firms play an important role in the supply system. Hence, they should also be encouraged to work on logistic systems such as delivery and supply hub or sorting points where they can exchange services and products more efficiently.

(c) Digital economy and technologies provide a wide spectrum of opportunities for businesses in Malaysia and the world.

Digital economy is opening up new horizons of business opportunities and increasing demand for newer economic models. IR 4.0 may also have an impact on services sector. IR 4.0 enhances the utilisation of digital technology in daily life including professional service providers. The new approaches and technologies induced by IR4.0 will change how professional service providers worldwide and including ASEAN conduct their businesses. Alternative work arrangements, such as freelancing, independent contracting and gig economy, benefit workers through the digital platform. As a catalyst to innovation and prosperity, technology such as big data, Internet of Everything (IoE), Artificial Intelligence, robotics, blockchain and cloud computing provides bigger prospects for businesses in Malaysia. The advancement of society propelled by digital technology will be the right enabler for achieving growth that is balanced, inclusive, sustainable, innovative and secure. As Covid-19 shows, the disease is more susceptible towards older persons, hence, Malaysia could encourage investments in digital technology dealing with assisting the ageing population.

(d) To relook at the skills set in meeting the demand of the future investment and economies.

Malaysia can build nation-wide activities involving multi-stakeholder collaboration and draw in digital economy experts, entrepreneurs, academia, corporations, venture capitalists, legal professionals and policy experts. According to the World Economic Forum Report in 2016, the most in-demand occupations today did not exist five to 10 years ago, and the same report predicted that 65 percent of the current primary school students would be working in jobs which do not yet exist. As the result of exponential growth of technology, there could be an increase in the numbers of nomadic workers and digital freelancers. The World Economic Forum's Future of Jobs Report 2018 predicts that creativity, innovation and ideation will be the key skills for the workforce of the future. These soft skills, which sit alongside analytical thinking and problem-solving, would be pre-requisites for workers in adapting to the automation of jobs.

4. **Access to Finance**

The Government should also enhance access to capital to allow technology-based companies access to the much-needed capital without being tied-down to the traditional and risk-averse banking system. Universities and research institutes may be empowered to be part of the safeguards to prevention of risk from zoonotic diseases.

5. **Food Security**

Focus on investment to build a dependable food security system.

Malaysia must assess the food availability especially in the time of crisis. Investment in food security system must cover the whole spectrum of the value chain. Food security involves production and consumptions and there to be investment to support food production, and to deliver safe and quality food to the consumers throughout the country. Sanitary and phytosanitary system has to in place, whilst cartel and other anti-competitive behaviour need to be curtailed. The Government must encourage an active private sector investment in agriculture and food production sector.

6. **International Collaboration and Signalling**

To consider ratifying the CPTPP Agreement.

Malaysia's commitment to the CPTPP as well as RCEP will project a positive signal to international businesses on Malaysia's seriousness to be more open and liberal in Malaysian investment sectors. Although major regional economies like China, Indonesia, South Korea and Thailand are not signatories of the CPTPP, membership of the CPTPP is not closed. Indonesia and Thailand for example, have indicated keen interests in joining the CPTPP. In the January 2019 meeting of the CPTPP Commission,[52] an accession process was established for "aspirant economies" both to engage informally regarding their interest in joining the CPTPP and to lodge a formal request to commence negotiations on accession.

52 DFAT (2019), Comprehensive and Progressive Agreement for Trans-Pacific Partnership, First CPTPP Commission Meeting, https://dfat.gov.au/trade/agreements/in-force/cptpp/news/Pages/cptpp-news.aspx.