A Report on the Malaysia Mission

July 12, 2013
GRIPS Development Forum, Tokyo

Researchers of the GRIPS Development Forum, together with the Ethiopian delegation led by H. E. Mr. Sisay Gemechu, State Minister of Industry, visited Malaysia from June 24 to 28, 2013 to study Malaysia's experiences in industrialization including export and investment promotion, and to draw implications for Ethiopia[1]. This study tour was arranged by the Japan International Cooperation Agency (JICA) in response to the request made by H.E. Mr. Mekonnen Manyazewal, then Minister of Industry, who indicated strong interest in learning from Malaysia, inspired by the presentations made by the officials of the Malaysia External Trade Development Corporation (MATRADE) and the Malaysian Investment Development Authority (MIDA) at the 2nd (August 2012) and the 3rd (January 2013) High-Level Forums for the Phase II Ethiopia-Japan Industrial Policy Dialogue.

The Ethiopian delegation consisted of eleven officials of various ministries and agencies, including the Ministry of Industry (MOI), Ethiopia Investment Agency (EIA), Ministry of Finance and Economic Development (MOFED), Ethiopia Customs and Revenue Authority (ECRA), Leather Industry Development Institute (LIDI) and Textile Industry Development Institute (TIDI). The Japanese members consisted of Mr. Keiji Ishigame (JICA headquarters)[2], Prof. Kenichi Ohno, Prof. Izumi Ohno, and Ms. Miho Murashima (GRIPS Development Forum). The GRIPS mission participated in some of the study tour program as well as conducted separate meetings with government agencies, business association, research institutes and Japanese organizations (see attachment for mission schedules).

We would like to express our deep appreciation to MIDA which organized the study tour program and the JICA Malaysia office, particularly Ms. Mayumi Suehiro and Ms. Umme Aiman Siddiqi who coordinated the program in close cooperation with MIDA. We are also grateful to all other organizations and individuals who kindly shared valuable information with us.

The following summarize highlights and main findings of the mission.

---

[1] The study tour for the Ethiopian delegation was arranged for the period of June 24-July 5, 2013, except for H. E. Mr. Sisay who stayed in Malaysia for the first week only. As part of the Ethiopia-Japan industrial policy dialogue the GRIPS Development Forum was commissioned by JICA to compile information in selected East Asian countries for the use of other developing countries including Ethiopia.

[2] Mr. Ishigame is Deputy Director, Private Sector Development Div., Private Sector Development Group, Industrial Development and Public Policy Dept., JICA. He joined the mission from June 24 to 26, 2013.

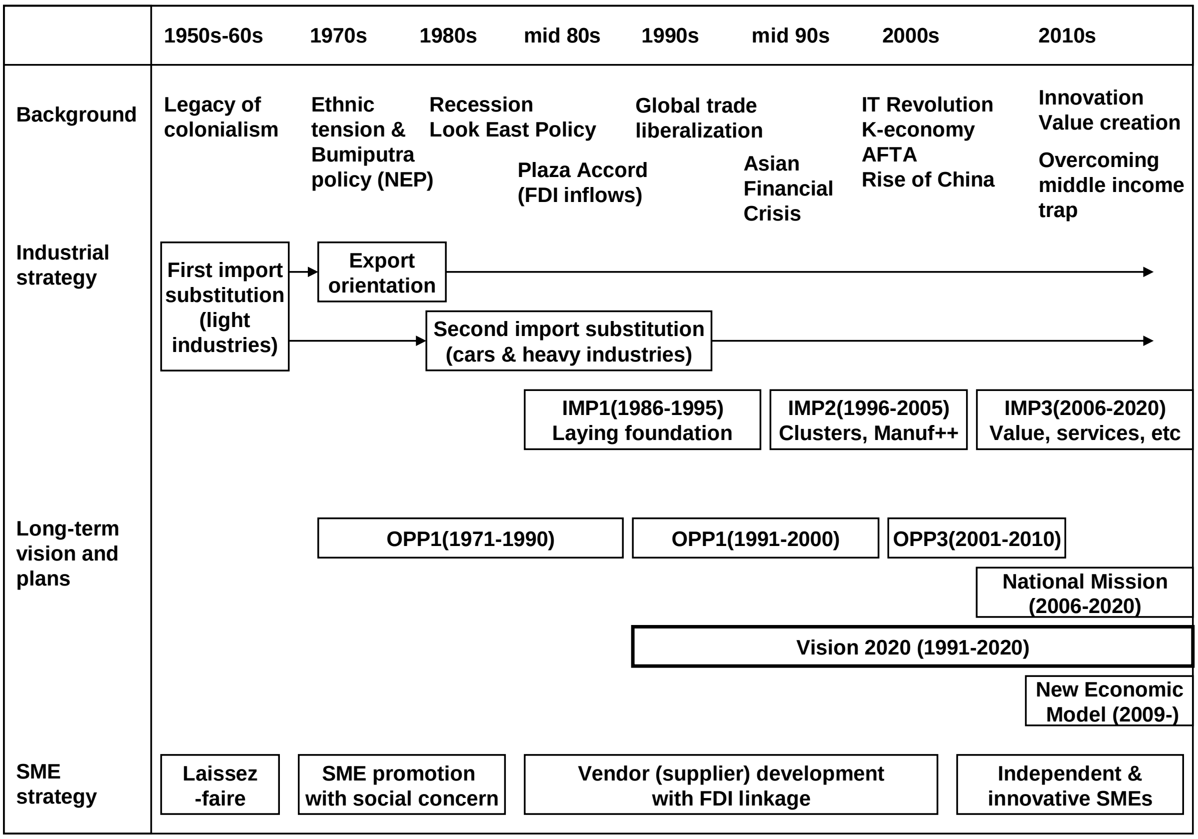
1. History of Malaysia's industrial development

