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MALAYSIA

AN OVERVIEW OF THE MALAYSIAN CONSTRUCTION INDUSTRY

(updated September 2009)

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1. ECONOMIC OVERVIEW & STIMULUS

The Malaysian economy contracted by 6.2% in the first quarter of 2009 (4Q 08 : 0.1%) due mainly to a significant deterioration in external demand and the decline in domestic demand. External demand deteriorated significantly following the deepening recession in several advanced economies as well as slower growth in the regional economies. Domestic demand contracted, due mainly to weaker investment and private consumption activities.

On a sectorial basis, weaknesses were seen across all economic sectors, with the exception of the construction sector. The manufacturing sector recorded a sharp decline amidst significant deterioration in external demand as well as weaker domestic conditions. The services sector registered only a marginal decline, due to weaker growth in sub-sectors closely linked to the manufacturing sector and trade-related activities. The performance of the agriculture sector was affected by weaker production of palm oil and rubber, while growth in the mining sector continued to be sluggish on lower output of both crude oil and natural gas.

Meanwhile, the construction sector has recorded a GDP growth of –1.6% in the fourth quarter of 2008 in comparison to 3.9% and 1.2% in the second and third quarters of 2008. It turned around to register a small positive growth of 0.6% in the first quarter of 2009, supported by the higher construction of office space especially in the Klang Valley as well as, supported by increased activity in the high-end segment of the residential sub-sector (grew 3.0%), while the non-residential sub-sector grew 3.8%. Meanwhile, the civil engineering sub-sector was lower due to a slower-than-expected take-off of some key infrastructure projects.

Other construction indicators are as follow :

Construction Indicators	2008			2009
	1Q	4Q	Year	1Q
	Annual Change (%)			
New sales & advertising permits	-6.4	-47.8	-18.9	-25.5
Housing approvals	10.4	-53.8	-18.9	-30.2
Production of construction-related materials	11.6	-8.3	4.3	-21.5
Loans approved for construction	74.4	-25.2	-1.7	-48.2
Imports of construction materials and mineral products	8.3	-10.0	2.8	-25.8
Source : Ministry of Housing & Local Government and Department of Statistics, Malaysia				

In the concern of the global economic crisis and its impact on the national economy, the Government has taken immediate step to boost confidence in market place by implementing two stimulus packages of RM 7 billion (Euro 1.44 billion) and RM 60 billion (Euro 12.37 billion).

The RM7 billion (Euro 1.44 billion) first Economic Stimulus Package announced on 4 November 2008 is aimed at compensating the shortfall in private sector demand and encourage private spending. The fund is being spent on small-scale construction, maintenance of social infrastructure and public amenities and development projects that included the building of low and medium-cost houses as well as measures to boost private consumption. The RM60 billion (Euro 12.37 billion) second Stimulus Package announced on 10 March 2009 include wide-ranging measures to support domestic economic activities and strengthen capacity for future growth. Of the total, RM15 billion (Euro 3.09 billion) would be in the form of fiscal injection, RM25 billion (Euro 5.15 billion) for Guarantee Funds, RM10 billion (Euro 2.06 billion) for equity investments, RM7 billion (Euro 1.44 billion) for private finance initiative and RM3 billion (Euro 0.62 billion) in the form of tax incentives.

With the stimulus plan, the Government is trying to generate and increase construction projects in the country and inevitably keep the activities going.

Source :
Master Builders Association of Malaysia
Construction Industry Development Board of Malaysia
Bank Negara Malaysia – Quarterly Bulletin, First Quarter 2009

1.1 Number and value of projects awarded by status of contractors and project category as of December 2008

- Top row refers to value in Ringgit Malaysia million and bottom line in Euro million
- Exchange rate : Euro 1 = RM 4.85

