Malaysia German Chamber of Commerce and Industry – Alexander Stedtfeld, Executive Director



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MGCC's Executive Director discusses the opportunities and challenges for German pharma and healthcare companies to invest in Malaysia, at a time where most have decided to invest and base their headquarters in Singapore.

Could you please start by introducing what are the main tasks and objectives of the Malaysian German chamber of commerce?

The German chambers have three main tasks: one is to represent German business in their respective countries in advocacy, lobbying. The second is to be a member organization. So we currently have a wide member range providing a platform to meet, to exchange experiences, knowledge, organize events, and to publish a magazine. These are typical instruments of our membership work.

And, thirdly, we are also a service provider to business. As a bilateral chamber, our offer goes to German as well as to Malaysian businesses, to small and big ones, to the service industry, to production, or any type of setups. Our typical client is that of a small to medium size German company. Malaysian companies usually go for offers from their own government. It might not be so

good, it might not be so focused on what they really need, but it’s free of charge so it’s difficult to compete with this.

We are a more or less self-financed organization. I say more or less because the chamber network receives subsidies in the form of ‘project funds’ from the German government on the long-term basis. It’s not guaranteed for the future but it has been provided over the last 50 years because the chamber network relieves the German government of certain tasks that are normally carried out by other countries’ foreign missions. The latter is not very cost efficient, and since these governmental organizations are not very close to business, as we are, usually the services they offer cannot provide the level of quality that we are able to provide. Because, as an example, we are a business organization ourselves, so we have to sell our service products on the market against competition, so it’s a different perspective that we have and I see this as an advantage.

How successful has the German chamber been in its objectives in Malaysia?

Talking about success, I’ll do this through two figures. When I came here, we were 17 employees; today we are 27. With these employees, and over time, we have increased our range of services—by employing lawyers, for instance. In 2009, we started offering accounting and payroll services. We extended the office space so we can offer individual small offices and workstations in our German business center as a starting base in Malaysia. Some of the additional staff are covering our increasing business; and additional business means more interest in German companies in Malaysia, especially small to medium size ones.

But we also look after larger companies, so we also do company foundations, we process work permits, and we assist in licensing and registration. To give you an impression of the size of operations, our last year’s turnover was roughly USD 3.5 million. To show you that while membership and size is important, it does not have much financial relevance for us—our membership fees only account for about seven percent of our total revenues, and the funds from the German government about eight percent; so more than 80 percent is financed through offers on the market.

We also involved in strategic areas such as vocational and further training, CSR and green technologies. For instance, we run a dual vocational training program under German standards and quality control, conduct Certified CSR Manager Courses or organize fact finding missions and study tours on renewable energy and energy efficiency to Germany. For that you need the space and you need the resources to do so, so we have to create revenues from such initiatives. We are also a training company because we usually have five to seven interns and trainees and legal interns.

What do you think have been some of the challenges in attracting German companies here to Malaysia?

The size of the market is one challenge. The focus on other markets—China and India in the last years—is another. But it's more that political attention was given to other countries like Vietnam five or six years ago, and now it's Indonesia and Myanmar in a way. Malaysia does not really have a problem attracting companies; it depends on a wide range of factors. For many companies, Malaysia does offer the best deals. Regularly you have five to six new productions being set up in the medium range of between USD 13 and 27 million, but often, sizable German companies stand behind it so if you take the definition of the European Union of an SME, they are all large companies. But still you have many companies that we consider SMEs with 2,000-3,000 people; or a family owned business with 50,000 people. But of course, these are large companies.

It really depends on the range of elements wherein companies base their decisions. So if they need the large domestic market, or would like to start in a large domestic market, obviously Malaysia is not the country of choice. If they need access to low salaries and unskilled workers to a large extent, they would also not come to Malaysia; but many German companies are here. We estimate that there are around 400-500 that actually have some kind of engagement here—production facility, representative office, sales and service organization.

The Off Take Agreement states that if companies come and set up manufacturing facilities in Malaysia, they are awarded a 3+2 year contract from the Ministry of Health. Do you think this will enable more German companies to come here and manufacture?

Well, if this is really the way it is, and guarantees it's a decent offset of the product, at least German companies would be willing to look into this. However, when it comes from the government side, when you look at the public procurement rules in this country, I would be a bit skeptical to what extent this might work: the market, and also the accessibility from here to the other Asian countries, and the size of the companies in Germany, usually doesn't justify a low volume, high technology production here. So it's not that Malaysia is not an attractive business investment destination, it's just the size of the company and the size of the business that usually does not justify the decision to set up a separate production facility here.

With new government investments in healthcare, and as well a rise in medical tourism, do you think that this could bring a breath of fresh air to medical device companies in Malaysia?

As I said, the size of the companies doesn't change and you have a lot of even bigger machine building companies and they are still reluctant to invest outside of Germany. If they do consider this, they usually go for much larger markets, like China. But individually the Malaysian market is too small. Malaysia should rather put much more focus on our free trade agreements.

What would be the benefits for Malaysia, in terms of positioning as a great exporter, when considering the Transpacific Agreement and ASEAN harmonization?

Since Malaysia is already an exporting country—the exports are almost the same size as the GDP—and it is a country that relies on exports and open markets, the Malaysian economy would definitely benefit from free trade agreements, liberalization and harmonization. However, if you look down to the micro level, it would hurt certain sectors and individual businesses. Eventually it will happen and I feel that many of these companies are already preparing for it. Our feeling is that the Malaysian industrial sector has realized that it's coming up against competition and the degree of protection from the government is decreasing. So many companies are doing something to advance from the workbench to enterprises that can provide their clients with R&D facilities. I believe Malaysia is able to stay ahead, and the government has a lot of programs assisting them.

What should be the priorities for Malaysia, and how can it become a high-income nation within the next three to five years?

What does the trick in every country is qualified people and R&D. So what you need is engagement of the private sector. Introducing GST (Goods and Services Tax) is also a good starting point as well as reducing the dependency on the revenues of oil and gas. Malaysia has so many things to offer, and does so many things—intelligent things from the government's side.

It's not about increasing minimum wage salary, although it helps, because the policy behind this is to make it less attractive to have labor-intensive production processes. That's what the government did, and the policy in my view is right in making unskilled labor more expensive or unavailable. By not allowing the number of foreign workers to come into the country that the industry would like to have, the alternative is to invest in better training their people, modern production processes with a higher degree of automation and R&D. It's the only way—a sound financing of society and of the state.

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