Malaysia is a country in Southeast Asia with a population of about 28.6 million (as of 2011) consisting of the Malays, the Chinese and the Indians. Since its independence from Britain in 1957, Malaysia has successfully transformed its economic structure from a resource-based to a manufacturing-based one. Through the 40 years of industrialization effort, Malaysia's GDP per head increased from US$376 in 1970 to US$9,976 in 2012, and manufacturing's contribution to GDP rose from 11% in 1970 to 25% in 2012 (EPU data). By now, Malaysia has emerged as one of the world's largest exporters of consumer and industrial electronic products, with the share of manufactured exports rising from 11.9% in 1970 to 67% in 2012 (Department of Statistics data).

The industrial policy of Malaysia has gone through several stages (Figure 1). In the early years of independence, the main objective was diversification of economic structure to escape from heavy dependence on a few traditional primary commodities such as rubber, tin, timber, and palm oil. In the 1970s, policy focus shifted from import substitution to export orientation based on attraction of manufacturing FDI which engaged in assembly and processing for export. To expedite this policy, a series of laws such as the Investment Incentive Act (1968) and the Free Trade Zone Act (1971) were introduced. The May 1969 ethnic riot was a big shock to Malaysia, and consequently, the government formalized the *Bumiputra* (indigenous residents) policy by putting in place racial affirmative actions for public positions, business ownership and management, and worker employment in favor of ethnic Malays. In the 1980s, under the leadership of then Prime Minister Mahathir, heavy industrialization was initiated while export oriented policy was continued for electronics. Look East Policy (learning from Japan and South Korea) was also launched at that time.

The first Industrial Master Plan (IMP1) 1986-1995 included outward-looking industrialization which targeted exports, modernization of supporting industries and strengthening of industrial linkages. A number of liberalization measures, such as allowance of 100% foreign ownership to enterprises which meet some conditions, were undertaken. In 1991, Prime Minister Mahathir announced Vision 2020, an aspiration to become a fully-developed country by 2020. Ever since, Vision 2020 has become the supreme national goal of Malaysia for all policies and actions. The Second Industrial Master Plan (IMP2) 1996-2005 was guided by two overruling ideas of "cluster-based industrial development" and "manufacturing plus plus". The Third Industrial Master Plan (IMP3) 2006-2020 seeks holistic development. Services, especially high-values services and industry-supporting services, have been added to the policy menu along with traditional manufacturing.

Figure 1. Malaysia: Evolution of Industrial Policy



Source: K. Ohno, *Learning to Industrialize: From Given Growth to Policy-aided Value Creation*, Routledge (2012), p.220.

2. Recent initiatives and economic policy-making process

The year 2010 marked another turning point for Malaysia. In response to the World Bank's warning that Malaysia faced middle income trap (World Bank 2009)[3], Prime Minister Najib Tun Razak, who assumed power in April 2009, announced the New Economic Model (NEM) in 2010, which aimed at transforming Malaysia from a middle-income economy to a high income economy by year 2020. With the launch of NEM, overcoming the middle-income trap has become the most important economic goal of the Malaysian government. Although *Bumiputra* policy will not be dismantled any time soon, emphasis is shifting from administrative ethnic quotas to market-guided equal opportunities among all ethnicities.

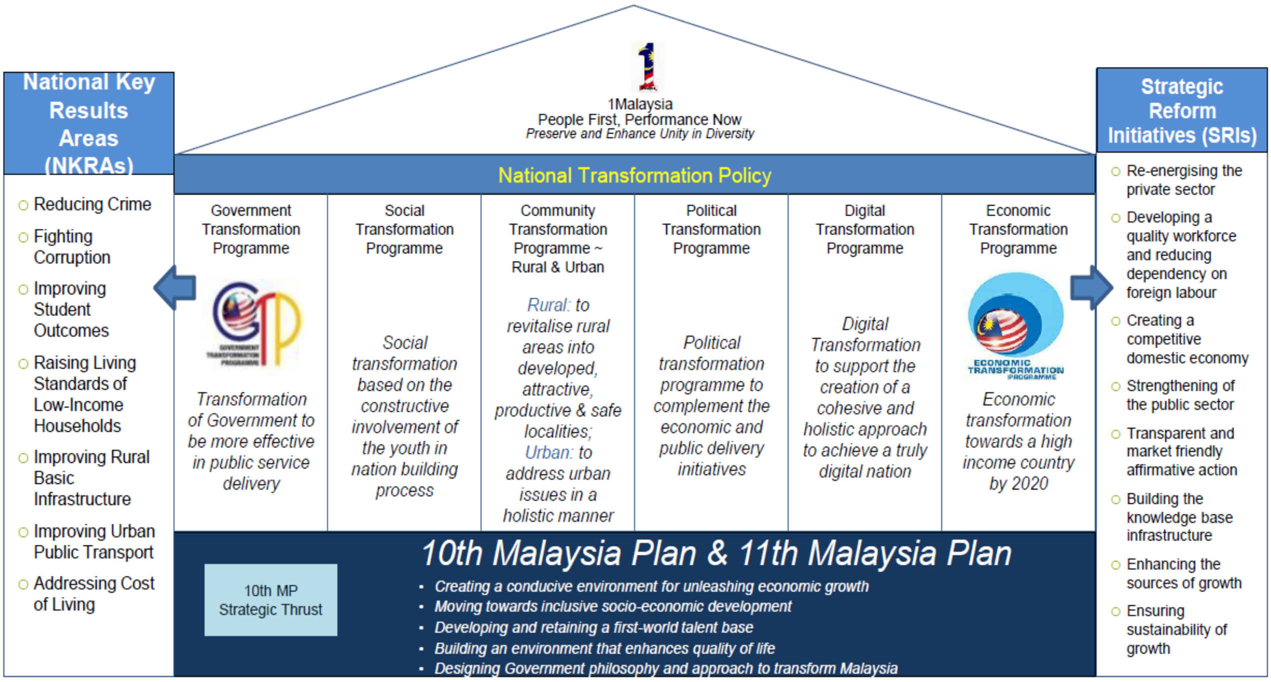
NEM concretizes the economic goals of Vision 2020 and the National Transformation Policy, declaring that (i) Malaysia wants to attain high-income status with per capita income of US$15,000 by 2020; (ii) growth should be inclusive and strike a balance between the special position of *Bumiputra* and legitimate interests of other groups; and (iii) economic

