



How is countrywide strategy in Singapore and Malaysia evolving and what opportunities exist for UK businesses

MET IIB Overseas Research Project 2014

Foreword



“I have been a keen observer of the evolving economic growth strategies of Malaysia and Singapore, and responsible for companies there, for the last 35 years. Over this time it has been remarkable to see the change and development that has occurred. Both were initially built on attracting foreign direct investment in manufacturing and are now shifting the balance towards service industries. They have been very successful and have weathered the recession well.

With the current shifts internally in these countries and the relative changes happening on a global scale, it is very appropriate for this young delegation to be able to visit and study up to date manufacturing facilities in South East Asia and apply these lessons on their return to the resurgence in British manufacturing which has to compete on the world stage.”

Sir David John KCMG, Chairman, Royal Society for Asian Affairs

Supporters

We would like to thank the following organisations for their sponsorship and help with the project:



MARS



HALMA



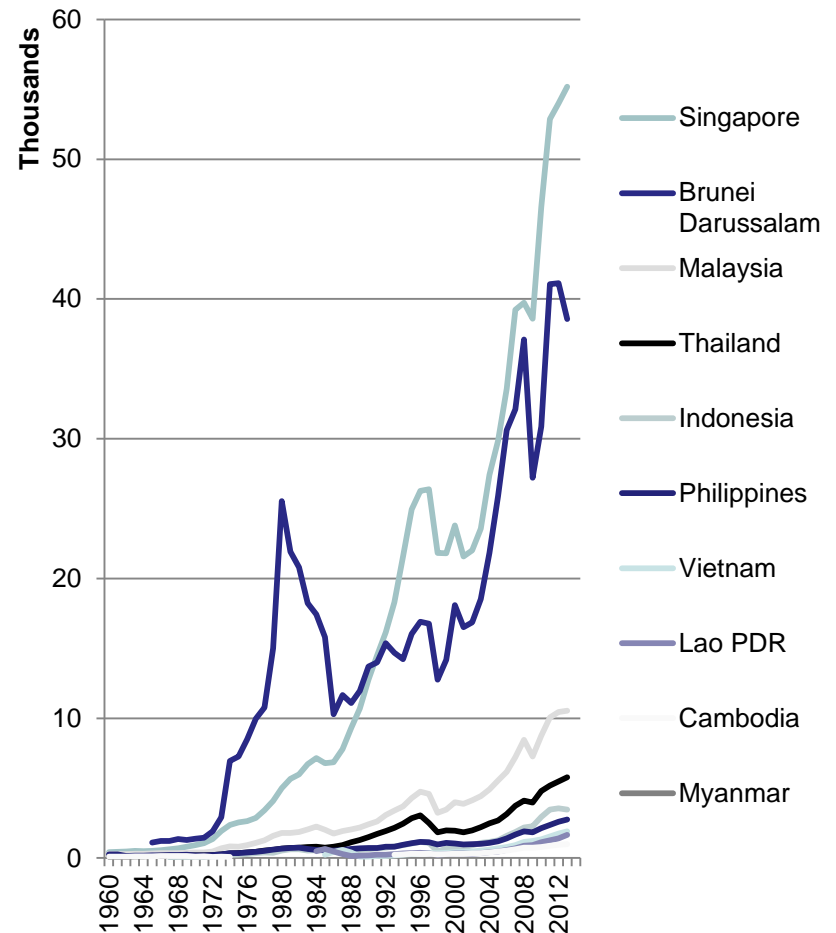
A number of other people and organisations were instrumental to the organisation of the trip:

- IfM Supporters
 - Dr Tim Minshall
 - Sir Mike Gregory
 - Sinead Hurley
 - Dr Padmakshi Rana
 - Tengku Norazman Tengku Abdul Aziz
 - Dr Carlos Lopez Gomez
- The Royal Society of Asian Affairs
 - Sir David John
- The British High Commission
 - Tom Crawley
- Taylor Vinters
 - Patrick Farrant
 - Tim Hill
- Julian Candiah
- HSBC
 - Zed Cama
- Multimedia University
 - Shubana Ruthiran

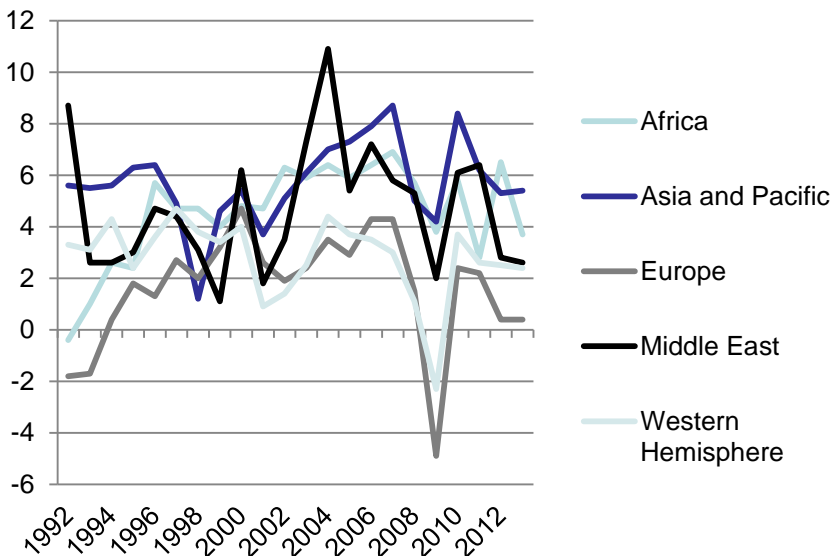
Reasons behind selection of Singapore & Malaysia

- When deciding upon potential locations for the trip, the team looked at GDP growth levels globally to identify regions which were growing fastest
- Within ASEAN countries, Singapore has the largest GDP per capita and Malaysia is an interesting contrast and a neighbour
- This is also supported by the number of MNCs in the countries and the strategic plans of both to support sustainable growth for the future

GDP per capita of ASEAN Countries (current US\$)



GDP Growth (%) by Region



Source: World Bank and IMF

Summary of research undertaken

- Using the findings of the MET 2010 report into opportunities for UK businesses to outsource or offshore operations to Singapore and Malaysia, desk research was undertaken to identify key differences to current country strategies against previous findings and reassess their position
- This was followed by meetings with businesses in the UK but involved in the regions to:
 - Confirm findings from desk research
 - Deepen knowledge
 - Understand their reasoning for having an interest in the Singapore and/or Malaysia
- Visits were then arranged to companies which were identified as interesting given current country positioning and potential future strategy
- Company visits provided an insight into:
 - The reasons behind their own geographical location
 - Government strategies and their impact locally from a first hand perspective
 - The success of such strategies and future opportunities and obstacles
- Data from these various sources was collated to give an impartial view on each country on:
 - Historic positioning of the country
 - The countries' current strategy
 - How that strategy is evolving and affecting companies locally
 - How this contrasts between Singapore and Malaysia
 - What opportunities this creates for UK businesses