			Local Contractors				Foreign Contractors			
Category	Number of projects	Project Value	Government Projects		Private Projects		Government Projects		Private Projects	
	Total	Total (RM mil)	Total	Value (RM mil)	Total	Value (RM mil)	Total	Value (RM mil)	Total	Value (RM mil)
2006 (Euro mil)	5,854	60,926.99 12,562.26	1,643	21,377.16 4,407.66	4,137	35,592.06 7,338.57	3	1,077.81 222.23	71	2,879.96 593.81
Residential (Euro mil)	1,778	16,554.58 3,413.31	168	2,023.44 417.20	1,607	14,460.51 2,981.55	-	-	3	70.63 14.56
Non Residential (Euro mil)	1,968	17,703.43 3,650.19	330	3,426.53 706.50	1,584	12,690.07 2,616.51	-	-	54	1,586.83 327.18
Mix Development (Euro mil)	11	454.80 93.77	1	95.30 19.65	10	359.50 74.12	-	-	-	-
Social Ameneties (Euro mil)	557	3,989.29 822.53	397	3,206.02 661.03	159	782.45 161.32	-	-	1	0.82 0.16
Infrastructure (Euro mil)	1,524	21,627.30 4,459.24	747	12,625.87 2,603.27	761	6,701.94 1,381.84	3	1,077.81 222.23	13	1,221.68 251.89

Others (Euro mil)	16	597.59 123.21	-	-	16	597.59 123.21	-	-	-	-
2007 (Euro mil)	7,069	90,458.01 18,651.14	2,876	44,004.15 9,073.02	4,102	40,600.17 8,371.17	4	3,475.32 716.56	87	2,378.37 490.38
Residential (Euro mil)	1,785	15,908.31 3,280.06	252	2,124.56 438.05	1,527	13,432.29 2,769.54	-	-	6	351.46 72.46
Non Residential (Euro mil)	2,203	25,149.90 5,185.54	502	6,966.49 1,436.39	1,639	16,484.53 3,398.87	1	23.99 4.95	61	1,674.89 345.34
Mix Development (Euro mil)	27	995.86 205.33	2	1.84 0.38	25	994.02 204.95	-	-	-	-
Social Ameneties (Euro mil)	1,324	11,240.56 2317.64	1,135	10,262.03 2,115.88	186	965.90 199.15	1	0.64 0.13	2	11.99 2.47
Infrastructure (Euro mil)	1,699	36,960.18 7.620.65	967	24,518.80 5,055.42	713	8,656.96 1,784.94	2	3,450.69 711.48	17	333.73 68.81
Others (Euro mil)	31	203.20 41.89	18	130.43 26.89	12	66.47 13.70	-	-	1	6.30 1.30
2008 (Euro mil)	4,848	63,149.64 13,020.54	2,019	25,384.64 5,233.95	2,772	33,355.07 6,877.32	2	2,219.00 457.53	55	2,190.93 451.74
Residential (Euro mil)	1,115	13,797.47 2,844.84	193	1,124.42 231.84	916	12,074.99 2,489.69	-	-	6	598.06 123.31
Non Residential (Euro mil)	1,594	15,730.84 3,243.47	401	4,488.20 925.40	1,149	10,336.37 2,131.21	1	19.00 3.92	43	887.27 182.94
Mix Development (Euro mil)	17	1,708.69 352.31	1	3.30 0.68	16	1,705.39 351.62	-	-	-	-
Social Ameneties (Euro mil)	953	16,293.58 3,359.50	815	12,451.81 2,567.38	136	3,223.79 664.70	-	-	2	617.98 127.42
Infrastructure (Euro mil)	1,143	15,539.84 3,204.10	598	7,288.31 1,502.74	542	5,981.29 1233.26	1	2,200.00 453.61	2	70.24 14.48
Others (Euro mil)	26	79.22 16.33	11	28.60 5.89	13	33.24 6.85	-	-	2	17.38 3.58

- Total may not necessarily add up due to rounding

Source : CIDB – Construction Industry Development Board, Malaysia

2. PROVISION OF 9TH MALAYSIA PLAN TO GENERATE CONSTRUCTION ACTIVITIES

The 9th Malaysia Plan (9MP) is a five-year blueprint of the National Mission, which is a carefully constructed framework comprising policies and implementation plans for the nation during the period of 2006-2010. The 9MP outlines the policies and key programmes that were designed to accomplish the following thrusts :

- To move the economy up the value chain
- To raise the capacity for knowledge and innovation and nurture first class mentality
- To address persistent socio-economic inequalities constructively and productively
- To improve the standard and sustainability of quality of life
- To strengthen the institutional and implementation capacity

Several strategic initiatives have been established under each key thrust that will lead to the attainment of the goals and objectives of those thrusts. It is for the implementation of these strategic initiatives that construction projects involving economic and social amenities are identified and provided for under the 9MP.

