



## **Submission No 28**

### **Inquiry into Australia's Relationship with Malaysia**

**Organisation:** Australia-Malaysia Business Council

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6 December 2006

Dr John Carter  
Secretary  
Foreign Affairs Sub-Committee  
Parliament House  
Suite R1-120  
Canberra ACT 2600

Dear Dr Carter

I refer to your correspondence of 23 November 2006. I replicate below an extract of that correspondence for ease of cross reference to my response to the questions you have posed.

**Extract :**

***A Bloomberg News article dated 24 October 2006 suggests that Malaysia's policy regarding Bumiputera involvement should be re-examined, as Malaysia's appeal to investors has been reduced by the emergence of India and China, and "taking on a Bumiputera partner or subcontractor who brings nothing else to the table is a cost to a foreign investor."***

- 1. Do you agree with this assessment?***
- 2. Have your members experienced difficulties with Bumiputera involvement?***
- 3. In light of the competitive emergence of India and China, what steps does the AMBC take to encourage Australian investment and trade with Malaysia?***

1. Firstly, it needs to be noted that the requirement for Bumiputera involvement in foreign investment into Malaysia is not a blanket requirement. It is a requirement for select types of investment and industries only. Depending on the industries they are in, many Australian companies investing in Malaysia are, and have been, able to retain 100% foreign ownership.

A foreign company contemplating investment into Malaysia will be well aware beforehand of the conditions and requirements imposed by Malaysian legislation and regulation, including if applicable, the requirement for Bumiputera involvement.

I would imagine that any company sophisticated enough to contemplate offshore investments should be capable of identifying a Bumiputera equity partner who, rather than "*bringing nothing to the table*", is a person capable of bringing some value – be it in the form of a network of high level business and government contacts, or local industry experience and knowledge, or equity in the form of cash, or a combination of the above.

To a certain degree, the Bumiputera requirement can be a deterrent to foreign investment. The Malaysian government is well aware of this issue and has been slowly liberalising the equity rules for foreign investors. The keyword here is "slowly" as having been in place for some 30plus years, it is understandable why the government needs to ensure that any changes to this requirement is done in a well considered and progressive pace. Hopefully the progress of this reform will be further enhanced by the fact that this issue of minimum Bumiputera equity holding is also the subject of public debate domestically.

2. As to whether any AMBC members have experienced difficulties with Bumiputera involvement – I will have to say that in the time I have held office in the business council (since 1999 variously at state chapter and national levels) I have not come across a case whereby a member has reported difficulties on this issue.

Of course, there have been instances when Bumiputera involvement has been required. However, my experience has been that those members have found pragmatic solutions to this issue. Certainly, I have not been approached by a member who has categorically stated that the Bumiputera requirement is something he cannot accept and that AMBC should do something about it.

I have taken the liberty of canvassing my AMBC colleagues on this question and wish to advise that their experiences have been similar to mine.

3. It is easy to generalise and forget that other countries exist for foreign investment opportunities within the region apart from the two giants of India and China.

What AMBC is doing to encourage Australian trade and investment with Malaysia is to continue to educate our members and the wider business community, and to highlight the following points :-

- Not all Australian businesses are equipped to handle a market the size of India and China, nor do they wish to;
- Malaysia has an infrastructure that enables easy penetration of the domestic and regional markets;

- Malaysia has a population that is well educated and familiar to Australia and Australians (250,000 alumni of Australian tertiary centres);
- Malaysian legislative system is based on English law (as is Australia's);
- Malaysia is one of the most Australia-friendly countries in the region, together with Singapore;
- Malaysia is an easier destination for a company's first foray overseas;
- Malaysia is the 4th most open economy in the world (behind Singapore, Hong Kong & Luxembourg);
- Malaysia offers a comfortable and familiar social environment for Australians where language and cultural diversity is not a problem. This makes Malaysia an attractive alternative for family members of businesses with interests in Malaysia;
- Significant business and trade opportunities will emerge from the impending MAFTA;
- In the government's economic blue print, the 9<sup>th</sup> Malaysia Plan, the implementation expenditure for the years 2006 to 2010 is AUD\$75Billion within sectors targeted for growth. There are tremendous opportunities for Australian businesses to provide assistance in those targeted sectors;
- In the AT Kearney 2005 Global Services Index, Malaysia was ranked as the 3<sup>rd</sup> most attractive place for Business Process Outsourcing – behind only China and India. This is no small achievement when you consider the size of Malaysia's population in comparison to those of China and India. This is clear indication that the pragmatic government policies have worked;
- The Malaysian government has implemented many incentives designed to attract foreign investors. The types of incentives being offered to multinationals include
  - Operational Headquarters;
  - International Procurement Centres;
  - Regional Distribution Centres;
  - Regional / Representative Offices; and
  - Support Services such as integrated logistics and integrated market support services
  - Many of these incentives come with tax free status for varying periods as well as flexibility of 100% foreign ownership.
- That despite the competitive emergence of India and China, many Australian businesses has recently elected to invest in Malaysia. Amongst them are :
  - 3 biodiesel projects by Mission Biofuels (WA company), Jupiter (also from WA ) and SPC which is Malaysian/Australian;
  - Comgroup from Queensland in a JV halal meat project with Prima Meats of Kuala Lumpur;
  - Waterco (a Sydney public company) recently significantly expanded its Malaysian manufacturing plant – for water and pool accessories, especially filters;
  - Ryco which makes auto hoses has recently increased its investment and will use Malaysia as a global distribution centre;

- Intermediate bulk containers - Schutz DSL is to commission its plant near KL International Airport;
- Stellar Inflight from Sydney has built a studio in Kuala Lumpur to add to its facilities in Sydney and Los Angeles – to provide inflight material and management to airlines;
- GBC has recently opened a plant in Penang building Atomic Absorption Spectrophotometers;
- IAG bought 30% of AmAssurance;
- A subsidiary of ASX listed IBA Health was recently granted Operational Headquarters status in Malaysia;
- ANZ Bank's recent high profile acquisition in Malaysia; and
- Add to this the announcement by Grange Resources to build an iron pellet plant and Lynas Corp's plans to build a rare earths processing plant in Malaysia to process raw materials from WA.

AMBC and its state chapters in Vic, NSW, SA and WA have a regular program of taking trade missions to Malaysia to provide networking and business matching opportunities for our members. In the main, these trade missions are industry focussed with each mission targeting between 3 to 5 industries per trip. The assistance and support of the following are utilised to ensure a more comprehensive program and itinerary is planned for each mission :-

- Australian High Commission in Kuala Lumpur;
- Austrade's office in Kuala Lumpur;
- our counterpart, MABC;
- MIDA (Malaysian Industrial Development Authority); and
- where available, economic development agencies of various Australian States.

I hope the above sufficiently addresses the questions you have raised. I remain, of course, available to the Joint Standing Committee for any further clarifications you may require.

Yours sincerely



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National President