Primary and secondary research was carried out in the UK and Asia

Research	2013								2014						
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Selection of location for project	█														
In-depth desk research						█									
Interviews and meetings in the UK									█						
Visits in Singapore & Malaysia															█

Type of research	Selection of location for project	In-depth desk research	Interviews and meetings in the UK	Visits in Singapore & Malaysia
Key output	<ul style="list-style-type: none"> Initial understanding of business and manufacturing in selected countries Formulation of key questions 	<ul style="list-style-type: none"> History, KPIs and industry insights for each country Shortlist of interesting industries and companies to visit Current country strategy 	<ul style="list-style-type: none"> Understanding of the region from a UK perspective Insight into reasoning behind investing in the countries Understanding of reasoning behind relocation to the region 	<ul style="list-style-type: none"> Reasons behind companies' choice of location First-hand perspective on country vision from governmental bodies Understanding of innovation and industry evolution

The 2010 Overseas Research Project to the same locations derived a number of findings

Key Findings

- Both countries wish to reach and maintain high positions in the industrial value chain. Malaysia is hoping to reach ‘Developed Country’ status by 2020; the aim is that knowledge will replace low-cost labour as the country’s competitive advantage. Educational challenges, however, remain in some industries
- Both countries have developed industrial parks to encourage investment and to offer the benefits created by clustering companies together. Strong incentives are also used to attract FDI
- Sustainability concerns were often lower than the USA or Europe and companies’ environmental practices were driven by global corporate policy
- Both countries seek investment in technologies based on existing capabilities or those considered of strategic importance. Varying degrees of governmental intervention exist
- Singapore is competing on an international level as a centre for high-value manufacturing and R&D. Malaysia currently competes on a regional basis as a manufacturing location

Research Topics

- The project and following report focused on three topics:
 - R&D and manufacturing capabilities
 - Foreign Direct Investment and local industry
 - Sustainability



The full report can be read at:
http://www.ifm.eng.cam.ac.uk/uploads/Education/MET/Overseas_research_projects/tiger_report_2010.pdf

The group visited 30 organisations covering a range of categories over four locations

Start-up

- Ultra Fairwood (JV)
- Metail
- The Co-Foundry
- Scientific Innovations Company

Local / Mid – Sized

N/A

Multinational Corporations

- Diageo
- HSBC
- Rolls Royce
- Taylor Vinters

Government Agencies

- SIMTech
- Infocomm

Universities

- National University of Singapore



Start-up

- Kuala Lumpur*
- SRI Elastomers

Local / Mid – Sized

- Kuala Lumpur*
Penang
- iGene
 - ViTrox
 - Stride Electronics
 - Barkath Co-Ro
 - Globetronics
 - SAM Aviation
- Johor Bahru*
- Johore Tin

Multinational Corporations

- Kuala Lumpur*
- Getronics
 - Software AG
 - Mega Fortris
- Penang*
- Amphenol
 - Symmetry Medical

Government Agencies

- Kuala Lumpur*
- MIDA
 - PEMANDU
 - MDeC
- Penang*
- Invest Penang

Universities

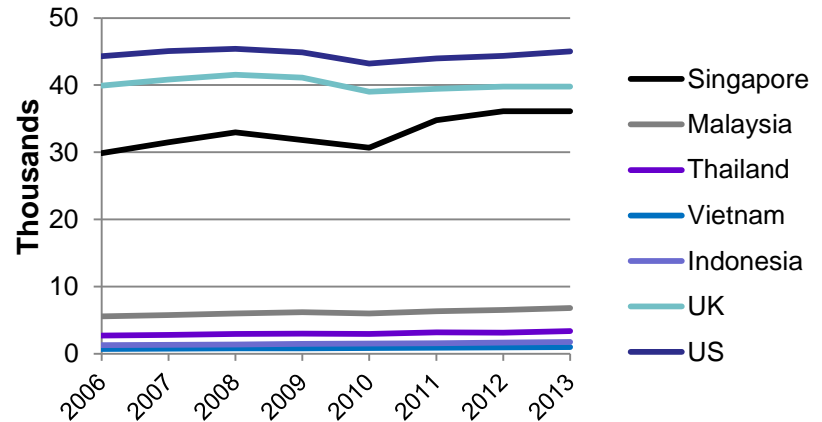
- Kuala Lumpur*
Penang
- Multimedia University
 - Universiti Sains Malaysia

Singapore – key facts

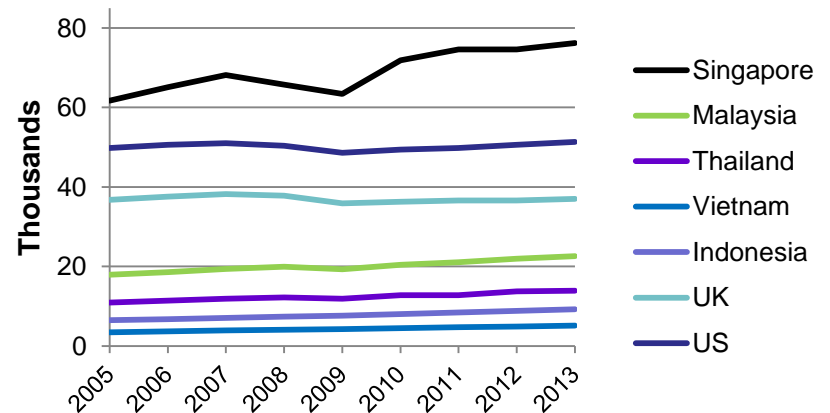
- Population of Singapore (2013): 5.4M
- Singapore's GDP per capita has been growing on average c.11% per year since 2006 and has recovered well from the global recession in 2009/10
- Purchasing power parity has also shown impressive growth in this period, reflecting an increase in the standard of living
- The population is from a diverse ethnic background giving an appealing mix of primary languages for the Asian region
 - The main primary language is Mandarin, with 36% of citizens speaking it as their primary language
 - English is a primary language for 29%, with many speaking it as a second language
 - This allows Singaporeans to conduct business in English and therefore integrate easily with the Western world
- This language mix is in part due to the high number of foreigners in the workforce at c.40%

Source: World Bank

GDP per capita (constant 2005 \$US)

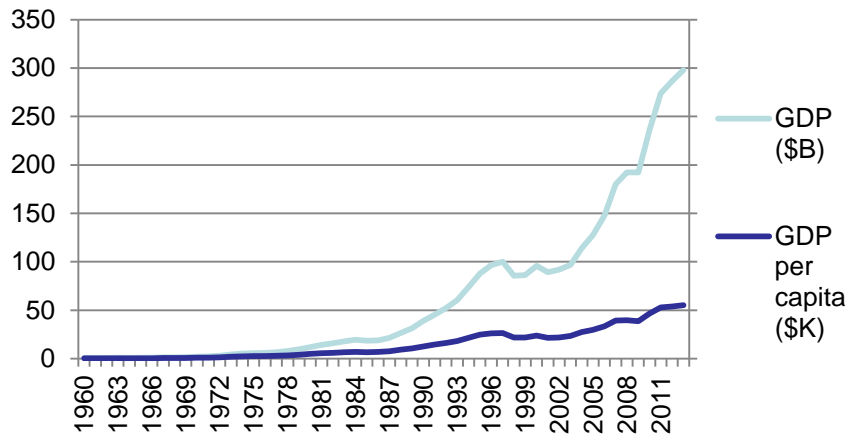


Purchasing Power Parity (constant 2011 \$US)