During the period of 2006-2010, a total of RM220 billion (Euro 45.36 billion) has been allocated for the 9MP, an increase of 17.6% or more than RM30 million (Euro 6.19 million) over the 8MP. Of this, a development budget of RM200 billion (Euro 41.24 billion) was for Strategic Initiatives and RM20 billion (Euro 4.12 billion) for the Private Finance Initiatives (PFI) mechanism in continuous support of the private sector-led growth strategy. Under the 9MP, the Government has further streamlined, including adopting new approaches and mechanisms, to enhance the efficiency of the privatisation programmes. The utilisation of PFIs will facilitate greater participation of the private sector in the areas of management, operation and maintenance to improve the delivery of infrastructure facilities and public services.

PFI includes the transfer to the private sector the responsibility to finance and manage a package of capital investment and services including the construction, management, maintenance, refurbishment and replacement of public sector asset such as buildings, infrastructure, equipment and other facilities, which creates a stand alone business. The private sector will create the asset and deliver a service to the public sector client. In return, the private sector will receive payment in the form of lease rental charges, which commensurate with the levels, quality and timeliness of the service provision throughout the concession period. The structure of the lease rental payment for PFI projects will guarantee a total return to the concessionaire's capital investment expenditures including financing cost repayment and profit to investment. The asset and facilities will be transferred to the public sector upon expiry of the concession period.

At the moment, it has been estimated that only 50% of funds for construction under 9MP has been given out and there are still a lot of funds left under the 9MP and the time is drawing near for the allocation to be dispensed (by 2010). In the third quarter of 2009, the country is seeing a more deliberate execution by the government to hasten the projects. The impact of construction projects to the economy would depend on the speed of delivery of the projects coming onstream.

Source :
Construction Industry Development Board of Malaysia (Construction Opportunities in the Ninth Malaysia Plan)

Ninth Malaysia Plan 2006-2010 (Economic Planning Unit, Prime Minister's Department)
The Star press article – 10th August 2009

3. OTHER ECONOMIC STIMULUS

3.1 LIBERALISATION OF THE ECONOMY

Apart from the stimulus of RM 67 billion to be injected into the economy, the Malaysian government has taken further steps to liberalise the economy in a bid to attract foreign investment.

The liberalisation has been applied to the services sector with the aim of creating a condusive environment to attract investments, technology and create higher-value employment opportunities. At the moment, the services sector is an important component of the national economy, contributing 55% to the gross domestic product in 2008. The government aims to increase the target to 60%.

Bumiputera quota of 30% on equity ownership (which was previously imposed) in 27 services sub-sectors has been removed. Recognising the growth potential in the services sector, the government has decided to immediately liberalise 27 services sub-sectors with no equity conditions imposed. Prior to this, companies in the services sector must offer 30% of its equity to bumiputeras.

The sub-sectors involved are health and social services, transport, business, computer industry and most importantly tourism services. The tourism services which encompass the development of theme parks, convention and exhibition centers as well as hotels and resorts will be a driving force to boost the construction sector.

Source :
Prime Minister's Department
New Straits Times news article – 23rd April 2009

3.2 DEVELOPMENT OF ECONOMIC CORRIDORS

Malaysia's 5 Regional Economic Growth Corridors also present opportunities to the construction sector through the development of infrastructure. The Economic Corridors are as follow :

Northern Corridor Economic Region (NECR) Development period : 2007 - 2025 Area : 17,816 sq km Strengths : agriculture, electrical & electronic, oil & gas, biotechnology, automotive, logistics infrastructure Web : www.ncer.com.my	**Iskandar Malaysia** Development period : 2006 – 2025 Area : 2,217 sq km Strengths : urban development, educational facilities and R&D centers, logistic infrastructure, international resorts and theme parks, healthcare Web : www.iskandarinvestment.com