[3] World Bank, *Malaysia Economic Monitor: Repositioning for Growth*, November 2009.

and environmental sustainability must be assured.

To achieve these goals, the National Transformation Policy sets a slogan, “1Malaysia—People First, Performance Now” and establishes transformation programs including the Economic Transformation Program (ETP) and the Government Transformation Program (GTP). These are supported by the 10th (2011-2015) and the 11th (2016-2020) Malaysia Plan. ETP is one of the pillars of the National Transformation Policy. It comprises NEM with its eight Strategic Reform Initiatives (SRIs) and 12 National Key Economic Areas (NKEAs) [4]. NKEAs include 11 sectors and one region as engines of future growth, which are considered high value-added, knowledge intensive and high technology sectors. GTP is another pillar of the National Transformation Policy, aiming at fundamentally transforming the Government into an efficient and citizen-centered institution with seven National Key Result Areas (NKRAs) and Ministerial Key Result Areas (MKRAs). Lately, four more transformation programs have been added to the National Transformation Policy, i.e., “Social”, “Community (Rural & Urban)”, “Political”, and “Digital.” The structure of the National Transformation Policy is shown below.

Figure 2. Malaysia: National Transformation Policy



Source: the Economic Planning Unit. The number of pillars in the National Transformation Policy has increased from the original two (ETP and GTP) and even varies with ministries and agencies interviewed. According to the explanation of EPU in late June 2013, it has six pillars as shown in this diagram.

[4] The following 11 sectors and one area have been designated as NKEAs: oil, gas and energy; palm oil; financial services; tourism; business services; electronics and electrical; wholesale and retail; education; healthcare; communications content and infrastructure; agriculture; and the Greater Kuala Lumpur/Klang Valley area.

NEM was formulated by the National Economic Advisory Council (NEAC), which was established by the Prime Minister and operated from May 2009 to May 2011. NEAC was chaired by Tan Sri Amirsham A. Aziz, former Minister of the Prime Minister’s Department in charge of EPU and the Department of Statistics, and included ten members representing the private sector, academia, and development experts including a World Bank senior official. NEAC published a two-part report outlining strategic directions as well as necessary policy measures that aimed at promoting Malaysia's growth in an inclusive and sustainable manner. The report provided the basis for pillars of the National Transformation Policy. The newly created Performance Management and Delivery Unit (PEMANDU) under the Prime Minister’s Department was designated as the agency for monitoring and facilitating the implementation of the National Transformation Policy.

The Economic Planning Unit (EPU) is a principal government agency responsible for preparation of development plans for the country. Since its establishment in 1961, EPU’s functions have remained basically the same although it has taken on additional roles in consonance with the changing emphasis of the government’s development policy.

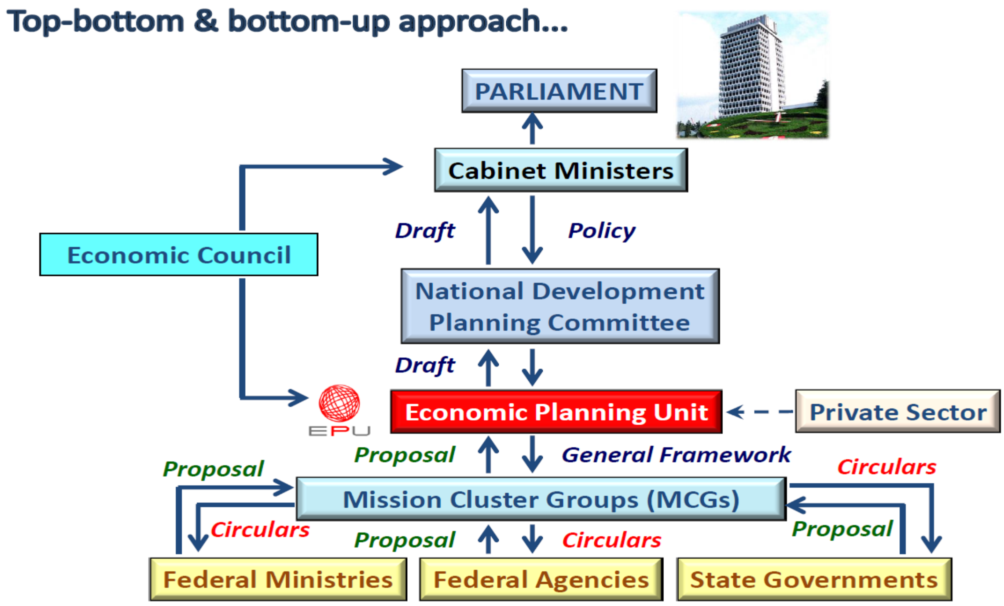
The 10th Malaysia Plan (2011-2015, 10MP) is a 5-year plan formulated and implemented by EPU under the Prime Minister’s Department. In the present context, 10MP is regarded as the government’s action plan to implement the National Transformation Policy. It has adopted an “Integrated National Development Planning” approach which differs from the previous plans in several aspects[5]. Based on the perceived weaknesses of 9MP, the new planning approach introduces more flexibility in resource management for key priority areas. It aims to ensure that outcomes are systematically linked within and between all levels of planning from central design, subsector policy formulation and implementation. Integrated outcomes would be achieved by the cascading of Key Result Areas (KRAs) from the national and sectoral levels to the implementation level. For each KRA, one or more national outcomes are identified, and for each national outcome a set of Key Performance Indicators (KPIs) are established. During the planning process of 10MP, national priorities and targets have been identified systematically, in accordance with the National Transformation Policy based on NEM, and linked with resource allocation.