Singapore has grown to focus on knowledge intensive sectors and manufacturing

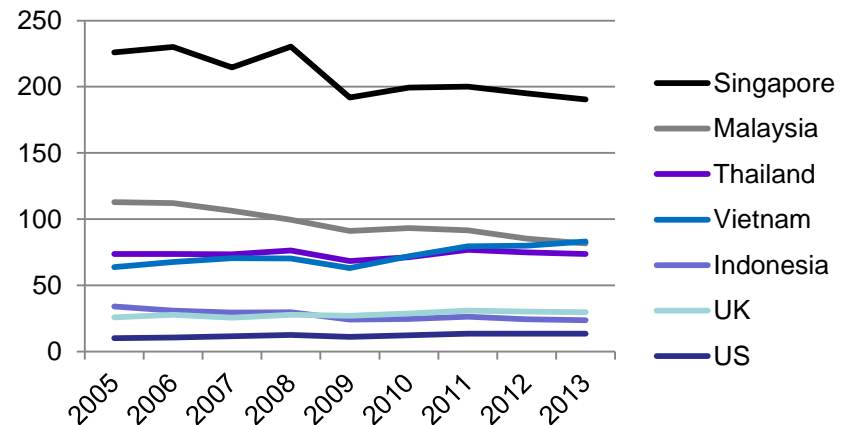
Singapore GDP Growth 1960-2012



1960s	1970s	1980s	1990s	2000s
Labour driven economy	Development of skills	Exploitation of industrial space	Drive towards latest technologies	Creation of a 'knowledge economy'

- Singapore has gone through several distinct stages of growth since gaining independence in 1963
- As time has gone on their strategy has moved from labour intensive manufacturing to advanced manufacturing and knowledge-driven activities
 - This has been driven by changes in the government's strategic direction
- This progression to a knowledge/service economy is also reflected in a decline in their exports

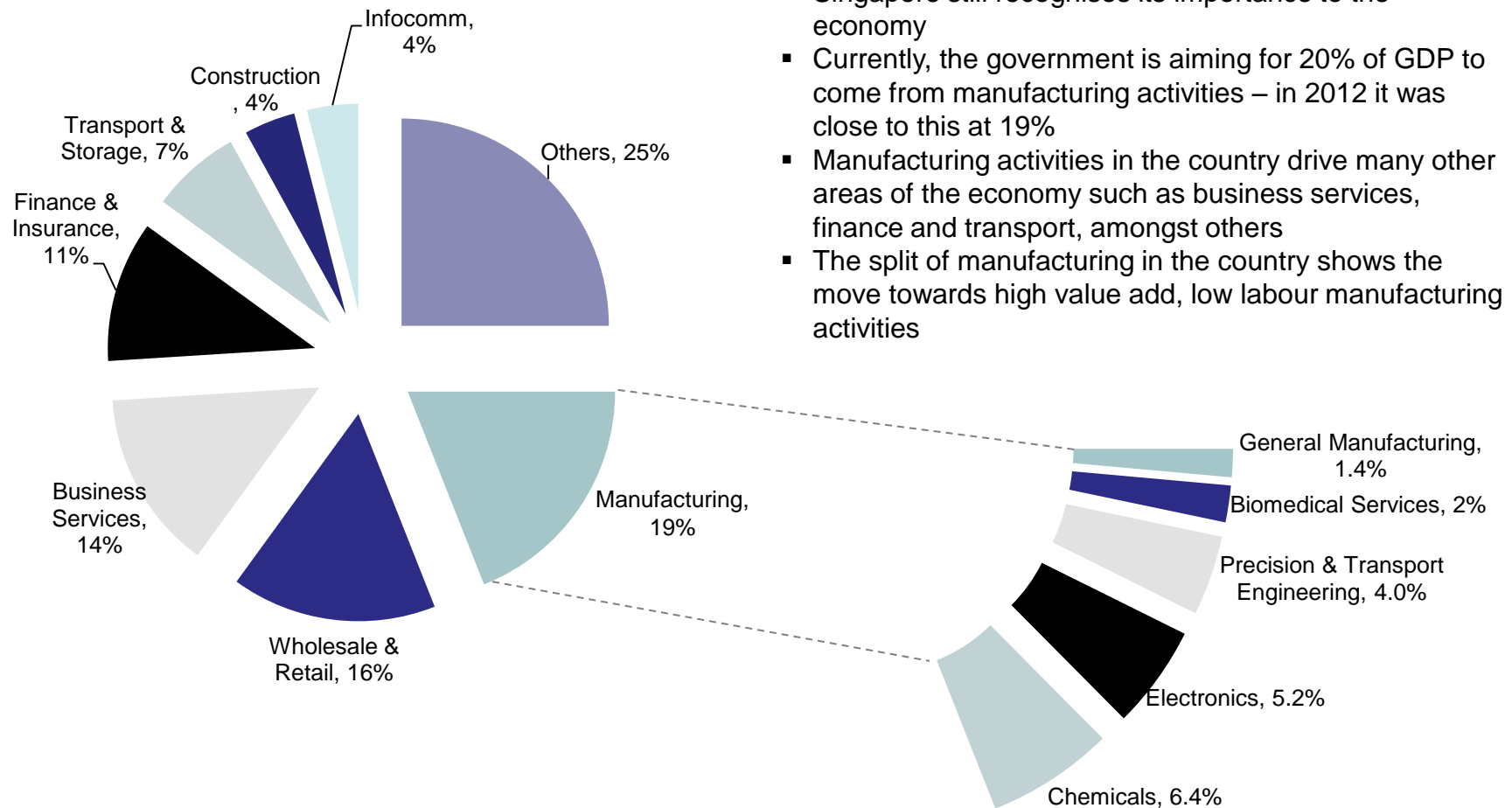
Exports as % of GDP



Source: World Bank

Manufacturing is a key sector in Singapore and drives many other areas of the economy

Breakdown of sectors by contribution to GDP (2012)



- Despite moving up the value chain in manufacturing, Singapore still recognises its importance to the economy
- Currently, the government is aiming for 20% of GDP to come from manufacturing activities – in 2012 it was close to this at 19%
- Manufacturing activities in the country drive many other areas of the economy such as business services, finance and transport, amongst others
- The split of manufacturing in the country shows the move towards high value add, low labour manufacturing activities

Source: Singapore Economic Development Board

Singapore's existing and evolving strategy

As has been shown, Singapore is historically strong in high-end manufacturing and business services resulting from encouraging MNCs to operate in the country