Sarawak Corridor of Renewable Energy (SCORE) Development period : 2008 – 2030 Area : 70,708 sqm Strengths : oil-based industry, aluminium, steel, glass, palm oil, tourism, timber-based, livestock, acquaculture and marine engineering Web : www.sarawakscore.com.my	**Sabah Development Corridor (SDC)** Development period : 2008 – 2025 Area : 73,997 sqm Strengths : agriculture, furniture, biotechnology, oil & gas, sustainable materials, logistics Web : www.sdc.net.my
East Coast Economic Region (ECER) Development period : 2007 – 2020 Area :66,736 sq km Strengths : agriculture & acquaculture base, bioresources (oil palm, tobacco), oil, gas and petrochemical, automotive/transport equipment, boat building Web : www.ecerdc.com	

3.3 SPECIAL ECONOMIC ZONE

Malaysia has launched its first Special Economic Zone (SEZ) in the East Coast Economic Region (ECER), aimed at turning the east coast area into a cost-competitive and thriving investment location for foreign and local investors.

Investors undertaking infrastructure development, operating the industrial zones as well as those setting up operations in the SEZ will also be able to benefit from the enhanced fiscal and non-fiscal incentives that have been introduced including a 10-year tax exemption, 100% investment tax allowance, exemptions from import duties as well as competitive tariff rates for utilities.

The SEZ, covering an area of 25km by 140km from Kertih in Terengganu in the north to Gambang in the west and Pekan in the south of Pahang, will see the setting up of four free zones in the vicinities of Kemaman Port, Kuantan Port City, Kuantan Airport and Tanjung Agas.

The SEZ is focused on promoting investments in five main pillars of growth-High Value Manufacturing including Agro-based Industry; Gas and Petrochemicals; Tourism/Real Estate; Knowledge/Education and Information Communication Technology (ICT) and Logistiscs. The zone will also encourage linkages between the sectors, which will spur economic development in the region.

It is expected that the SEZ will attract some RM90 billion (Euro 18.56 billion) in investments by 2020. He said the SEZ which constituted some 6% of the ECER would generate over 220,000 new jobs, about half of the total jobs to be created in the region, while expecting to contribute some 80% of the economic products in the ECER.

In line with the focus on the development in the SEZ, the facilities at the Kuantan Port would also be upgraded and further developed to increase its cargo handling capacity to over 30 million tonnes a year by 2020 from the current 16.8 million tonnes. With the enhancement, Kuantan port will be well-positioned to be a leading port in the East Coast as well as a conducive access for goods for the Asia Pacific market.

Source : New Straits Times news article – 5th August 2009

4. MEGA PROJECTS FOR ECONOMIC RECOVERY

Twelve major construction jobs in the pipeline			
Projects	RM	Location	Status
Klang Valley LRT	10 bil (Euro 2.06 bil)	Selangor	Finalising alignment, extension/upgrade tenders to be issued soon
Klang Valley LRT new lines	25 bil (Euro 5.15 bil)	Selangor	Roll-out in 2010, likely part of 10th Malaysian Plan
Kelau Dam & related works	2.5 bil (Euro 0.52 bil)	Pahang	Implementation likely in 2010
Langat 2 water treatment plant & related works Sorting out land acquisition (200 ha)	5 bil (Euro 1.03 bil)	Selangor	To be tendered out earliest August 9
Extension of Besraya Highway	649 mil (Euro 133.81mil)	Selangor	Finalising supplementary agreement
New LCCT Terminal	2 bil (Euro 0.41bil)	N.Sembilan	Fast-tracked, pre-qualification completed
Sabah water infrastructure package	2 bil (Euro 0.41bil)	Sabah	Finalising award
Gemas –Johor Bahru double tracking	5 bil (Euro 1.03 bil)	Johor	Negotiating participation of Chinese contractor Global Rail
Bakun Power Transmission	9 bil (Euro 1.86 bil)	Sarawak	Specification and tenders by end-09
Aluminium smelter plant	11 bil (Euro 2.27 bil)	Sarawak	Under negotiations
West Coast Expressway	3.1 bil (Euro 0.64 bil)	Selangor	Under negotiation and pending alignment
East Coast Expressway Phase 3	2.83 bil (Euro 0.58 bil)	East Coast Johor	Likely part of 10 MP
TOTAL	70.08bil (Euro 14.45 bil)		