More specifically, there were three major changes in the development planning approach. First, Outcome-based Budgeting (OBB) has been introduced to 10MP by linking budget allocation to program outcomes defined in the planning framework. This should provide flexibility to review programs and projects for achieving expected outcomes. Under OBB, a core ministry is appointed for each program. Second, instead of “Inter-Agency Planning

[5] The remainder of this paragraph is based on “A New Approach to the 10th Malaysia Plan,” by Y. BHG. Dato’ Noriyah Binti Ahmad, Director General, EPU of the Prime Minister’s Department, October 27, 2009.

Groups (IAPGs)", "Mission Cluster Groups (MCGs)" have been formed around priority policy areas, as a way of facilitating inter-agency and stakeholder coordination beyond the existing ministerial/agency boundaries. Also, wider stakeholder consultations have been introduced through MCGs. In this way, the MCGs (issue-based inter-ministerial groups with think-tank functions) and the National Development Planning Committee play important role in planning and implementation of 10MP (Figure 3). Third, beginning with 10MP, a two-year rolling plan with an annual review has been introduced replacing five-year planning with a mid-term review in the past. This aims to provide greater flexibility in adjusting spending and responding to changes in the global environment.

Figure 3. Malaysia: New Development Planning Framework under 10MP



Source: the Economic Planning Unit.

3. Institutions and strategies for supporting industrial development

In Malaysia, the Ministry of International Trade and Industry (MITI) is the ministry charged with planning, legislating and implementing international trade and industrial policies toward achieving Vision 2020. MITI has comprehensive policy coverage: (i) industrial development, international trade and investment; (ii) foreign and domestic investment; (iii) export promotion (manufactured products and services) with enhanced bilateral, multilateral and regional trade relations and cooperation; and (iv) national productivity and competitiveness in the manufacturing sector. These policies are implemented by seven executing agencies called the "MITI family" which include the Malaysian Investment Development Authority (MIDA), Malaysia External Trade Development Corporation (MATRADE), Small and Medium Enterprise Corporation Malaysia (SME Corp), Malaysia Productivity Corporation

(MPC), Malaysia Automotive Institute (MAI), Malaysian Industrial Development Finance (MIDF), and Halal Industry Development Corporation (HDC).

The GRIPS team had opportunities to visit MITI as well as MIDA, MATRADE, and SME Corp of the MITI family. In addition, the GRIPS team visited Bank Negara Malaysia, which is the central bank, and SIRIM Berhad, the state-owned national corporation for standardization, quality and industrial research and development. Main features of these organizations are given below.

(1) Malaysian Investment Development Authority

The Malaysian Investment Development Authority (MIDA), established in 1967, is the principal investment promotion agency under MITI and the first point of contact for investors. While MIDA initially focused on attracting manufacturing FDI, its mandate has expanded in 2004 to include investment promotion in the services sector[6]. With rising wages and the government's orientation toward innovation and high skills, MIDA wants traditional labor-intensive industries such as garment to leave the country and become global. Instead, Malaysia wishes to promote high value-added, high technology, knowledge-intensive and innovation-based industries and services. In 2011, MIDA was renamed from the Malaysian Industrial Development Authority to the Malaysian Investment Development Authority (with the same abbreviation but with a new logo).

The main functions of MIDA are investment promotion, evaluation and approval of licenses and incentives, planning for industrial development, and follow-up and monitoring of the implementation of investment projects. Regarding investment promotion, MIDA adopts a strategic approach in which general attraction and targeted attraction are combined. In addition to regular trade and investment missions, meetings, seminars and international exhibitions, it dispatches specific project missions offering customized incentives packages to targeted foreign companies. MIDA has 24 overseas offices which actively promote and attract FDI in the manufacturing and service sectors.

MIDA issues manufacturing licenses, evaluates and grants various incentives such as tax incentives (i.e., pioneer status, investment tax allowance, reinvestment allowance, and import duty and sales tax exemption), expatriate posts, and import duty exemption on raw materials, components, and machinery and equipment. MIDA has no minimum capital requirement for license approval, welcoming all sizes and sectors of investors except those on the negative list. At the same time, MIDA leverages incentives to promote priority sectors. In accordance with NKEAs, it currently prioritizes high-tech and high value-added

[6] Excluding financial services and utilities, which belong to Bank Negara Malaysia and Malaysia Communication and Multimedia Commission, respectively.

manufacturing and services rather than traditional manufacturing. MIDA gives incentives to domestic and foreign companies without discrimination (except for customized deals to attract targeted individual FDI companies mentioned above).

