

INSpire

Issue 7 | Jan 2022

50 YEARS

INDUSTRIALISATION

• P E N A N G •

50 YEARS
OF EXCELLENCE
AND BEYOND

About INVEST penang

InvestPenang is the Penang State Government's principal agency for promotion of investment. Its objectives are to develop and sustain Penang's economy by enhancing and continuously supporting business activities in the State through foreign and local investments, including spawning viable new growth centres. To realize its objectives, InvestPenang also runs initiatives like the SMART Penang Centre (providing assistance to SMEs), Penang CAT Centre (for talent attraction and retention) and i4.0 seed fund (a catalyst for the start-up ecosystem).



ATTRACTION, DEVELOPMENT & RETENTION OF TALENTS

- > Resource centre and point-of-contact for employers and talents
- > Policy advocacy on addressing talent gap
- > Secretariat for Penang Future Foundation (PFF)

TALENT ATTRACTION & RETENTION

- > Awarding scholarships to outstanding and deserving students from the field of Science, Technology, Engineering, Mathematics, Accounting & Finance
- > Upon graduation, recipients will become part of the diverse talent pipelines in Penang's workforce



ASSISTING SME TO MOVE UP THE VALUE CHAIN

- > Advisory for market intelligence and financial resources from state & national agencies
- > Assist in creating new business opportunities and capacity building initiatives to develop SMEs' value proposition



FUNDING EARLY STAGE TECH START-UPS

- > Assist high potential tech start-ups with innovative technology products & services to attain commercialization.
- > Enhance local tech start-up ecosystem, encapsulating 'Powered in Penang' capabilities.

INspire - The Team

Writers: Yeoh Bit Kun / Ooi Phei Wen

bitkun@investpenang.gov.my / pheiwen@investpenang.gov.my

Graphic Design & Layout: Hiou Yian Ling

yianling@investpenang.gov.my

About INspire

INspire is a periodic newsletter produced by InvestPenang. This publication aims to give our stakeholders an update on the industry landscape and emerging opportunities in Penang, along with the State's initiatives to support industries. For more information, visit <https://investpenang.gov.my/> or contact us via email at enquiry@investpenang.gov.my or call us +604-646 8833.

Contents

- 2 50 Years of Excellence and Beyond
- 4 2022: A cautious recovery for Penang
- 6 Intel starts construction of new production facility at Bayan Lepas FTZ 3, Penang, as part of its US\$7 billion expansion project
- 8 Penang welcomes JHM and QES's RM190m manufacturing facilities

50 Years of Excellence and Beyond

Steering Penang towards high income economy, driven by digitalization, manufacturing excellence and innovation.

Penang steps into the 50th anniversary of its industrialization journey in 2022. Penang's transformation, from a traditional seaport economy into the Silicon Valley of the East, began in 1972 when the establishment of Malaysia's first free trade zone in the State drew key investments from eight Multinational Corporations (MNCs). Also known as the "8 Samurai"¹, their arrivals have heralded the development of a robust ecosystem of ancillary industries, cemented Penang's conducive location for MNCs' pioneer offshore manufacturing sites and elevated the State's status as a prominent hub for advanced manufacturing and high value-added upstream activities. Importantly, for the past two decades, Penang has also nurtured numerous homegrown technopreneurs, founding and building companies that have grown to become internationally renowned in their own right.

On 17 Jan 2022, the Chief Minister of Penang, Right Honourable Mr. Chow Kon Yeow, officially kick-started the year-long celebration on the 50th anniversary of Penang's industrialisation with a hybrid launching ceremony.

"2022 is a year of celebration for Penang as it signifies the success of our transformation journey over the last five decades. This has laid the groundwork for Penang to unlock limitless potential. The tagline for this celebration **"50 Years of Excellence and Beyond"** aptly describes the State's ambition to capitalise on this springboard and forge ahead with all stakeholders. Together, we can propel Penang to greater heights for the next 50 years and beyond," said Chow.