Long term strategy

- Long term this strategy is safe for Singapore and will continue to provide growth
- To ensure this continues, the government is continuing with initiatives such as:
 - Tax incentives
 - Open employment options for foreign workforce (although this may be charging)
 - Developing the local talent pool (especially focus on STEM subjects)

- These initiatives are strengthened by Singapore's historically strong position in terms of:
 - Global location giving access to Asia
 - Political stability
 - Environmental stability
 - Strong 'western' legal system – in particular IP law

- This has been supported by strengthened IP laws which came into affect in 2014

Evolving Elements

- Singapore has identified the growing current trend of MNCs increasing the level of outsourcing R&D by:
 - Buying start-ups post seed funding
 - Opening innovation centres separate to their existing units for which talent is required

- To address this market need Singapore has put initiatives in place such as:
 - Investment in universities to open R&D supporting facilities aimed at providing a platform for incremental innovation
 - Increasing funding for local start-ups
 - Finance/investment incentives to encourage foreign start-ups to relocate to Singapore

- However, two issues have been identified which restrict the success of this initiative:
 - Cultural alignment with the talent required for start-up is low
 - Other locations in the world still deliver a better offering for start-ups

Singapore has a history of providing a range of incentives and offerings for MNCs – both financial and human (1/2)

Financial & Tax incentives



- 64 Extensive Double Taxation Agreements (DTAs) (+7 limited treaties & 5 to be ratified)
 - Reduces double taxation on income tax across countries
-



- 35 Intergovernmental Agreements
 - Increases ease of doing business and level of protection
-



- 18 Free Trade Agreements (+ 2 to be ratified)
 - Covering 24 trading partners
 - Give improved market access for goods and services
-



- Various corporation tax incentives down to 0%
-



- Finance and Treasury Centre
 - Offering 10% rate for 10 years and WHT exemption for interest payable on borrowing (including overseas borrowing)
-



- Many further reductions in taxation and assistance with the cost of setting up business in Singapore
-

Singapore has a history of providing a range of incentives and offerings for MNCs – both financial and human (2/2)

Open overseas employment

- Singapore has always recognised that its small population reduces its human talent pool and therefore is open to MNCs bringing in foreign talent
- In the last year this has changed as a result of local political pressure, becoming more regulated to promote employment of the local population over foreigners:
 - This has affected low-skilled job roles to a much greater extent than high-skilled positions
 - During the research project, the group spoke to a number of parties who suggested that this was a short term response and would be receded in the near future, as it is unsustainable in the long run

Developing the local talent pool

- Since its inception, Singapore has taken a proactive stance on talent management, with emphasis on STEM subjects, through a range of initiatives:
 - Funding for overseas studies at world leading institutions
 - Funding for academic research and facilities
 - Funding for overseas students to study in Singapore with the aim of retaining their talent after graduation
 - Engagement with industry to align research and study with their needs – this includes encouragement of secondments to industry during research and study

There are many examples of MNCs capitalising on this strategy – Rolls Royce



Company background

- Rolls Royce is a UK based global manufacturing company providing products and services (53% and 47% of business respectively). The company has two main divisions – ‘Aerospace’ and ‘Land and Sea’
- The company has had a sales office in Singapore since the 1950’s but growing demand, largely due to Singapore Airlines and for 68 new RR equipped planes in 1998
- The factory currently produces Trent 900 engines and is at ~30% capacity but this is rising
- With the spare capacity Rolls Royce began producing Trent 1000 engines more recently



Reasons for locating in Singapore

- Middle East and Asia (MEA) makes up 23% of global sales (rising rapidly). Over 50% of the GBP 70BN order book is from MEA. The growth will continue over this decade
- High level of graduates (40%) having a STEM specialism giving a good talent port
- Singapore focus on high value manufacturing and high value add services
- Government focus to grow Aerospace industry, aligned with industry needs, with support offered through various schemes
- Opportunity to collaborate with universities (NTU, NUS, SUTD) and A*STAR for R&D
- IP protection & governance not available elsewhere in Asia



There are many examples of MNCs capitalising on this strategy – Diageo



Company background

DIAGEO

- Diageo is a global drinks manufacturer with a portfolio including spirits, wines & beers
- They have a presence in 180 countries employing 28,000 people
- Diageo has manufacturing locations in Europe, Africa, Australia and North America
- In 2005 they established a supply hub in Singapore which allows the transfer and customisation of products to make them suitable for Asian markets, e.g.:
 - Labelling
 - Bespoke packaging

Example
Diageo
brands:



Reasons for locating in Singapore

- Geographic location
- Development stability
- Access to human resources
- Attractiveness of country to overseas talent to relocate – e.g. hospitals, schools, etc.
- Access to ASEAN and other Asian markets
- *“There are places we could locate where labour is cheaper, but Singapore offers the stability and business climate we need.” [Dickie Denton, Head of Technical International Supply]*

There are many examples of MNCs capitalising on this strategy – UltraFairwood



Company background

- Ultra Fairwood is a joint venture between
 - Ultra; a British engineering SME
 - The Fairwood Group; a global company with 25 subsidiaries operating in energy, transport and urban planning sectors
- They design Personal Rapid Transport (PRT) systems with the aim of solving urban congestion issues
 - These are automated battery powered pods running on an elevated monorail which offer “last mile” transport
- At the time of the visit, the only installed project was in Heathrow Terminal 5
 - A further project is currently under construction in Amritsar, India
- The company strategy is to implement future systems in
 - Overpopulated cities with few alternatives to road transport e.g. Mumbai
 - New build estates/ companies
 - E.g. university campuses
- Design work is carried out in the UK, but sales to Asia and local proposals are carried out in Singapore
 - The company has also been offered incentives to set-up a manufacturing base for the pods in Singapore when the need arises

Reasons for locating in Singapore

- Attraction of Asian markets
 - High congestion on road systems
 - Concern over pollution levels
 - Less stringent safety regulations than in the EU
 - Less developed road infrastructure
- Government grants & subsidies for manufacturing available
- Proximity to target markets
- Local knowledge of markets essential for successful sales
- ‘Safe home’ for technology with protection offered by local IP regulations
- Possibility of obtaining contracts locally

An example of support for SMEs' requirements, providing access to research facilities & expertise



Singapore Institute
of Manufacturing
Technology



- MNCs increasing level of outsourcing R&D by:
 - Buying start-ups;
 - Opening innovation centers



- New initiatives from Singapore:
 - Investment in R&D supporting facilities
 - Investment in local start-ups
 - Foreign start-ups relocation incentives



- Issues restricting incentives:
 - Cultural alignment
 - Competitive locations in the South-East region

Singapore Institute of Manufacturing Technology

SIMTech is part of Singapore's Agency for Science, Technology and Research

- The aim of their work is to serve the Singaporean Manufacturing industry with a three-pronged role – to develop human, intellectual and industrial capital. Below are some examples:
 - Knowledge transfer through industrial training courses
 - Technology transfer through licensing of technology and supporting open innovation
 - Manpower sharing to local companies
- They also showcase, promote and engage the industry on specific technologies and applications, specifically through setting up three innovation centres:
 - Manufacturing Productivity Centre
 - Precision Engineering Centre for Innovation
 - Sustainable Manufacturing Centre
- 56% of this work is with SMEs, 40% with MNCs and the remaining 4% in government related activities

