

# Nature and Trends of In-Bound Investment in Penang

## Introduction

The Pearl of the Orient, Penang, is located on the northwest coast of Peninsular Malaysia. As of 2021, Penang has the highest population density at 1,688 /km<sup>2</sup> in Malaysia, with a population of approximately 1.8 million. The beautiful state consists of two parts; Penang Island where its capital city, George Town is located; and Seberang Perai on the mainland.<sup>1</sup> Although it is Malaysia's second smallest state, Penang ranks second to Klang Valley in terms of urbanisation, and is the second largest city by population. In 2012, George Town was declared as a UNESCO World Heritage Site and has been a popular destination for tourists that thrive on heritage and culture. The modern history of Penang began in 1786, when Francis Light established George Town as a trading post for the British East India Company.<sup>2</sup>

## Demographics of Penang

A vibrant and harmonious city, that what Penang is. The proportions of Bumiputera (44.4%) and Chinese (39.1%), which are the biggest communities in Penang, are remarkably similar. The rest of the state's population was made up of 9.4% Indians, 0.3% others and 6.8% non-citizens. A total of 176,100 people, or the majority of Penang's population, are adults between the ages of 25 and 29, while the minority are over 85 years old.<sup>3</sup> Hence, it is not an odd sight to bump into elderlies that still manage to walk or cycle around the town. If you have never been to Penang and has absolutely zero idea on how to explore around, worry not as Penangites are famous for their friendliness and willingness to assist.

## The Growth of Penang

Penang earns the name "the Silicon Valley of the East" as its economic structure is mostly oriented towards the industry and services sectors, specifically in the manufacturing and producing of electrical and electronics (E&E) goods.<sup>4</sup> The state has accounted for an estimated 5% of the global exports of semiconductors.



Source: <https://www.penangpropertytalk.com/2021/04/developers-are-toning-down-their-pessimism-for-2h2021/>

Not only that, Penang is now one of the most vital economic powerhouses in Malaysia as it has been successfully contributing 6.9% (RM92,631 million) to the national Gross Domestic Product (GDP) in all sectors and outpaced Malaysia's GDP growth rate since 2014.<sup>5</sup> What is even admiring is that Penang has also gloriously recorded the third highest Human Development Index (HDI) in Malaysia at 0.851 after Selangor and the Federal Territory of Kuala Lumpur.<sup>6</sup>

An outstanding escalation in the growth rate of Penang's economy can be seen year by year. This was believed to have been precipitated by the increase in the number of industry players, consisting of more than 350 multinational companies (MNCs) and 3000 small and medium enterprises (SMEs). Penang has continuously excelled in its key-promoted industries, mainly the E&E, and other advanced areas such as machinery and equipment (M&E), medical technology (Medtech), automation, and outsourced semiconductor assembly and test (OSAT).<sup>7</sup>

Today, the prosperity and robust industrial ecosystem of Penang have placed it as a top hub for both domestic and foreign direct investments (FDI), with the US and Japan making the largest contributions.<sup>8</sup> In 2021, Penang triumphantly managed to achieve a stellar total approved manufacturing investment of RM76.2 billion despite the China-United States trade war and the COVID-19 pandemic, and has topped Malaysia's list of external trade.

Penang has been the highest recipient of FDI in the manufacturing sector, accounting for 19% of Malaysia's US\$14 billion total FDI.<sup>9</sup> Intel Electronics Ltd. and Ibsiden Electronics (M) Sdn. Bhd. are among the prominent FDI projects in 2021, while domestic direct investments (DDI) projects include Greatech Integration (M) Sdn. Bhd.<sup>10</sup>

For the record, Penang's total approved manufacturing investments in 2021 is the highest in the state's history after increasing by 440% from the previous year, with 98% or RM74.4 billion out of RM76.2 billion coming from FDI.<sup>11</sup> In 2020, FDI in Penang accounted for 75% (RM10.6 billion) of total approved manufacturing investments in Malaysia which amounted to RM14.1 billion.<sup>12</sup> With 166 projects totaling RM15 billion, FDI has made the largest contribution to the state's total investment of RM16.9 billion in 2019.<sup>13</sup>

Penang's key promoted industries, such as machinery and equipment (M&E), scientific and measuring equipment (including medical technology), and electronics and electrical (E&E) industries, contributed to the majority of the total approved manufacturing investments over those three years, accounting for close to 87% of the state's total approved manufacturing investments in 2019, 89% in 2020, and 80% in 2021.<sup>14</sup>

It is evident that despite being one of the smallest states, Penang powerfully remains the top investment hub in Malaysia.