Dato' Seri Lee Kah Choon, the Chairperson of the Organizing Committee for this celebration, said: "Penang's solid reputation is built on decades of manufacturing excellence and industrial experience. This has translated into far-reaching effects, in terms of moving up the value chain and uplifting the skillset of the local workforce. All these have placed the State on the right trajectory to achieve a high-income economy. Specifically, we are seeing digitalization, manufacturing excellence and innovation as the key drivers and talent pool expansion as the factor underpinning the drivers' success."



From left: Right Honourable Mr. Chow Kon Yeow, Chief Minister of Penang; Dato' Seri Chet Singh, Former General Manager of PDC; Dato' Loo Lee Lian, CEO of InvestPenang; Dato' Dr. Ahmad Jailani bin Muhamed Yunus, Penang State Secretary; Encik Abdul Latiff Abdul Aziz, Deputy CEO of PDC; Dato' Seri Lee Kah Choon, Organizing Committee Chairperson for the 50th Anniversary of Penang's Industrialisation Celebration.

An emblem of the future

During the launching ceremony, Chow also shared that the logo applies a blue and gold combination to portray modernity and grandeur, which is inspired by the Penang flag. In particular, a blue gradient is often associated with technology, digitalization and intelligence, which ties with Penang's aspirations towards a new era of industrialisation. On the other hand, gold highlights the Golden Jubilee of Penang's industrialisation. The logo also incorporates element of binary codes to create a distinct futuristic icon that commensurate with the State's digitalization objective.

Well-curated themes to seize opportunities ahead

The State has established a public-private partnership with industry leaders to outline and coordinate a year-long event with 12 focused themes to demonstrate Penang's successful transformation and forward-looking plans.

Aside from shining a spotlight on Penang's **50 years of manufacturing excellence** which houses top-notched industry players, the curated themes also focus on industries with countless possibilities, including **Electrical & Electronics (E&E), Medical Technology, Digital Economy & Global Business Service (GBS), Food Technology** and **Space Technology**.

Apart from these, **local technopreneurship** and **startup** are among the themes that are apt to be showcased, featuring the capabilities and breakthroughs of homegrown companies.



With the uptake of fourth Industrial Revolution (4IR) technologies that drive productivity and growth, innovation and talent are imperatives that formed the core of Penang's digitalization journey. **Innovation**-related programs, alongside plans on **talent attraction** and **development** will be carried out this year.

In addition, Penang pledged to hold sustainability as one of our top priorities. As such, **Environmental, Social & Governance (ESG)** is firmly on the agenda.

"All the themes coincide with my Penang2030 vision of 'A Family-Focused Green and Smart State to Inspire the Nation'. Going forward, the State is cognizant of the emerging trends and strive to uphold our competitive edge by penetrating into high value-added activities while strengthening the existing industry clusters," Chow elaborated.

Chow expressed his gratitude to all the theme drivers on-board, "The State is delighted to have industry leaders like Aemulus, ams OSRAM, Angkasa-X, Boston Scientific, Exabytes, Inari Amertron, Intel, Keysight, Penang GBS Focus Group and Penang Skills Development Centre (PSDC), joining us as the theme drivers for this meaningful celebration. We welcome all other companies and associations to collaborate with us for this year-long event."

The celebration is also in conjunction with two upcoming international tech events that will be held in Penang, namely the SEMICON Southeast Asia 2022 and the World Congress on Information Technology (WCIT) 2022.

The State government agencies, Penang Development Corporation (PDC) and InvestPenang, have been appointed as the leading agencies for this celebration.

¹ Intel Corporation, Hewlett-Packard (now Keysight Technologies and Agilent Technologies), Robert Bosch, AMD, Litronix (now ams OSRAM), Hitachi (now Renesas), Clarion and National Semiconductor (no longer present in Penang following a corporate M&A exercise).

2022: A cautious recovery for Penang

“After almost two years of unprecedented movement controls and economic disruptions, 2022 appears to be shaping up as the year of cautious recovery.”