Funding and support exists from a range of private and government-backed organisations



- MNCs Increasing level of outsourcing R&D by:
 - Buying start-ups;
 - Opening innovation centers



- New initiatives from Singapore:
 - Investment in R&D supporting facilities
 - Investment in local start-ups
 - Foreign start-ups relocation incentives



- Issues restricting incentives:
 - Cultural alignment
 - Competitive locations in the South-East region

Infocomm Investments

State-owned Singaporean investment firm

- Infocomm manages around US\$200 million, investing into tech startups and accelerator or incubator funds that can help promising Singapore startups realise their potential
- Investments aim to enhance the tech ecosystem and build linkages between Singapore and other tech hubs across the world
- They have implemented a facility called BASH (Build Amazing Startups Here) to help startups grow, by bringing entrepreneurs, venture investors, accelerators and other corporate supporters together through various programmes and events
- This includes Singapore's Smart Nation initiative, within which startups represent an important driver of innovation

Scientific Innovations Company

The Scientific Innovations Company is a start-up incubator



- Investments are principally in medical device focused and other knowledge intensive businesses
- The visit highlighted several key themes:
 - Talent pool was aligned with MNCs rather than start-ups in terms of culture
 - Other geographical locations offered better opportunities for start-ups in terms of ecosystem and funding (e.g. Silicon Valley)
- The views of SIC were also supported by commentary from other visits including the Co-Foundry (a start-up incubator)

Funding and support exists from a range of private and government-backed organisations

Taylor Vinters*

- MNCs increasing level of outsourcing R&D by:
 - Buying start-ups;
 - Opening innovation centers



- New initiatives from Singapore:
 - Investment in R&D supporting facilities
 - Investment in local start-ups
 - Foreign start-ups relocation incentives



- Issues restricting incentives:
 - Cultural alignment
 - Competitive locations in the South-East region

Taylor Vinters

UK law firm specialising in IP law with offices in London, Cambridge (UK) and Singapore

- Taylor Vinters (TV) is an international law firm specialising in the areas of technology and investment
- TV supports a wide variety of high growth companies seeking international growth opportunities in emerging markets
- They opened their Singapore office in response to their clients' growth in the region having recognised the unique role of Singapore as a business gateway to the dynamic consumer markets of SE Asia and beyond
- Singapore was chosen as it is consistently ranked as the #1 location globally for ease of doing business, with the strongest intellectual property protection framework in the region and a favourable legislative and judicial system which shares many similarities with that of the UK

Metail

UK start-up focused on garment and body fit visualisation technology for fashion retailers

- Metail's online fitting room allows consumers to easily see how clothes look and fit on their personal body shape without the need for cameras
- The solution has been proven to drive key performance metrics including increasing conversion, basket size, and reducing garment returns – ultimately increasing net sales
- Singapore is an ideal regional hub to access nearby markets and the high growth e-commerce potential in the region
- There are also large pools of strategic and private capital to fund start-ups in 'hot' sectors such as e-commerce and data analytics, as evidenced in Metail's US \$12 million funding round led by TAL Group, one of the largest global garment manufacturers based in SE Asia

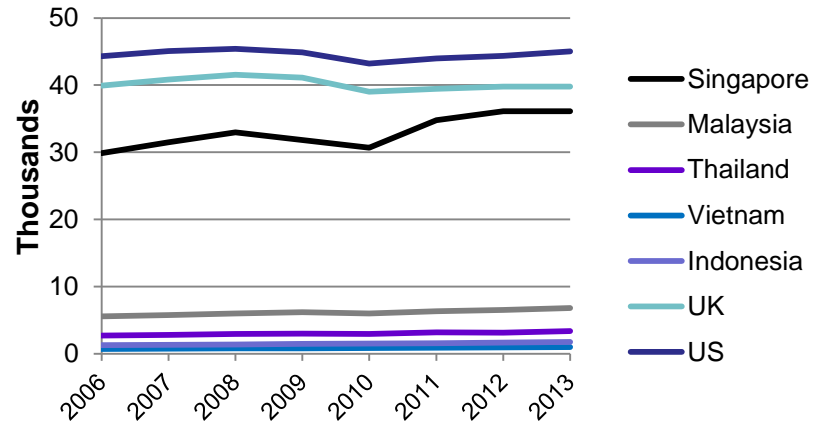


Malaysia – key facts

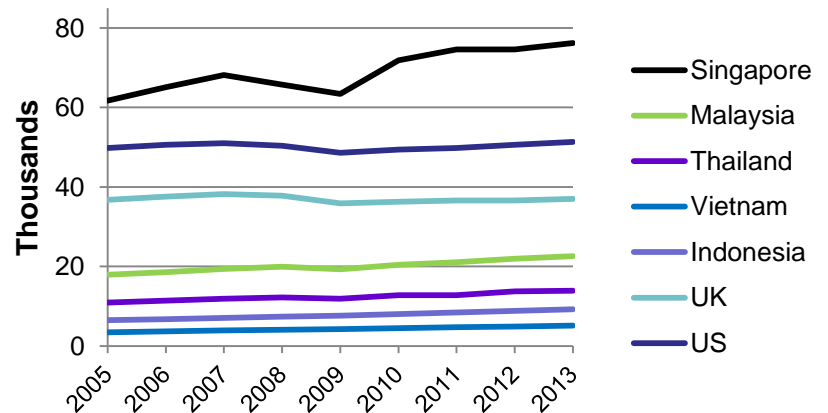
- Population of Malaysia (2013): 29.7M
- Malaysia's GDP has grown steadily over the past 10 years, although more slowly than Singapore's; this is largely due to the larger inertia from the larger population, the lack of education of a percentage of the population, and instability in the government
- Purchasing power parity has been growing, reflecting an increase in the standard of living as the government works towards 'developed country' status
- The Malaysian economy experienced a 12% decline in GDP in 2009 due to the global recession
- 9.5% of the Malaysian workforce are from abroad, and languages spoken by the population include
 - Malay (official language)
 - English
 - Hokkien
 - Cantonese
 - Tamil
 - Malayalam
 - Punjabi
 - Hindi