Source : CIMB / CIMB-GK Research

Other mega construction projects due to start include the RM1.3 bil (Euro 268 million) tunneling portion for the interstate water transfer scheme (IWTS) and the RM766 mil (Euro 158 million) infrastructure works within the Medini integrated development in Iskandar Malaysia, Johor. (Iskandar Malaysia – set to be one of the most developed region in southern Peninsular Malaysia, close to Singapore. Its catalytic projects include Medini Iskandar Malaysia, Mixed Waterfront Development, Educity, Infrastructure implementation and international resort)

It is also expected that the proposed US$7bil (Euro 4.91 billion) Trans-Peninsular Petroleum Pipeline (TPP) project which was to take off about two years ago will be revived. New partners interested in the project are expected to sign an agreement soon. The TPP involves building a 312 km pipeline linking Yan in Kedah (north of Peninsular Malaysia) to Bachok in Kelantan (east coast of Peninsular Malaysia).

In the same sector, another company, Merapoh Resources Corp Sdn Bhd, proposed to invest US$10bil (Euro 7 billion) to build a new refinery in Yan, Kedah with targeted completion date in 2013 or 2014. Under the project, Merapoh will import crude oil from the Middle East, most probably from Saudi Arabia, process the crude oil into refined products and export them to China and other Asian countries.

According to market analysts, it is expected that construction projects under the stimulus packages to have significant and meaningful impact on the sector and overall economy earliest by the fourth quarter or possibly the first quarter of 2010.

Construction and property sectors would fare better than others seeing the Government's recent liberalization policies on property ownership for foreigners and the deliberate commencement of several mega construction projects, geared towards hastening the recovery of the economy.

The tourism sector will benefit from the construction of hotels especially in the Klang Valley and Kuala Lumpur area. Several new hotels are expected for completion by 2011. Some of these hotel projects are as follow :

Hotel	Star	Total No. of rooms	Completion date
The G K. Lumpur	5	180	Q3 2009
Allson Hotel	5	250	2010
Rendezvous Hotel (Taragon Puteri)	5	388	2010
Empire Subang	4	217	2010
Grand Hyatt Hotel	4	450	2010
Doubletree by Hilton Kuala Lumpur	5	540	2010
Pavillion Hotel	5	180	2011
The Olives Hotel	4	305	2011
D'Tiara Amanah Raya Hotel Suites	4	507	2011
Lot G, KL Sentral (Business Hotel)	3		2012
Thistle Damansara	5	252	2012
Royale Bintang Surian Damansara		301	2012

The St. Regis Kuala Lumpur	6	200	2014
Golden Palm Tree Sea Villas and Spa (Sepang)			Q4 2009
Swiss-Belhotel Zenith, Kuantan, Pahang			2010
Grand Swiss-Belhotel, Kota Kinabalu, Sabah			2010
Source – The Star news article, 7th September 2009			

Another reason for the increased optimism was that the construction sector was now firmly on a recovery path due to the government pump-priming through two stimulus packages and cheaper input costs.

Local steel prices have reverted to levels seen before their all-time high in July 8, leading to margin recovery and better earnings visibility.

Source : The Star news article, 10th August 2009

5. POLICY REVIEW OF IRON AND STEEL INDUSTRY

The recent policy review of iron and steel industry has also assisted in the growth of the construction sector. Speedier procedure for iron and steel products to enter the country enables more projects to be carried out.

However, in the long term, the objectives of the policy review are to enhance competitiveness of the local industry, as well as encourage the manufacture of more competitive products for international market.

The following measures were implemented by the Government, effective from 1 August 2009.

These measures are:

i) Manufacturing Licences

Manufacturing licences will be granted without restriction to meet the demand for domestic and export markets for long and flat products.

ii) Import and Export Licences (AP)

• Free issuance of import licences for flat products will be continued for monitoring and data collection purposes. No export licence is required on flat products. The current import and export duty exemption on 57 tariff lines of long products will be maintained.