MIDA's investment incentives are given by the combination of the published eligibility list and case-by-case organizational judgment. The National Committee on Investment (NCI), established in May 2010 and chaired by the MIDA Chairman, is the central committee for deciding projects and incentives on a weekly basis. This is an inter-ministerial committee for quick decision, where officials from relevant ministries and agencies with decision-making authorities attend. Also, MIDA has a "One-Stop Center" to assist investors. Senior representatives from key agencies are stationed at MIDA's headquarters to advise investors on government policies and procedures, and those agencies based outside MIDA also assign contact persons in charge[7].

At the implementation stage, MIDA supports investors in obtaining all necessary approvals until their projects become operational. To this end, MIDA also has one-stop agencies at the state level. Thanks to such follow-up and serious project screening mentioned above, Malaysia enjoys a relatively high FDI implementation ratio (75.7% of approved projects). Furthermore, MIDA continues to help existing companies in production expansion, product diversification and other reinvestments.

Recently, MIDA increasingly focuses on domestic investment in addition to FDI as the Malaysian government promotes domestic investment and nurture Malaysian companies to become global players. Under ETP, domestic investment is targeted to account for 73% of total investment by 2020. This is a higher target than what was envisaged in IMP3 (60%). MIDA initiated various policy measures, including the Domestic Investment Strategic Fund, to spur domestic investment. It also provides hand-holding services to domestic investors at 12 state offices.

(2) MATRADE

MATRADE, established in 1993, is a national export promotion agency under MITI responsible for Malaysia's external trade with particular emphasis on the export of manufactured and semi-manufactured products and services. MATRADE assists Malaysian companies to establish their presence and raise their profiles in foreign markets through various promotional activities, such as participation in trade missions, specialized marketing missions and international trade fairs. MATRADE also organizes business matching

[7] Six organizations are stationed in MIDA including Immigration Department, Royal Malaysian Customs, Department of Environment, Tenaga Nasional Berhad (Electricity), Telekom Malaysia Berhad (Telecom), and Labor Department. Organizations based outside MIDA are Department of Occupational Safety and Health, Ministry of Finance, Ministry of Health, Ministry of Tourism, Ministry of Human Resource, Ministry of Higher Education, Multimedia Development Corp. (MDeC), and Construction Industry Development.

programs for Malaysian companies and foreign importers. Like MIDA, MATRADE has a broad overseas network of 35 trade offices and eight marketing offices in 40 countries, of which 21 offices are in Asia.

MATRADE provides services in “exporter development”, “export promotion”, “trade and market information” and “trade advisory support” to assist Malaysian companies with knowledge and skills. Among them, “exporter development” service offers a hand-holding program to assist Malaysian companies, particularly SMEs, to develop necessary skills and knowledge to penetrate and expand export markets, and meet international standards in technology, product design, packaging, and health and safety standards. Companies with export potential are selected to join the program under which assistance will be provided for export promotional activities, training, market and product consultation, etc. for three years.

The Malaysian Export Exhibition Center (MEEC) is a permanent display center located inside MATRADE showcasing Malaysian products and services. Business meetings can be arranged for foreign buyers to meet Malaysian companies displaying their products and services at MEEC.

In Malaysia, no numerical export targets are set by the government. Although the government actively promotes exports of the Malaysian products, it takes the view that final results are up to the private sector.

(3) SME Corporation Malaysia

SME Corporation Malaysia (SME Corp) was established in 2009 as an agency under MITI, by upgrading the Small and Medium Industries Development Corporation (SMIDEC)[8]. Its key functions are to coordinate policies and programs for SMEs across all sectors, provide business advisory and information, and develop competitive SMEs through capacity building programs. Additionally, SME Corp acts as the Secretariat for the National SME Development Council (NSDC), established in 2004, which is the highest policy-making body for SME development across all economic sectors. NSDC is chaired by the Prime Minister and members comprise ministers and heads of 15 ministries as well as three agencies (BNM, EPU, and Department of Statistics) involved in SME development. According to SME Corp, since 2004 (when NSDC was created), the average annual growth of the SME sector has constantly been higher than that of the overall economy.

In Malaysia, SMEs account for 97.3% of total business establishments (662,939), and

[8] Compared to its predecessor, the Small and Medium Industries Development Corporation (SMIDEC), established in 1996, which focused on the manufacturing sector, SME Corp has a broader mandate covering all SMEs. Until 2009, Bank Negara Malaysia served as the secretariat of the National SME Development Council.

micro-enterprises (with less than five workers) occupy 75%. The majority of them are in the services sector, with manufacturing SMEs accounting for less than 6%. SMEs play an important role in the Malaysian economy contributing to 32.5% of GDP, 57% of employment, and 19% of exports (SME Census 2011). The SME Master Plan 2012-2020 envisages that the SME contribution to GDP would increase to 41% by 2020 through development of innovation-led and productivity-driven enterprises. The SME Master Plan aims to create globally competitive SMEs that enhance wealth creation and contribute to social well-being of the country. For this purpose it proposes 32 initiatives, of which six are designated as “High Impact Programs”[9]. In 2012, Prime Minister Najib launched “the SME Week,” making the fourth week of June to highlight the importance of SMEs every year.

SME Corp coordinates and organizes various programs improving SME access to infrastructure, finance, advisory services and information, technology, and human capital[10]. Below are some of such activities.

