

“Innovation distinguishes between a leader and a follower.”

Steve Jobs

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### Taiwan: Busy Signal

Taiwan's crowded telecommunications sector is likely to get even more competitive in the coming months as rival firms strive to woo customers away from each other and launch new services, at a time of economic upheaval.

The telecommunications sector is regulated by the National Communications Commission (NCC), established in early 2006 as an independent body to replace the former regulatory authority, which came under the Ministry of Transport and Communications.

The NCC oversees some 50 companies active in Taiwan's telecommunications sector, providing a wide range of services running through fixed and mobile telephony, internet - fixed line, broadband and WiMax - and cable information provision. Leader of the pack is Chunghwa Telecom. The former state-owned services provider controls around 95% of the fixed line operations in the country, has a 41% share of the wireless market share and more than 80% of the broadband market.

While newcomers to the sector have invested heavily, they have had difficulties eroding Chunghwa's strong position in the market, especially in fixed line services, with most concentrating their efforts in the burgeoning cellular phone segment. The people of Taiwan have strongly embraced mobile phone technology, with some estimates putting total subscriber numbers at around 25.1m, giving a SIM card penetration rate of above 100%. This makes it difficult for overall subscriber levels to expand, which means competing firms can only increase their customer base at the expense of others companies in the market, by offering improved services and lower costs.

This strategy was evidenced at the end of November 2008 when Chunghwa began selling the new Apple's iPhone, having beaten out Taiwan Mobile and Far EasTone for the rights to market the touch-screen handset. As a result, Chunghwa added 122,000 subscribers to its cellular phone lists in December. Shih Mu-piao, Chunghwa's vice president, commented on the outcome on January 23, saying, "Apple's iPhone was definitely a big boost, helping us increase users".

Both Chunghwa Telecom and Taiwan Mobile Corporation have confirmed they would reduce spending in 2009, by 8% to \$882m and 18% to \$202m respectively. Far EasTone is expected to follow suit when it releases its expenditure programme for the year at the end of February. While the immediate prospects for the Taiwanese economy look a little grim, with investment firm Morgan Stanley issuing a report on February 10 predicting a 6% contraction this year and a fall in exports of 23%, telecoms could be one bright light amidst the gloom. The Morgan Stanley report recommended investors should increase their holdings of telecommunications shares, along with blue chip technology companies and firms focusing on meeting domestic consumption demands.

Source: Oxford Business Group [oxford@directiq.com]

## Layoffs loom for Malaysian electronics sector

By Lee Min Keong

**KUALA LIMPUR**—The move by Western Digital, the world's second-largest hard-disk maker, to close its manufacturing facility in the East Malaysian state of Sarawak may portend the start of more layoffs in the country's electronics and electrical (E&E) sector.

Western Digital last month stunned state authorities and its 1,500 employees when it announced it would cease the Sarawak operations and lay off all its workers by March this year. Western Digital also has large manufacturing facilities in the West Malaysian states of Selangor, Penang and Johor. The company was reported to have invested some US\$160 million in Sarawak since it started operations 13 years ago. The Komag plant, which was subsequently acquired by Western Digital, was the pioneer electronics company in the Sama Jaya Free Industrial Zone in Kuching, the state capital.

Sarawak deputy chief minister George Chan Hong Nam, said end last month, he was "shocked" by Western Digital's sudden decision to close down the plant. The E&E sector is one of the pillars of the Malaysian economy, and ironically, this has become a double-edged sword for the country especially during the current global economic slowdown. Some of the largest U.S. and Japanese chipmakers and computer-related firms are operating in Malaysia, particularly in Penang which is home to plants operated by Intel, AMD, Dell, NEC, Seagate, Agilent Technologies, Motorola, Sony, Jabil Circuit and Flextronics.

Those working in Malaysia's electronics sector got more bad news when the Human Resources Ministry's said at the end of last month that close to 5,000 workers, mostly from the electronics sector, will be retrenched by 137 employers in the next three months. Human Resources Minister S. Subramaniam said the figure included the 1,500 Western Digital workers in Kuching. There has been a significant deterioration in the outlook for Malaysia's manufacturing sector as seen by the 7.7 percent year-on-year drop in the Industrial Production Index (IPI) in November. This was the biggest drop since 2001 and steeper than the market expectation of 6.5 percent. The manufacturing sector was the hardest hit, declining 9.4 percent year-on-year and down 2.2 percent from October.

In the northern state of Penang, state government officials are bracing for a spate of layoffs in the electronics sector which provides employment for over 100,000 people there. In anticipation of increased layoffs this year, the Penang government is asking for 500 million ringgit (US\$140 million) from the federal government as part funding to set up a retrenchment fund. In addition, the Penang government itself will be allocating 50 million ringgit (US\$14 million) from its own budget for the purpose.