## Why Invest in Penang?

In order to further entice investments and ensure job possibilities, the Penang government will concentrate on using higher technologies, particularly in digital and software services. The state will launch its own creative digital district called CD2@George Town as a starting point, which includes a 5G network infrastructure that enables businesses and communities in the vicinity to benefit from high-speed internet.

The establishment of the digital district will bring in local and foreign digital investors and open up career opportunities in the creative and digital industries.<sup>15</sup>

The Penang Socio-Economic Recovery Consultative Council (PSERCC) Working Committee was also established by the government with the aim of developing short and medium-term strategies to promote economic growth, draw in foreign and local investments, and guarantee sustainable socio-economic development for the benefit of the communities.<sup>16</sup>

For the next five years, Penang also aimed to attract more than 150,000 knowledge workers to fill the highly skilled job openings at Penang's MNCs and SMEs in various fields. This is done in order to complement Penang's significant inflow of strategic investments with the establishment of a strong talent pipeline.<sup>17</sup>

For example, the Penang State Government has launched the Penang Internship Subsidy Programme (PISP) for the purpose of drawing approximately 150,000 knowledge workers in five years to come. A total of 111 internship placements were awarded to local companies, namely Ann Joo Steel Berhad, Greotech Integration (M) Sdn. Bhd., ViTrox Corporation Sdn. Bhd., and more.<sup>18</sup>

The development of a high-value talent ecosystem, particularly in the Electronic and Electrical (E&E) and Manufacturing and Engineering (M&E) sectors, through collaboration between NCIA (Northern Corridor

Implementation Authority) and High-Tech Industries in Penang, as well as the transformation of Penang into the East's Silicon Valley through cooperation with academia and related industry players, have all contributed to the state's advancement as a premier regional technology hub.

CIA also intends to collaborate with world-class multinational corporations such as Intel Microelectronics (M) Sdn. Bhd. and Motorola Solutions (M) Sdn. Bhd. by signing a Memorandum of Collaboration with Collaborative Research in Engineering, Science, and Technology Centre (CREST) to develop highly skilled software engineers.<sup>19</sup>

## Conclusion

Due to its talented workforce, strong supply chain, first-rate infrastructure and government assistance, Penang has a competitive advantage that makes it a popular location for investment. In addition to offering MNCs operating advantages, the State's well-developed industrial ecosystem also provides a capable platform for local players to engage and flourish.

The State government is also dedicated to supporting investors and facilitating project implementations on the ground for the manufacturing investments that have been approved. The local economy will be impacted by the successful completion of these projects in a number of ways, including increased prospects for supply chain localization, improved technical worker capabilities, and substantial economic spillover and multiplier benefits. When it comes to the total inflow of investment this year, Penang will remain one of the top contributors in the nation.

<sup>1</sup> Pulau Pinang, Department of Statistics Malaysia. [https://www.dosm.gov.my/v1/index.php?r=columncone&menu\\_id=SEfobmo1N212cXc5TFILVTVxWUFXZz09](https://www.dosm.gov.my/v1/index.php?r=columncone&menu_id=SEfobmo1N212cXc5TFILVTVxWUFXZz09)

<sup>2</sup> Penang's History. Seberang Perai Selatan District and Land Office Penang. <https://sps.penang.gov.my/index.php/en/penang-s-history>

<sup>3</sup> Penang: Population and Demographic. Penang Institute. <https://penanginstitute.org/resources/key-penang-statistics/visualisations-of-key-indicators/penang-population-and-demographics/>