- *One Referral Center* (ORC) is a focal meeting point for SMEs to get business advice and information. In addition to the central location in Kuala Lumpur, ORCs are located in 11 states. Available services include Business Advisory Services, ORC Link, Info. Center, Resource Center, Pocket Talks, SME Product Gallery, and Virtual ORC.
- *SME Expert Advisory Panel* (SEAP) is a 3-phase program that provides on-site assistance and transferring technology and technical know-how to SMEs by 64 industry experts in the areas of operation and financial management, productivity improvement, lean production system, marketing, compliance to standards and certification, and packaging and labeling.
- *SME Competitiveness Rating for Enhancement* (SCORE) is a diagnostic tool to rate performance and capabilities of SMEs. Based on the rating, SME Corp can provide appropriate support to individual SMEs in training, consultation and finance to enhance their competitiveness. For micro-enterprises, the more simplified M-CORE is used as a diagnostic tool.
- For *human capital development*, short-term courses are available at 47 training centers appointed by SME Corp. Also, SME University (modeled after Japan’s SME University) provides 3-month structured learning opportunity for CEOs and managers of SMEs in both theory and practice.
- *Promoting branding* through certificating and issuing the National Mark of Malaysian Brand for ensuring the quality of products or services.

---

[9] Six "High Impact Programs" are: integration of business registration and licensing (to enhance ease of doing business), technology commercialization platform (to encourage innovation), SME investment program (to provide early stage financing), going export program (to expedite internationalization of SMEs), catalyst program (to promote more homegrown champions), and inclusive innovation (to empower the 40% of lowest-income earners).

[10] In 2013, 155 SME programs are planned across ministries and agencies, which will be implemented not only by the government funding (139 programs), but also by private sector funding (16 programs).

- *1-InnoCERT* is a program that recognizes and certifies innovative companies including SMEs and encourages entrepreneurs to venture into high technology and innovation-driven industries (modeled after Korea’s InnoBiz). Companies will be guided by coaching and business advice. Certified companies are given fast track access to incentives including financing facility, tax deduction, and government procurement.

SME Corp runs SME Info Portal, which is a one-stop information hub. It provides information an all aspects of SME development including financing, advisory services, training programs, business and networking opportunities as well as other SME development programs and initiatives by both government and the private sector.

There are several notable features of SME policy in Malaysia. First, its primary objective is not poverty reduction but enhancement of innovation, emergence of homegrown champions, and SME internationalization. Second, the approach of SME Corp is to cultivate independent SMEs which can compete in global markets rather than to develop supporting industries (component suppliers) by creating production linkages between local and FDI firms. According to SME Corp, the Industrial Linkage Program, introduced by SMIDEC in 1997 to speed up industrial deepening in Malaysia, is no longer implemented. Third, SME Corp maintains contact with companies which have graduated from its support programs, encouraging them to be mentors for other SMEs.

(4) Bank Negara Malaysia

Bank Negra Malaysia (BNM), established in 1959, is the central bank of Malaysia. Besides conducting monetary policy and ensuring financial system stability, it additionally assumes a developmental role through a comprehensive mechanism for SME financing. These include establishing institutional arrangements, strengthening financial service providers, developing a microfinance institutional framework, hosting special funds and financing schemes, and improving outreach and awareness. The Development Finance and Enterprise Department of BNM is responsible for these tasks.

There are various types of financing for SMEs including loans by commercial banks, loans by development financial institutions (DFIs), loans by government agencies, and equity, grants and guarantees, which are available at different stages of business development (start-up, early stage and growth expansion, as well as at the time of distress). While the commercial banking system is the main provider of SME financing accounting for nearly 90%, the other sources of SME financing are channeled by the DFIs and the various special funds established by the government.

DFIs are specialized financial institutions established and funded by the government that aim at accelerating the growth of strategic sectors identified by the government. There are six DFIs under the purview of BNM[11]: EXIM Bank, Agro Bank, Development Bank, National Saving Bank, Rakyat Bank and SME Bank. Among them, the SME Bank is a one-stop financing and business development center for SMEs. It was established in 2005 as an institution 100% owned by the government through the Ministry of Finance. The SME Bank offers a variety of SME support products including finance, training, consultation, and rental factories.

The history of Malaysia's microfinance goes back to the late 1980s when the first microfinance institution, AIM (NGO-based), was created on the Grameen Bank model of Bangladesh. Subsequently, TEKUN was created in the late 1990s under the Ministry of Agriculture and Agro-based Industry Malaysia. More recently, particularly since 2006, government-sponsored microfinance schemes began to play a large role in microfinance infrastructure. In 2006, the National SME Development Council approved a comprehensive microfinance institutional framework proposed by BNM. Currently, the framework to develop a sustainable microfinance industry consists of seven commercial banks, three DFIs (National Saving Bank, Bank Rakyat, and Agro Bank), and credit cooperatives. Participation of commercial banks is important since the banking system has large funding and a network of branches that are critical to ensure the wide outreach of microfinance.

Major efforts are being undertaken to design right products to meet the needs of micro enterprises and create widespread awareness on the availability and benefits of microfinance. Emphasis has been placed on easy, fast and convenient access to microfinance for the benefits of microenterprises.[12] At the same time, the BNM officials noted that the level of gross non-performing loans (NPL) of microfinance is higher than that of SMEs, exceeding 5%. The challenge is how to lower NPLs while promoting access to microfinance across the country.

(5) SIRIM Berhad

SIRIM Berhad is Malaysia’s primary research and standards development organization. It is a corporate organization owned wholly by the government under the Ministry of Finance. It assists Malaysian companies in certifying their products and services and adhering to international and national standards of quality and innovation. It also collaborates with universities as well as conducts its own research to ensure that intellectual property and knowledge developed locally is transferred to Malaysian companies. SIRIM was established in 1975 as the Standards and Industrial Research Institute of Malaysia under

---

[11] Separately, MITI supervises the Malaysia Industrial Development Finance (MIDF), which promotes the manufacturing industry through the provision of medium-and long-term loans.