Source: World Bank

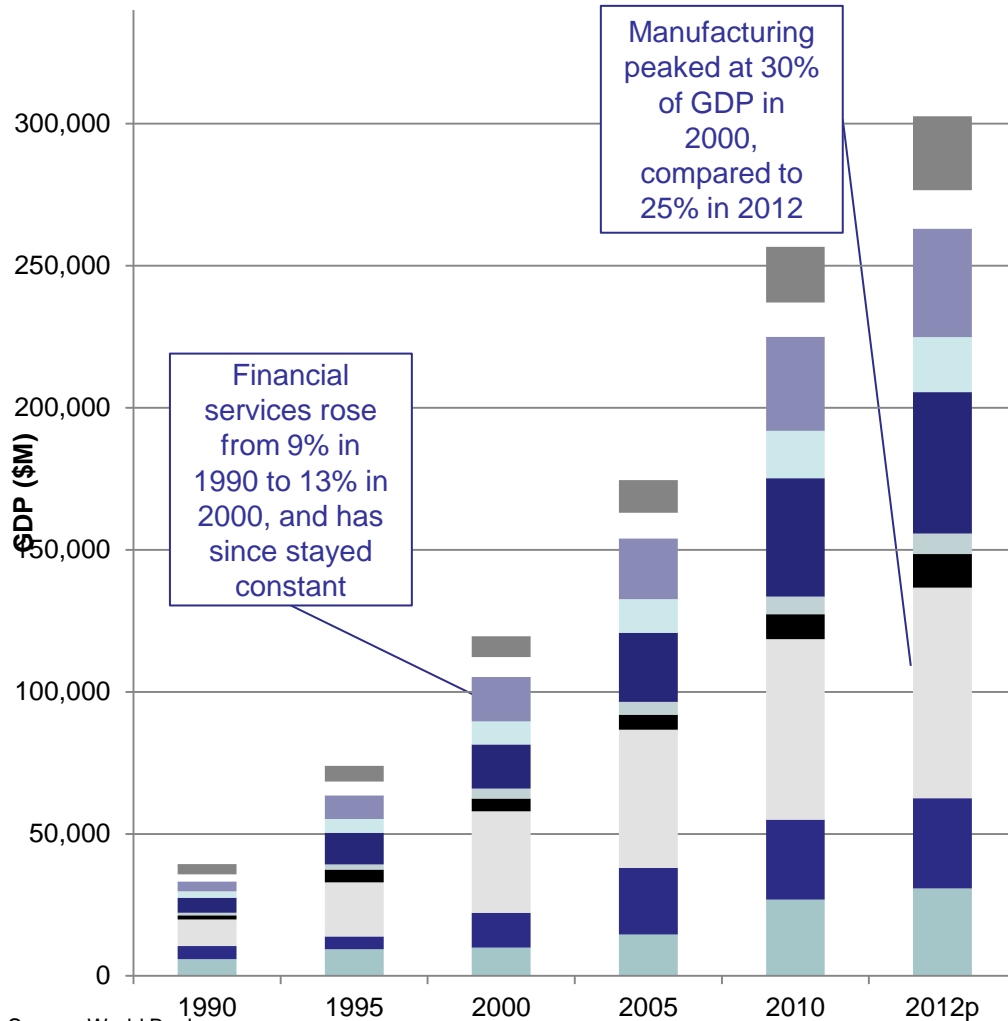
GDP per capita (constant 2005 \$US)



Purchasing Power Parity (constant 2011 \$US)



Malaysia's GDP has grown steadily over the last 25 years



Source: World Bank

Change in Malaysia's GDP split by industry

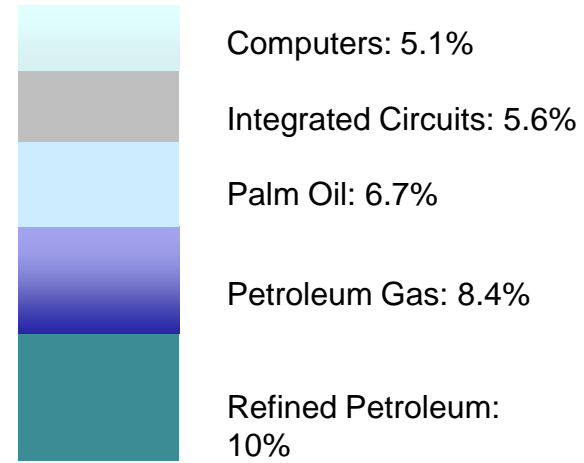
Malaysia's manufacturing industry has been a consistent source of GDP since the 1990s. GDP has been boosted by the growth in the Financial Services and Wholesale and Retail Trade, Hotels and Restaurants industries, offsetting the decline in Agriculture

- Government Services
- Other Services
- Finance, Insurance, Real Estate and Business Services
- Transport, Storage and Communication
- Wholesale and Retail Trade, Hotels and Restaurants
- Utilities
- Construction
- Manufacturing
- Mining and Quarrying
- Agriculture, Livestock, Forestry and Fishing

However the export industry has been declining since 2005

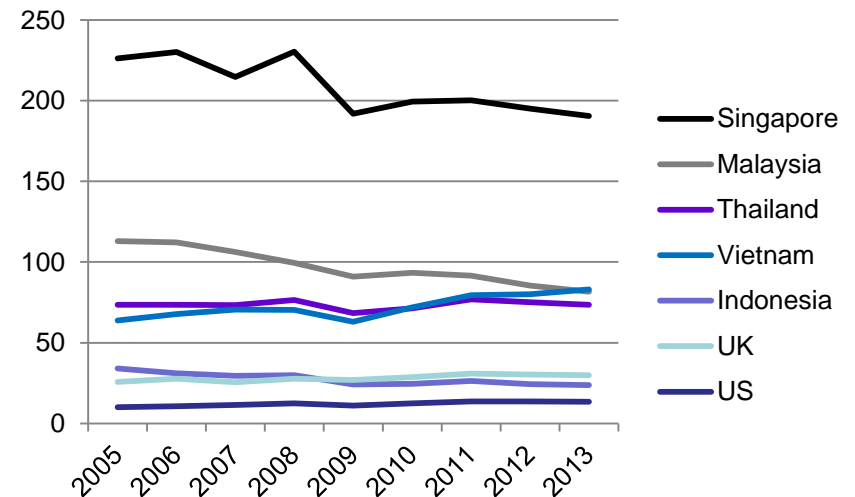
Top 5 exports by percentage

- Malaysia are highly reliant on raw material exports; especially non-renewables
- This is closely followed by technological exports, made in industrial parks where factory space is available at low cost
- This leaves Malaysia at risk to fluctuations in oil prices



Exports as a % of GDP

- Exports in Malaysia have been declining in recent years, from 113% of GDP in 2005 to 82% in 2013 in a similar trend to Singapore
- This reflects the increase in the service industries; particularly the hospitality and tourism industries
- There is a noticeable drop in all countries' total exports in 2009, when the effects of the recession were felt worldwide



Source: World Bank

Malaysia existing and evolving strategy

- Malaysia is historically strong in lower-end, more labour intensive manufacturing and has continuing strategy to capitalise on to continue growth in this area- however competition from other ASEAN countries has led to Malaysia developing plans to move further up the value chain
- As part of its development plans, Malaysia is aiming to be reorganised as a fully developed nation by 2020- this means raising GNI per capita from \$10k - \$15k

Malaysia has a strong asset base on which to build

- Good value labour
 - Level of education
 - Language skills
- Strong transport links
- Stable government
- Relatively good IP protection
- Environmentally stable

The government has capitalised on this base by offering incentives such as

- Reduced corporation & trade tax
- Accelerated customs clearance

To move further up the value chain and achieve developed nation status Malaysia has several current plans – they fall into four main buckets

Continue to encourage business in long standing strength areas e.g.