Vast opportunities await

As the world economy progressively opens up, there is high expectation that the worst may be over. For Penang, opportunities abound as many sectors continue to grapple with clearing a backlog of orders, caused by the supply chain disruption. This environment is expected to persist for at least another year before normalising, with the key challenge being in the fulfilment of orders rather than a shortage thereof. Companies that have localised supply chains will be the winners.

In addition to the supply chain backlog, other favourable factors include the technology transformation from 4G to 5G, an increasing adoption of Industrial Revolution 4.0 applications and technologies, and the drive for automation due to labour shortages. These factors will sustain an elevated demand for semiconductors, as well as electronic components and finished products in the medium term. Given its integral role in the global semiconductor supply chain, Penang's electrical and electronics industry, together with companies in the related supply chain, will continue to thrive.

Meanwhile, the ramifications of global trade tensions and the Covid-19 pandemic have significantly changed the practices of global supply chain management. Globalised 'Just in Time' manufacturing processes are now replaced by regionalisation and localisation, which provide security of supply and cost efficiencies. This new normal gives Penang-based companies significant opportunities and inroads to fill in gaps in the global supply chain for which they were previously overlooked.



By Dato' Seri Lee Kah Choon

Special Investment Advisor to the Chief Minister of Penang

Stay mindful on the challenges

While sentiment is buoyant, the road to normalcy will not be without challenges. For Penang, moving up the technology value chain will come with a surge in demand for skilled talent. This challenge is a nationwide, multidimensional issue, covering the volume and quality of the young workforce entering the market. This, in turn, amplifies the need for imported labour to supplement the local workforce, and the need to mitigate the outward migration of talent that is currently not matched by inbound migration.

While waiting for the federal government to formulate a holistic, inter-ministerial national human resource strategic plan, the Penang state government has embarked on its own plan to attract talent to the State. Specifically, Penang is banking on its resort-destination environment and balanced lifestyle to attract 150,000 skilled workers to the State over the next five years, to meet the State's human capital requirements and sustain its economic growth. As the need and competition for talent intensifies, production costs are expected to rise, unless the increase is matched by higher productivity.

Apart from increased labour costs, there has also been a broad-based increase in costs of doing business. Raw materials, freight and holding costs for inventory have trended higher, and these will feed into higher end-product costs, although adjustments may or may not be passed on to consumers, depending on the elasticity of the demand of each product.

Meanwhile, political rhetoric meant to shore up popularity of the ruling parties at home, has somewhat had adverse impact on the broader investment sentiment. For example, the

Government's decision to force local logistics companies to divest 51% equity to Bumiputera parties, the move to raise income requirements for MM2H visa holders, and taxing monies repatriated from overseas, have sent negative signals to the international investment community about the stability and security of investments in Malaysia. Such negative narratives can affect Malaysia and Penang as an investment destination.

Shift in business ideology: ESG-driven

In addition to these, there is an increasingly prominent shift in business ideology globally. Environmental, Social & Governance (ESG) issues are becoming more important in the corporate world as stakeholders hold corporate citizens accountable for their ESG impact. As most Penang companies, be they large local companies or small medium enterprises, are in some way part of the global supply chain, ESG compliance is becoming mandatory to stay in favourable light, and also essential for unimpeded access to capital markets. Further, ESG compliance will be favourably regarded by millennials as companies they wish to associate with in terms of employment as well as product preference.

Conclusion

In short, as we emerge from the pandemic, 2022 will present Penang with fresh opportunities as well as challenges. From a direct investment perspective, growth will be led by reinvestments from existing companies, rather than new foreign direct investments.

Companies that take the opportunity to strengthen and improve their internal controls, subscribe to ESG business ideologies, embrace digitalisation and Industry 4.0, will stand in good stead to benefit in the new normal environment.

Intel starts construction of new production facility at Bayan Lepas FTZ 3, Penang, as part of its US\$7 billion expansion project



Intel Corporation (Intel) commenced construction of its new production facility at Bayan Lepas FTZ 3 in Penang with a groundbreaking ceremony on 17 December 2021, as part of the IT giant's US\$7 billion (RM30 billion) expansion project. This multi-phased expansion project in Penang consists of several facilities and is expected to begin production in early-2024.