[12] Key features of these microfinance products are: small size of financing; minimum documentation, simple procedures and no collateral; fast approval and disbursement of financing (about six days); wide accessibility through branches and other channels of financial institutions).

the Ministry of Science, Technology and the Environment, through the merger of the Standards Institute of Malaysia (SIM) and the National Institute for Scientific and Industrial Research (NISIR). In 1996, SIRIM was corporatized to become SIRIM Berhad. SIRIM received international cooperation from various donors including JICA, GTZ (now GIZ), DANIDA, and currently receives support from EU. At present, it even provides technical assistance to developing countries through the Malaysian Technology Cooperation Program.

As a government-owned corporation, SIRIM operates on a non-profit basis. Additionally, it has four subsidiaries which are run on a commercial basis[13]. While SIRIM's operational expense (accounting for about 40% of its total expense) is covered by the government, its developmental budget must be financed by own revenues, such as fees from technology licenses, dividends from four subsidiaries, and facility fees.

SIRIM's core services include (i) technology development and innovation, (ii) technical service; and (iii) conformity assessment. Regarding (i), SIRIM will focus on three flagship areas starting from 2013, i.e., energy and environment, medical technology, and plant and machinery. These areas are consistent with the National Key Results Areas (NKRAs) guided by the National Science and Research Council. SIRIM wants to become a total solution provider in these three key areas, involving products and services in research, development of pilot plants and prototypes, technology transfer, conformity assessment, and testing and inspection. Regarding (ii), SIRIM provides special training courses for local SMEs to develop their capacity by helping them take their visions from inception to realization and to ensure that their businesses conform to international standards and practices. SIRIM collaborates with SME Corp under 1-InnCERT program noted above by auditing, verifying and monitoring applicants for the SME Innovation Award.

4. Discussion on Industrial Development by Mr. Jegathesan, former Deputy Director General of MIDA

The GRIPS team, together with the Ethiopian delegation, had an opportunity to discuss with Dato J. Jegathesan, former Deputy Director General of MIDA, on the key aspects of Malaysia's industrial development based on his first-hand experiences in MIDA. More recently, Mr. Jegathesan was engaged in Zambia as a senior investment advisor in a JICA-sponsored technical cooperation project, "Strategic Action Initiatives for Economic Development: Trade and Investment Promotion in Zambia." As one of the first-generation MIDA officials, Mr. Jegathesan explained factors behind Malaysia's economic transformation, by referring to the concepts of the Triangle of Hope (TOH) and the

---

[13] SIRIM QAS International, SIRIM Training, SIRIM National Precision Tooling, and SIRIM Standards Technology.

Quadrant Strategy, as follows.

TOH is a concept designed to open the eyes of the leadership of developing countries to the three forces that must work together for economic development. These three forces are (i) political will and integrity; (ii) civil service efficiency and integrity; and (iii) private sector dynamism and integrity. In Malaysia, all three forces shared the same vision and strategies and together implemented various development plans. Once the TOH concept is understood, the Quadrant Strategy becomes the vehicle to move from concepts and principles to creating jobs and wealth. The term "quadrant" is used because four steps must be taken. The first step in this process is to create an attractive environment for general and specific sectors. Second, identify projects and industries that have competitive advantages. Third, promote the national image to attract investment. Finally, implement approved projects as speedily as possible to create jobs and wealth within the country.

Mr. Jegathesan pointed out the importance of cooperation of all stakeholders including all government institutions, the private sector and political leaders for economic development, and stressed the following points to the Ethiopian delegation:

- Target ten companies which have potential instead of general FDI marketing.
- Responsibility of investment promotion agencies does not end until jobs are created in the country through FDI attraction. Organizing investment seminars is not enough. Follow-up actions with potential investors are critically important.
- Free Trade Zones (FTZs) should be established with due consideration to urban development. To this end, it is important to give attention not only to traditional FTZs but also to Multi-facility Economic Zones (MFEZs) and the scheme of Licensed Manufacturing Warehouses.
- For a One Stop Service Center to function effectively, it is not just enough to physically locate their staffs in the same office. It is also important to assign at least two contact persons at each of the responsible agencies outside the investment promotion agency.
- One-stop decision-making on investment incentives is also important as the example of the MIDA's National Committee on Investment shows.
- Regarding overseas trade and investment promotion, all embassies must work to move business activities forward. Embassy officials charged with trade and investment promotion should report activity progress to responsible ministries and agencies at home, such as MITI, MIDA and MATRADE, not just to the Ambassador.

5. Issues to be considered for the Ethiopian Government

Based on the findings and discussions with the Ethiopian delegation in Malaysia, the GRIPS team would like to raise the following points for further consideration by the Ethiopian government.

(1) A holistic approach to industrial development

It is notable that the Malaysian government takes a holistic approach to industrial development with MITI acting as a super-ministry charged with all aspects of industrialization. MITI's policy functions cover trade, investment, productivity, SMEs, and industrial development. At the implementation level, MIDA and SME Corp are responsible for not only the manufacturing but also the service sectors. In addition, MIDA and MATRADE provide services to all companies regardless of their size. Such institutional arrangements facilitate comprehensive and cross-sectoral support to industrial development.

By contrast, Ethiopian's present institutional arrangements for industrial development are fragmented across the Ministry of Industry, the Ministry of Trade, and the Ministry of Urban Development and Construction. As the government plans to strengthen the institutions and methodology for development planning under the leadership of H. E. Prime Minister Hailemariam Desalegn[14], it is worth re-considering the modality and institutional arrangements for industrial policy formulation and implementation.