- Oil & Energy
- Palm Oil
- Wholesale & retail

Super corridors to give ecosystems for specific industries;

- Kuala Lumpur [IT & Software]
- Penang [Electronic hardware]
- Sarawick [Green Energy]

Increase the proportion of GDP IT & related industries from 10- 20%

Encourage increase in 'shared service centres' offering technical support to locations globally

Sources; Desk research, Visits and interviews with MIDA; Pemandu; MDec; Themes identified across numerous Malaysian company visits

Government Agencies involved in implementing change to Malaysian Economy & Government

- Encourage business in existing strength areas

- Expand super corridors focused on specific industries

- Increase GDP % of IT & related industries

- Increase 'shared service centres'

MDeC (Multimedia Development Corporation)

Government implementation agency set up to drive the Digital Malaysia and MSC Malaysia initiatives



- MDeC's mandate is to develop, coordinate and promote Malaysia's digital economy, information and communications technology (ICT) industry and the extensive use of ICT
- MDeC has outlined Global Business Services (GBS) as part of its industry development focus by expanding the GBS footprint through attracting high impact foreign direct investments to Malaysia and growing domestic GBS champions to be globally competitive

PEMANDU (Performance Management Delivery Unit)

Government branch attempting to deliver a strategy to enable Malaysia to reach developed status by 2020



- Government Transformation Program: 8 Step strategy from planning, road mapping, implementation and review
- Economic Transformation Plan – focused on 12 key national economic areas to focus on including:
 - Oil & Energy; Wholesale & Retail; Business Services; Education; Agriculture; Palm Oil; Tourism; Electrical & Electronics; Private Health; Financial Services

MIDA (Malaysia Investment development Authority)

An umbrella organisation to assist foreign companies looking to perform organisations in Malaysia



- Four Key Functions
 - Promotion - investment through matching businesses to needs
 - Evaluation - of manufacturing, tax incentives, license issues, etc.
 - Planning - development and initiation of policies
 - Follow up – assisting with facilitation and implementation of strategies

There are many examples of companies capitalizing on Malaysia's creation of Super Corridors – e.g. Amphenol

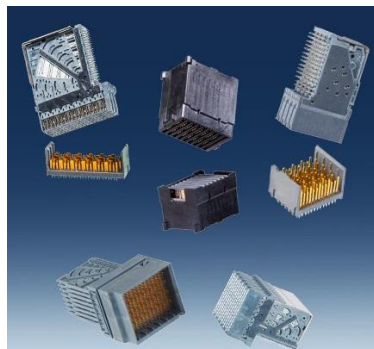
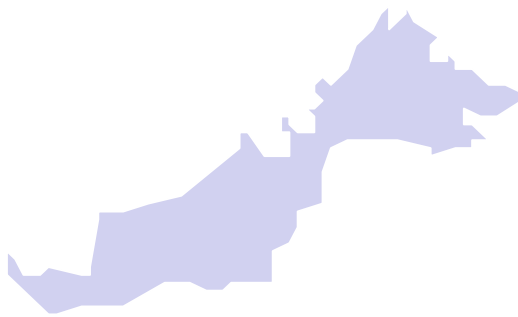


- Encourage business in existing strength areas

- Expand super corridors focused on specific industries

- Increase GDP % of IT & related industries

- Increase 'shared service centres'



Company background

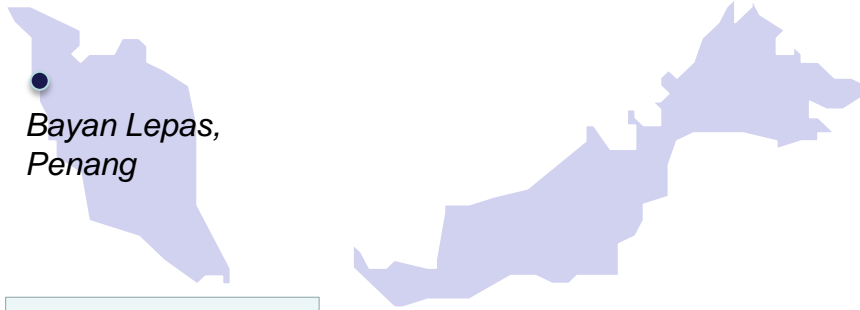
Amphenol

- Amphenol TCS is the Malaysian arm of US conglomerate, Amphenol
 - \$5 bn global revenues (\$100 m from Malaysia)
- Supply electronic back plane connectors to aerospace, military, telecoms and medical
 - 70% share of back plane connector market
- Malaysian facility incorporates
 - Component site for stamping, plating & moulding
 - Assembly site
 - R&D team

Reasons for locating in Malaysia

- Transportation access by sea, land and air
- 24 expedited custom clearance
- Exemption from custom duties and tax
- Room for expansion on current site
- 10 year corporation tax exemption
- Access to local university talent

There are companies capitalizing on Malaysia's plans to increase % of GDP from IT & related systems – e.g. Vitrox



▪ Encourage business in existing strength areas

▪ Expand super corridors focused on specific industries

▪ Increase GDP % of IT & related industries

▪ Increase 'shared service centres'



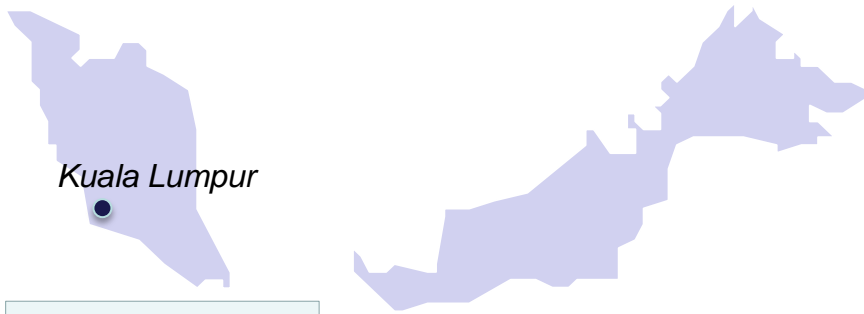
Company background

- Founded by three local engineers in 2000
- \$29m revenue in 2013¹
- ~250 employees
- Develop and manufacture machine vision systems, automated board inspection and electronic communication systems
- Manufacturing carried out on-site by a combination of employees and subcontractors
- 15% revenue spend on R&D
- ¹106m RM @ 0.27 \$/RM

Reasons for locating in Malaysia

- Government tax breaks and incentives supporting rapid growth
- Access to local talent
 - Students educated outside Malaysia were seen to bring a more practical viewpoint
 - Tapped into with the opening offices in the USA and CyberJayer (KL)
- A large factor cited is in Malaysia being the homeland of the founders

There are companies capitalizing on Malaysia's plans to encourage shared service centres – e.g. Getronics