• Import control for products of Hot-Rolled Coils (HRC), Cold-Rolled Coils (CRC) and Electro-Galvanised Iron (EGI) through fixing the ratio between locally sourced and imported products will be abolished.

iii) Import Duty

• For long products which are subject to import duties, reduction in import duties will be implemented gradually. Import duties will be reduced to 10 per cent from 1st August 2009 and 5 per cent from 1st January 2010 and for subsequent years.
• For flat products which are subject to import duty, the current import duty under the MFN rate for products imported from outside ASEAN will be reduced in stages. Effective from 1st August 2009, the current import duty of 50 per cent for flat products will be reduced to 25 per cent and the rates will be further reduced between 0 to 10 per cent from 1st January 2018.

iii) Import Duty Exemption

• Import duty exemption for flat products, including HRC, CRC and EGI, is given to:
- raw materials used for the production of finished goods for the export market, irrespective of local availability;
- products for which grades and specifications are not produced locally for the local market; a nd
- products used as raw material to produce nil duty finished goods;
• Importation by Steel Service Centres for SMEs
Import duty exemption will be given to Steel Service Centres for products for which grades and specifications are not produced locally.
• Import duty exemption for Seven Selected Sectors
Import duty exemption for seven selected sectors will be abolished, since it is no longer relevant, as the policy review on tariff reduction structure has taken into consideration the requirement for these sectors.
• Import duty exemption for traders
Current policy will be maintained, where import duty exemption is not given to traders.

iv) Determination of Hot-Rolled Coils base price

The Government has also decided that the determination of HRC base price implemented by MITI be abolished. This will allow HRC price to be determined based on domestic and international market forces.

v) Implementation of Mandatory Standards

• To prevent the influx of sub-standard products into the country, the Government has agreed to implement mandatory standards for imported and locally produced long and flat products. The imposition of mandatory standards will be implemented in stages and will be effective from 1st August 2009 for iron and steel products which have Malaysian Standards (MS).

• For iron and steel products which have no MS, imported products will be tested and verified using the existing international standards (ISO), until the adoption process into MS has been completed. The adopted ISO will be effective from 1st April 2010.

• For iron and steel products which have no MS and ISO standards, but have acquired foreign national standards, MS will be developed by the Department of

Standards and will be effective from 1st October 2010. During the period of MS development, foreign national standards will be used.
• For iron and steel products which have no standards, imports will be monitored by the Ministry of International Trade and Industry, and Royal Customs of Malaysia.

• Enforcement of mandatory standards will be implemented by the Construction Industry and Development Board (CIDB), Department of Safety and Health (DOSH) and SIRIM QAS International Sdn Bhd (SIRIM).

• The procedures for the implementation of mandatory standards have been simplified and cover the following :

a) testing and verification prior to the issuance of Certificate of Approval (COA) for imported iron and steel products will take 1-3 working days;
b) to avoid delays and additional charges in customs clearance at customs entry points, SIRIM and CIDB will issue temporary COA to importers to transport the imported products to their factory premises, prior to product testing and verification process;
c) the measure to recognise testing and verification reports from accredited foreign laboratories under the mutual recognition arrangement is encouraged to simplify compliance to mandatory standards, subject to the approval from the Department of Standards;
d) exemption from testing and verification procedure, as well as COA, will be given for products weighing below 100kg and for imported products weighing below 100kg for sample purposes.
e) rate of charges for testing and verification, as well as issuance of COA, has been reduced by SIRIM by 39%, effective from 1st March 2009.

The implementation of measures for the local iron and steel industry has incorporated views from the local industry and is expected not to adversely affect the industry. Instead, these measures will enhance the competitiveness of the industry, as well as enable the manufacture of competitive products for the international market.

Source : Ministry of International Trade and Industry (MITI), Malaysia

Sources of Information :

Ministry of Housing & Local Government, Malaysia
Department of Statistics, Malaysia
Master Builders Association of Malaysia
Construction Industry Development Board of Malaysia (CIDB)
Bank Negara Malaysia
Ninth Malaysia Plan 2006-2010 (Economic Planning Unit, Prime Minister's Department)
The Star press
New Straits Times press
CIMB / CIMB-GK Research
Ministry of International Trade and Industry, Malaysia (MITI)