Intel, which has close to 10,000 employees in Malaysia including about 8,000 at its Penang facilities, said it did not have any announcement pertaining to mass layoffs in Malaysia. Nick Jacobs, Intel Asia-Pacific regional PR group manager, said: "While we continue to optimize our resources in line with business requirements, we've not announced any mass layoffs in Malaysia." "We are taking actions to control discretionary spending by reducing travel, limiting new hiring, and reducing factory loading where necessary," he said in an e-mail reply to ZDNet Asia on whether Intel would be restructuring its operations and reducing headcount in Malaysia. "We currently employ close to 10,000 people in Malaysia, where we have operated for more than 36 years and invested nearly US\$4 billion. Intel remains committed to the investments it has made in Malaysia, both in terms of talent and infrastructure," affirmed Jacobs.

While acknowledging that the global economic crisis was affecting everyone including Intel, Jacobs was confident that the chipmaker would emerge stronger from the current downturn. "In addition to ongoing cost management, we will continue to invest for growth and innovation. We've been through down cycles before—one thing we've learned is that you cannot save your way out of a downturn," he added.

Penang may have dodged a bullet when Dell, the world's second-biggest PC maker, announced last week it will cut 1,900 jobs at a plant in the Irish city of Limerick to reduce expenses. Speculation had been rife in recent months that Dell's Penang factory looked like one of the possible candidates to be closed as the global downturn got worse. Apart from the United States and Ireland, Dell also has plants in China, Brazil and Poland. In Malaysia, the U.S. company employs about 3,000 workers at its Penang and Cyberjaya facilities.

Meanwhile, Malaysian-American Electronics Industry (MAEI) said multinational corporations (MNCs) operating in Malaysia will only resort to laying off employees if all other necessary actions taken to cut costs fail. MAEI chairman Datuk Wong Siew Hai, said many MNCs had implemented various measures to cut operational costs including shutting down factories for a longer period during the last Christmas season as well as having shorter working hours and longer leave periods for employees. In a recent interview with local daily The Star, Wong said that MNCs in Malaysia were also believed to have frozen hiring, adding that corporations would only have "strategic hires" when new products were introduced in the market. He said orders for the first quarter of 2009 were expected to decline, leading many corporations to re-assess their business. MNCs could no longer forecast demand on a monthly or quarterly basis—it is weekly now, he said.

(Source: <http://www.zdnetasia.com> Feb '09)

## Malaysia yet to grow world-class ICT firms

By Lee Min Keong

KUALA LUMPUR—While Malaysia's Silicon Valley, the MSC Malaysia, has spawned some 2,000 'MSC-status' companies, it has yet to develop any world-renowned ICT company, says an official from an industry group.

"Unfortunately, after more than a decade [of the MSC's existence], we still don't seem to have home-grown and globally-renowned ICT firms or leaders that stand the test of global competitiveness," said Bobby Varanasi, head of marketing and branding at Outsourcing Malaysia, an industry body representing Malaysia's outsourcing industry. "Local firms in a variety of ICT sectors still don't stand up as serious competitors in the regional or global competitive marketplace," Varanasi told ZDNet Asia.

"The perception seems to be that the private sector tends to look first to the government for all decisions and support structures, instead of leveraging government as the last port of call," he said, in an e-mail reply regarding queries on the impact of rebranding initiatives undertaken by MSC Malaysia. According to MSC Malaysia's Web site, a total of 1,994 companies had been granted MSC-status as at Dec. 31, 2007, of which only 1,594 were still active businesses. One of Asia's first nationwide ICT initiatives when it launched in the mid-1990s, the Multimedia Super Corridor (MSC) was renamed MSC Malaysia in April 2006. The Multimedia Development Corporation (MDeC), which oversees MSC's development, said the re-branding exercise was necessary to ensure MSC Malaysia and the local ICT industry remained competitive against other global ICT hubs.

### Too big a role?

Varanasi noted that the government, through agencies such as the MDeC, was perhaps taking on too much in its role to develop Malaysia's ICT sector. "Today, it's clear that the government is in the driver's seat... [However], too much handholding isn't always good as it tends to motivate lethargy and mediocrity," he said. "This is, unfortunately, what I've come across in my various interactions worldwide. I think the right balance is for the government to become a facilitator sooner, rather than later, while the private sector has to start [focusing on] value," said Varanasi, who is also chairman and CEO of Matryzel Consulting, a business consulting firm.