Being one of Penang's eight pioneering investors back in the 1970s, Intel's entry into Penang was pivotal in sparking the development of ancillary industries in the state. Intel Penang is entrenched in our domestic economy and continues to play a fundamental role in anchoring Penang's position as an advanced regional manufacturing hub.

Intel Penang's US\$1.6 million facility with 100 employees in 1972, was the first offshore assembly plant for Intel. Today, nearly half a century later, Intel Penang has grown into a multi-faceted high-tech campus, which includes an assembly and test facility, Malaysia's largest product design and

development centre and one of only two Intel shared services hubs that supports HR, Finance, Procurement, IT and Supply Chain operations globally.

Intel's decision to deepen its roots in Penang over the past five decades is testament to the state's robust industrial ecosystem, well-developed infrastructure, availability of a skilled workforce as well as liveability stature that upholds Penang as a natural talent magnet.

Officiating the groundbreaking ceremony, the Chief Minister of Penang, Right Honorable Mr. Chow Kon Yeow said, "Penang is one of the country's key focal points for investment inflows and external trade. The state recorded two consecutive years of outstanding investment performance, namely 2019's record-high RM17 billion inflows, and 2020's RM14 billion, which was the second highest on record. With Intel's latest reinvestment, the state's investment performance in 2021 is poised to eclipse past records, driving the state to the next level."

Intel's exemplary corporate citizenship

Chow also commended Intel's dedication in moving the needle to elevate the state's environmental, social and governance (ESG) agenda. "Intel Malaysia has committed over RM5 million towards Covid-19 relief efforts in the country since the onset of the pandemic, supporting hospitals, schools, front-liners and underserved families. Intel Malaysia has also helped vaccinate over 17,000 people from its own workforce, neighbouring companies as well as their respective supply chains."

"Penang is also proud to house Intel's largest solar farm outside of the US, harnessing solar energy to diversify energy supply from natural gas and coal sources. This helps in reducing carbon dioxide emissions. Intel's value proposition has captured the sentiment of the workforce. According to Randstad Malaysia's 2021 Employer Brand Research, Intel is among the top three most attractive employers in Malaysia, known for its stellar reputation, financial health and career progression," Chow elaborated.

"With InvestPenang as the facilitator, the state government will ensure smooth implementation of Intel's expansion, via unwavering support from the state government's administrative machinery. We have been working closely with Intel's local leadership team and will continue to maintain this long-standing relationship in the years to come," he said.



*"50-year industrialisation journey
paves the way for limitless potential"*

Penang is celebrating the success of its transformation journey over the last five decades and will mark the 50th anniversary of its industrialisation journey in 2022. Its robust industrial ecosystem and active participation from both foreign and local companies has generated tremendous momentum and scale, which translates into immense potential that is ripe for the picking. Against this backdrop, the state strives to maintain a sustainable ecosystem and elevate the state's liveability stature to continue attracting high-quality investors and achieve greater heights in the years to come.



Penang welcomes JHM and QES's RM190m manufacturing facilities



From left: Mr. Muhammad Ghaddaffi bin Sardar Mohamed, Director of MIDA Penang; Dato' Loo Lee Lian, CEO of InvestPenang; Dato' Mohd Bazid bin Haji Abd Kahar, Former CEO of PDC; Dato' Tan King Seng, Group CEO of JHM; Right Honourable Mr. Chow Kon Yeow, Chief Minister of Penang; Mr. Chew Ne Weng, Group Managing Director of QES; Dato' Haji Abdul Halim bin Haji Hussain, State Exco for Trade, Industry & Entrepreneur Development; Dato' Seri Lee Kah Choon, Special Investment Advisor to the Chief Minister of Penang.

