

By Tan Sri Dato' Soh Thian Lai, President of the Federation of Malaysian Manufacturers (FMM)

Business prospects remain bright with expansion in both local and export sales but impaired by labour shortage and that poses challenges to manufacturers coping with orders as well as capacity expansion plans.

The manufacturing sector has proven its resilience as a catalyst of growth and main source of overall economic growth during the Covid-19 recovery period. Registering a 9.5 per cent growth at the end of 2021 has placed it as the nation's main economic driver. Business activity is expected to gain further momentum and both domestic and export sales are also expected to improve considerably. In anticipation of the better demand, both production volume and capacity utilisation are also expected to pick up.

Malaysia has a strong manufacturing base compared to other ASEAN countries. To stay competitive, Malaysian manufacturers must embrace intelligent production by implementing Industry 4.0 elements in their operations so as to reach higher levels of productivity while spawning new industries and jobs.

FMM is seeking the government's more active role to expedite the adoption of Industry 4.0 technologies including developing technology centres and providing funding to support local businesses to train their staff in adopting Industry 4.0 technologies.

To boost the ecosystem, tax incentives should be extended to international Industry 4.0 companies that establish technical support and training centres (on condition that they have a minimum of 5 technical experts in Industry 4.0 technologies such as Artificial Intelligence, Robotics, Big Data, Cloud Computing and Cybersecurity stationed in Malaysia for a minimum period of 5 years).

To support local businesses in adoption of Industry 4.0 technologies, the government should provide tax deduction of up to RM100,000 per company for expenses incurred on Industry 4.0 project implementation as well as increase the allocation of Industry4WRD Intervention Fund (IF) (under MIDA) to RM150 million a year.

Efforts to upgrade Internet Connectivity in 47 industrial areas under the JENDELA (National Digital Network) in National Budget 2022 are lauded. However, the level of digital connectivity and quality of communication services needs to be improved further. Internet connectivity strategies need to be reviewed while the next-generation and holistic telecommunication strategy roadmap to switch from wireless connectivity to 5G and beyond must be built.

In this regard, FMM notes that the government has allocated RM15bil to be invested over a ten-year period for the implementation of 5G system nationwide, however FMM would like to propose that the government to:

- i. Speed up the 5G implementation period i.e. shorten the entire 5G implementation roadmap by half to 5 years;
- ii. Expedite the migration process of 4G connectivity to 5G nationwide; and
- iii. Increase and widen 4G coverage to at least 98% in Peninsular Malaysia in the next 2 years before 5G migration takes place.

As world economies continue to ramp up efforts for economic recovery, Malaysian businesses welcome the implementation of the Regional Comprehensive Economic Partnership (RCEP) on March 18, 2022 as it will enable them to leverage on this mega agreement as a COVID-19 business recovery tool to boost trade.

According to a recent report by UNCTAD published in mid-December 2021, compared to the other ASEAN countries, Malaysia is expected to be the largest beneficiary of the RCEP agreement in terms of gains in exports, with a projected US\$0.2 billion increase. In addition, RCEP is the only FTA which has the participation of all three North Asian countries – China, Japan and Korea. According to ASEAN FDI database, these 3 countries registered some of the largest Foreign Direct Investment (FDIs) into the region in year 2020. Given the size and diversity of the markets in RCEP, this is a significant advantage to all ASEAN-based companies.

As the key to full utilisation of an FTA is education and preparedness, FMM has run a series of briefings on RCEP together with ASEAN Secretariat as well as with MITI since 2019 with focus on the importance and new elements of RCEP for business. Having said that, RCEP alone is not enough. In this regard, we would like to take this opportunity to also call on the Government to hasten the ratification process of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) should also be implemented by this year as well to benefit businesses in this time of need as it is imperative to stabilise manufacturing activities and rebuild supply chain connectivity in the region.

Pemudah's Technical Working Groups which is facilitated by Malaysia Productivity Corporation has addressed numerous concerns through the public private collaboration. I wish the collaborative efforts can contribute to favourable outcome and boost the manufacturing sector in Malaysia.