- Encourage business in existing strength areas

- Expand super corridors focused on specific industries

- Increase GDP % of IT & related industries

- Increase 'shared service centres'



Company background **Getronics**

- A global MNC providing “End-to-end” IT solutions
 - 3500 employees
 - Large part of business is providing technical telephone support and remote access support to clients
 - Additional ability to provide technicians at client site
- Global HQ in Singapore, established here for over 50 years
- Malaysian office in combination with other offices globally means 24 hour support can be offered to customers around the world

Reasons for locating in Malaysia

- Multi-lingual workforce able to service English speaking companies as well as the rest of Asia
- Existing workforce skillset in IT
- Stable power and internet infrastructure
- Unrestricted employment of migrant workforce allows recruitment of natives from client countries
- 10 years of 0% corporation tax
- Freedom of ownership – could be Dutch owned initially
- Stable political environment
- MDEC Agency support and advice available

Comparison of Singapore & Malaysia

Singapore and Malaysia do have some hard factors in common:

- Geographical location gives good access to Asia
- Infrastructure is well developed
- Political stability
- Environmental stability

However there are a number of hard and soft differences between the two countries:

Singapore

- Much smaller land mass so reliant on extracting maximum value per unit area to continue growth
 - Leads to greater support of high value manufacturing and service industries
- Stronger talent tree with greater emphasis on development of local knowledge
- Higher funding historically for research facilities has resulted in an asset base which MNCs can capitalise on
- Stronger financial position to support funding of start-ups and seed companies
- Stronger IP system protecting knowledge-intensive industries

Malaysia

- Larger geographical area and access to natural resources has led to a greater emphasis on agriculture and industrial industries historically
- Lower starting point in terms of human talent
 - Large disparity between urban and rural population
- Labour considerably cheaper than Singapore but lower skilled
- Move towards pushing industries further up the value chain vs. historic labour intensive industries to create differentiated value proposition vs. other ASEAN countries e.g. Philippines, Vietnam, etc.
 - In many ways filling a void left behind as Singapore moves even further up the value chain

Key opportunities for UK businesses

	Singapore	Malaysia
Start-ups/SMEs	<ul style="list-style-type: none"> ▪ Singapore has funding opportunities for overseas business who have the potential to benefit the Singaporean Economy ▪ Geographical location, talent potential and access to Asian markets make Singapore a sensible choice for companies to which these are important 	<ul style="list-style-type: none"> ▪ For small businesses or start-ups needing to scale in areas such as mid-level manufacturing or service centres Malaysia offers resources and an offering to do this ▪ Businesses still in a product development stage have access to a market with an easier regulatory environment for development and testing
MNCs	<ul style="list-style-type: none"> ▪ Singapore has had a similar offering for MNCs looking for a presence in Asia for some time. It will remain a strong choice for those looking for <ul style="list-style-type: none"> ▪ Access to Asia ▪ Strong IP protection ▪ Favourable tax environment ▪ Access to foreign & local talent ▪ Financial hub for fund distribution 	<ul style="list-style-type: none"> ▪ The development of 'super corridors' for certain industries offers an opportunity to become involved in a developing ecosystem with favourable incentives e.g. <ul style="list-style-type: none"> ▪ Electronic hardware [Penang] ▪ Software & IT [Kuala Lumpur] ▪ ... ▪ Shared service centres are also a key growth area for Malaysia, resulting in incentives to capitalise on existing value proposition (linguistic skills, cost of labour, etc.)

Project Conclusions (1 of 2)

- Singapore and Malaysia both offer a strong value proposition to attract overseas businesses – including those from the UK
- Both countries benefit from a range of hard factors such as;
 - Geographical location
 - Politically stability
 - Environmental stability
 - IP protection (although Singapore is clearly stronger here)
- Singapore has a stronger offering for very high-end manufacturers and service industries
 - The ecosystem is built such that the presence of manufacturers supports the financial and business services industries
 - However – the location and “safe” nature of the business environment makes Singapore sustainable from a services perspective to support business in South East Asia generally
- In response to a need from MNCs, Singapore has developed strategy and funding aimed at supporting start-ups and small businesses involved in R&D, technology and IT development – both “home-grown” and foreign
 - This strategy appears sensible but certain “soft” factors are likely to inhibit results:
 - Local talent is culturally less free-thinking and accustomed to failure as required in a start-up environment
 - MNCs still provide an attractive opportunity for graduates starting their career
 - At the present time other locations globally offer a more enticing environment for start-ups however this may change if Singapore is able to find a sector on which to further focus its efforts (e.g. software in Silicon Valley)

Project Conclusions (2 of 2)

- Malaysia is building on its existing base of more labour intensive manufacturing but is moving up the value chain in terms of higher-technology commodity manufacturing and service industries
- Malaysia appears to be succeeding in differentiating itself from low cost labour environments within ASEAN by offering a more skilled workforce resulting from governmental strategy to increase the level of STEM subjects and level of higher education
- Its overriding target of reaching developed status by 2020 appears to be resulting in a holistic approach to creating a supportive environment for its longstanding growth generators (e.g. Palm Oil)
- Alongside this they are building on newer business sectors such as high-tech electronics engineering, attracting overseas MNCs to the region
 - These newer business areas are not necessarily aligned with the country's talent base however – e.g. there is a disparity between the number of civil engineers vs electronic engineers against the present business demands for electronic engineers

Comparison to 2010 ORP report findings

2010 findings

- 1) Both countries wish to reach and maintain high positions in the industrial value chain. Malaysia is hoping to reach 'Developed Country' status by 2020; the aim is that knowledge will replace low-cost labour as the country's competitive advantage. Educational challenges, however, remain in some industries
- 2) Both countries have developed industrial parks to encourage investment and to offer the benefits created by clustering companies together. Strong incentives are also used to attract FDI
- 3) Sustainability concerns were often lower than the USA or Europe and companies' environmental practices were driven by global corporate policy
- 4) Both countries seek investment in technologies based on existing capabilities or those considered of strategic importance. Varying degrees of governmental intervention exist
- 5) Singapore is competing on an international level as a centre for high-value manufacturing and R&D. Malaysia currently competes on a regional basis as a manufacturing location

2014 update

- 1) Both countries are still aiming to maintain high positions in the industrial value chain. Malaysia appears more focussed on improving standards of living. The strategy includes maintaining the manufacturing sector at a quarter of GDP whilst growing services sectors. Educational challenges still remain
- 2) Industrial parks in both countries are flourishing and companies are benefitting from clustering. Both countries have advisors to government and interested companies for industry and FDI
- 3) Sustainability is still not high on companies' or governments' agendas; although they recognise sustainable technology is of growing importance
- 4) Both countries have been diversifying efforts to avoid risk and maximise growth; this can be seen in Singapore's R&D and innovation push and Malaysia's recent services sector growth
- 5) Singapore is still competing on an international level as a centre for high-value manufacturing and R&D. Malaysia is starting to catch up, however is still heavily reliant on its manufacturing industry

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