<sup>4</sup> State of Penang, OECD Review of Higher Education in Regional and City Development. <https://www.oecd.org/education/imhe/47506877.pdf>

<sup>5</sup> Penang: Gross Domestic Product. Penang Institute. <https://penanginstitute.org/resources/key-penang-statistics/visualisations-of-key-indicators/penang-gross-domestic-product/>

<sup>6</sup> Subnational Human Development Index (HDI). Global Data Lab. <https://globaldatalab.org/areadata/table/shdi/MYS/?levels=1+4&years=2020>

<sup>7</sup> Penang: A Sustainable Investment Location. Virtual Dialogue Session with Embassies, Trade Commissioners & Consultants. <https://cm.penang.gov.my/index.php/en/all-stories/361836-penang-a-sustainable-investment-location-virtual-dialogue-session-with-embassies-trade-commissioners-consultants>

<sup>8</sup> "Eight Samurai" from Japan, Germany & US lead Penang transformational journey. New Straits Times. <https://www.nst.com.my/business/2022/08/822383/eight-samurai-japan-germany-us-lead-penang-transformational-journey>

<sup>9</sup> Penang records RM6.3b approved manufacturing investments in Q1. The Star. <https://www.thesundaily.my/business/penang-records-rm63b-approved-manufacturing-investments-in-q1-1B9388648>

<sup>10</sup> Penang approved RM76.2b manufacturing investments in 2021. The Malaysian Reserve. <https://themalaysianreserve.com/2022/03/10/penang-approved-rm76-2b-manufacturing-investments-in-2021/>

<sup>11</sup> Penang's 2021 Approved Manufacturing Investments Hit All-Time High of RM76.2 Billion. MIDA. <https://investpenang.gov.my/press-release-penang-2021-approved-manufacturing-investments-hit-all-time-high-of-rm76-2-billion/#:~:text=In%20particular%2C%20foreign%20direct%20investments,total%20FDI%20during%20the%20period.>

<sup>12</sup> Penang records approved manufacturing investments of RM14.1b in 2020. MIDA. <https://www.mida.gov.my/mida-news/penang-records-approved-manufacturing-investments-of-rm14-1b-in-2020/>

<sup>13</sup> 2019 Approved Manufacturing Investments Hit Record High of RM16.9 Billion. MIDA. <https://investpenang.gov.my/press-release-2019-approved-manufacturing-investments-hit-record-high-of-rm16-9-billion/#:~:text=The%20RM15%20billion%20FDI%20is,the%20country%27s%20top%20FDI%20destination.>

<sup>14</sup> Penang records RM6.3b approved manufacturing investments in Q1. The Sun Daily. <https://www.thesundaily.my/business/penang-records-rm63b-approved-manufacturing-investments-in-q1-1B9388648>

<sup>15</sup> Penang unveils creative digital district, eyes 50 investors in next 3 years. Marketing Interactive. <https://www.marketing-interactive.com/penang-forges-forward-with-creative-digital-district>

<sup>16</sup> Penang: A Sustainable Investment Location. Virtual Dialogue Session with Embassies, Trade Commissioners & Consultants. <https://cm.penang.gov.my/index.php/en/all-stories/361836-penang-a-sustainable-investment-location-virtual-dialogue-session-with-embassies-trade-commissioners-consultants>

<sup>17</sup> Penang aspires to attract 150,000 knowledge workers over five years: InvestPenang. Human Resources. <https://www.humanresourcesonline.net/penang-aspires-to-attract-150-000-knowledge-workers-over-five-years-investpenang>

<sup>18</sup> <https://investpenang.gov.my/penang-internship-subsidy-programme-pisp-award-presentation/#:~:text=As%20a%20support%20to%20the%20companies%20recruit%20talent%20throughout%202022.>

<sup>19</sup> <https://www.ncer.com.my/wp-content/uploads/2021/10/PR-Penang-JPN-3-2021-6.0.pdf> companies%20recruit%20talent%20throughout%202022.



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