Two large public-listed local companies (LLCs), JHM Consolidation Berhad (JHM) and QES Group Berhad (QES), have chosen Penang's Batu Kawan Industrial Park (BKIP) for their latest manufacturing facilities. With a combined investment of RM190 million, construction of both projects are slated for completion by 2023. The facilities are expected to create an estimated 1,100 new job opportunities over a five-year period.

JHM: Renowned local electronics manufacturing services (EMS) provider

JHM provides a broad range of integrated engineering solutions, including design, product development, Printed Circuit Board Assembly (PCBA), design and fabrication of tooling, machining and stamping parts, production of microelectronic components and sheet metal fabrication. While automotive lighting and industrial products are its key revenue drivers, JHM also serves the aerospace

and medical device sectors, and recently expanded its product portfolio to include telecommunication equipment/devices.

QES: One-stop specialist in equipment manufacturing & distribution

QES' manufacturing division focuses on automated inspection and automated handling equipment for various semiconductor processes. Serving the needs of the semiconductor, E&E and automotive industries, QES is also the distributor for multiple brands that provide analytical instruments, inspection and test equipment, materials and engineering solutions. In 2021, QES and Applied Engineering (USA) established a joint venture to provide electromechanical contract manufacturing services. QES also recently ventured into IR4.0 and smart manufacturing solutions, providing warehouse management and vending solutions, among others.

Conducive environment backed by strong presence of MNCs

Being a key regional hub for the semiconductor, machinery & equipment and medical device industries, Penang houses more than 350 MNCs and 4,000 manufacturing-related SMEs. The strong presence of MNCs and their continued growth and expansion in Penang has created significant economic spill-over benefits and multiplier effects, such as the creation of supply chain localisation opportunities. The establishment of MNCs in Penang has had far-reaching effects for local companies as it has paved the way for homegrown players to penetrate and entrench themselves in global supply chains in a cost-efficient manner. This has fostered the development of the state's flourishing industry clusters, which in turn, lends competitive advantages to MNCs and LLCs with operations in the state, completing a sustainable symbiotic ecosystem.

The entry of JHM and QES into Penang demonstrates Malaysia's dynamic and supportive environment that allows local companies to operate at multiple locations within the country to take advantage of the unique competitive advantages of each respective location. In this regard, JHM and QES have chosen Penang to leverage on its close proximity to their supply chain and work towards catering to the needs in different segments and achieving better efficiency.

"This new plant will cater to our expansion in ATE (automated test equipment) manufacturing as well as a new venture in IR4.0 Smart Manufacturing Solutions. This new site is expected to provide 100 new job opportunities in 3 years' time, including roles for engineers, technicians, administrative and executive personnel."

- Mr. Chew Ne Weng,
Group Managing Director of QES -

"This expansion will broaden JHM's business portfolio to include assembly and test services for telecommunication equipment and devices, while cater to our expansion plans in the automotive lighting industry. We are aiming to transform JHM to a tier-1 automotive lighting player, enabling us to provide the full lighting solutions and deal directly with the automotive OEMs."

- Dato' Tan King Seng,
Group CEO of JHM -

Heightened domestic direct investment – Increasing focus on high value-added manufacturing

According to data from the Malaysian Investment Development Authority (MIDA), Penang has seen significant growth in domestic direct investments (DDI) recently. In 2020, the state's DDI surged 92% year-on-year to RM3.6 billion, 64% above the 10-year average of RM2.2 billion (2011 – 2020). This momentum persisted through the first nine months of 2021, with the state clocking up RM1.2 billion in DDI, which is equivalent to 43% of the state's total approved manufacturing investments recorded between January and September 2021.

Celebrating the 50th anniversary of Penang's industrialization in 2022, Penang pledged to be the leader, the enabler and the propeller by continuously spearheading the development of a sustainable ecosystem, including the physical and digital infrastructure, workforce, environment and liveability, all of which are believed to anchor Penang's position as a destination of choice for investments.



Invest-in-Penang Berhad
PSDC Building, 1, Jalan Sultan Azlan Shah,
11900 Bayan Lepas, Penang, MALAYSIA.
Tel: 04-646 8833
Email: enquiry@investpenang.gov.my