(2) Overseas functions for trade and investment promotion

The Malaysian government has numerous overseas offices to promote the country's trade and investment. Separately from embassies, MITI has eight offices, MIDA has 24 offices, and MATRADE has over 40 offices abroad. Currently, the Ethiopian government is conducting Economic and Business Diplomacy led by the Ministry of Foreign Affairs, by making the embassies responsible for the country's trade and investment promotion.

While the number of overseas business promotion offices must be carefully decided with due consideration to budget constraint and cost-effectiveness, the Ethiopian government may wish to consider various institutional options such as: (i) continuing with the current arrangement and training the officials of the Ministry of Foreign Affairs for business promotion skills; (ii) sending the officials of the Ministries of Industry and Trade (and/or EIA) to embassies abroad to assume business promotion functions; and (iii) creating overseas offices of EIA (which can be located initially within embassies).

Additionally, over the medium- and long-run, Ethiopia may wish to consider strengthening export promotion functions like MATRADE. One possibility may be to equip EIA with such functions, as in the cases of Japan (JETRO) and South Korea (KOTRA).

---

[14] In early July 2013, the Ethiopian Prime Minister, H. E. Mr. Hailemariam Desalegn announced the establishment of the Planning Commission, charged with development planning, and appointed H. E. Mr. Makonnen, former Minister of Industry, as the Commissioner.

(3) One stop services

In Malaysia, the concept of "One Stop Service Center" is well established and practiced by MIDA and SME Corp. What matters is not just physical location, but the mind-set of those officials of the responsible ministries and agencies toward providing necessary services for customer companies for the common goal of the country's investment promotion and industrial development.

(4) Strategic FDI attraction

Malaysia's experiences and current practices offer a number of useful hints on how to strengthen the newly restructured EIA of Ethiopia.

Open and targeted approach to FDI attraction: MIDA issues investment licenses automatically to all projects (except for very few sensitive areas such as defense). There is no distinction between local and FDI investments. There is no ownership limit or minimum capital for licensing, either. At the same time, MIDA gives incentives only to projects in targeted sectors, and only after screening for value creation and contribution to Malaysia. To receive any incentive, activities or products must not only be included in the published eligibility list but also be approved by MIDA's weekly committee. In this way, investment licensing (which is automatic) and investment incentives (which are selective) are clearly distinguished.

By contrast, Ethiopia's current Investment Law establishes minimum capital requirement for FDI, which may discourage technology-oriented and innovative foreign SMEs from investing in Ethiopia. Also, Ethiopia's positive list approach to investment licensing may give restrictive impression to potential investors.

Careful investment analysis and follow-up: MIDA carefully scrutinizes investment projects and conducts strong follow-up of approved projects to raise the implementation ratio. Prior to approving licenses and granting incentives, various internal and external committees review the proposed projects and make final judgment at the weekly National Committee on Investment. Once projects are approved, state-level offices play an important role in ensuring their implementation.

MIDA compiles, updates and analyzes the database of approved investment projects in coordination other ministries and agencies. Since 2004, MIDA has been coordinating and compiling the investment data for all economic sectors (not just manufacturing). The implementation survey is conducted semi-annually to monitor the progress of all investment projects.

Such careful analysis and follow-up appear to have contributed to a high implementation ratio (75.7%) of approved investment projects, which is much higher than in Ethiopia (around 35%). Furthermore, MIDA continues dialogue with all companies whether they are old or new, domestic or FDI, as long as they continue to operate in Malaysia—because new issues and problems arise all the time.

(5) Promotion of domestic industries

In recent years, MIDA actively promotes domestic investment. This is also supported jointly by MATRADE and SME Corp through their support programs for local SMEs. Malaysia's current approach to domestic industry promotion is to foster the growth of independent homegrown SMEs by encouraging their internationalization and penetration into global markets (primary) and creating linkages between large local anchor firms such as Petronas and SMEs (secondary). The Malaysian government appears no longer interested in the Industrial Linkage Program, introduced in 1997 by expanding the former Vender Development Program, that enhanced linkages between large automotive and electronic assemblers with local component suppliers. This policy is still strongly promoted in Thailand but already abandoned in Malaysia.

Given that there are alternative models of enterprise capacity building, some based on the creation of independent and globally competitive local SMEs and others based on FDI-linked technology transfer, Ethiopia should study various country cases carefully before deciding on a technology strategy most suitable in the Ethiopian context.

Attachment

1. Mission schedule (for GRIPS team)

Attachment 1

Mission Schedule (23- 29 June. 2013)

1. Mission Members

Kenicni Ohno	Professor, National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan
Izumi Ohno	Professor, National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan
Miho Murashima	Research Associate, National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan

2. Mission Schedule

DATE				TIME	ACTIVITY
1	Jun	23	Sun	AM	
				PM	Arrival
2	Jun	24	Mon	AM PM	Malaysian Investment Development Authority (MIDA)
3	Jun	25	Tue	AM	Ministry of International Trade and Industry (MITI)
				PM	Malaysia External Trade Development Cooperation
4	Jun	26	Wed	AM	Economic Planning Unit, Prime Minister's Department
				PM	Malaysian Investment Development Authority (MIDA)
5	Jun	27	Thu	AM	SME Corporation Malaysia
				PM	The Federation of Malaysia (FMM)
				PM	Malaysian Institute of Economic Research
6	Jun	28	Fri	AM	Bank Negara Malaysia
				AM	Mr. Joji Ikeshita, Managing Director, JETRO Kuala Lumpur
				PM	Mr. Hiroshi Matsuura, Minister Deputy Chief of the Mission, Embassy of Japan
				PM	SIRIM Berhad
				PM	Departure
7	Jun	29	Sat	AM	Arrival