He added that the inability of the local ICT sector to step up and be competitive, regionally and globally, has contributed to this state of affairs. "While I think this is not the responsibility of the MSC [to lead the IT sector], the domestic private sector hasn't always played as active a role as one would expect, thereby, putting the pressure back on the MSC to continue to handhold," he explained, urging the need for the private sector to be an active contributor to industry development. "The private sector seems to be inextricably pigeon-holed with bottom-line oriented approaches, while the global marketplace is actively seeking and flexing their business models so long as they can see topline value as key organizational drivers," he said. Varanasi said corporate chiefs of IT companies should take it upon themselves to seriously question if organizations are creating "value or just margins".

"Unless value creation becomes the language of an organization, there is nothing much on the table to offer," he said.

"Today's frenetic pace of commoditization puts further pressure on such chiefs to transform their organizations.

"I don't think the question is about whether CEOs have the ability or not. Rather, the question is, do CEOs see and understand enough of the implications of their bottomline-oriented strategies as short-term gains, with longer-term survival issues at stake," he noted.

Once they realize this, the private sector will rally itself around value, resulting in partnerships, transformation and innovation, he added. Varanasi, however, gave his thumbs-up to the MSC's rebranding exercise, noting that "it has been immensely successful". "Primarily, the rebranding was not just about positioning, but also messaging," he said. "The earlier message reflected a restricted view that a variety of opportunities and incentives were available within the Corridor." "Today, the world views the MSC Malaysia brand to encompass a set of longer-term development goals that include people, knowledge, facilities, policies, infrastructure, innovation, partnerships and growth."

Varanasi said the MSC has been successful in bringing in a significant number of global ICT companies to operate in Malaysia, through the foreign direct investment (FDI) route. The shared services and outsourcing (SSO) sector, for example, has seen significant successes especially in the past five years, he said.

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(Source: <http://www.zdnetasia.com> Feb '09)

## Politics, economy hurting Malaysia's IT sector

By Lee min Keong

KUALA LUMPUR—Local political uncertainties and the increasing impact of the global credit crisis have had a negative impact on Malaysia's IT industry, say industry players here.

The country's beleaguered ruling political elite, still struggling to regain public confidence since the historic gains by a resurgent opposition at the general elections in March this year, has delayed spending by federal and state governments. Malaysia's IT sector association, Pikom, confirmed that various public sector IT deployments, some running into hundreds of millions of ringgit, have been cancelled or delayed. This has severely impacted the IT sector, industry observers said, as the federal government is the country's biggest purchaser of hardware and software.

According to IDC forecasts, the Malaysian government spent 1.3 billion ringgit (US\$373 million) on IT deployments in 2007, or 11.9 percent of the country's overall IT spending. Pikom Chairman David Wong said, since the second quarter of this year, Pikom member companies have suffered an average 30 percent fall in revenue on the back of the political and economic uncertainties.

"Feedback from our members indicated there has been a slowdown in their businesses, especially among those in the retail segment," Wong said in an interview with ZDNet Asia. The association has about 1,000 members. He added that Pikom revised its 2008 growth projects for the Malaysian IT sector, from 10 percent to 7 percent, in light of the prevailing market conditions.

The uncertainty that followed the March elections also had an impact on government spending, he said. "I think that some purchasing of IT hardware and software has been held back and delayed", said Wong, who is also the group CEO of SnT Global, an Asian provider of business process outsourcing (BPO) offerings. For example, he noted, an IT project under the Ministry of Education—valued at "a couple of hundred million ringgit"—that was planned for implementation earlier this year, was eventually delayed. It was only recently that the project appeared to be back on track after the government called for tenders, he said.

Wong said the slide in business has been evident since the middle of the year, about the same time the government announced its cost-cutting measures. "The weakening market became more apparent as the year progressed, in tandem with the worsening conditions of the global economic crisis. Both the government and the private sectors were affected," he said.

### Investors spooked by political chaos

Political instability has also rocked potential foreign investors, according to Wong. "It has impacted the market, too, particularly among foreign businesses that intend to invest in Malaysia," he noted. "Political stability has been one of Malaysia's FDI (foreign direct investment) draw. The recent changes in the political environment might have prompted foreign investors to be more cautious when making their commitments."

As economic conditions worsen, organizations respond by taking a "cautious spending approach", he said. "Most tend to hold back expenditure, especially on yet-to-start projects and adopt the wait-and-see mindset." Meanwhile, software giant Microsoft has also seen a drop in its business and that of its partners in Malaysia. Yasmin Mahmood, managing director of Microsoft Malaysia, told reporters here last week: "Definitely, there is some impact although I think Malaysia is in a stronger position to cope with the economic downturn."

"This is one of the biggest and most challenging global economic situations that we will see in our life time. Malaysia is not totally insulated [from its repercussions] as we have heavily depended on foreign trade, but I believe we are stronger than most [other countries]," Yasmin added. Asked if Microsoft's local partners have seen their business slowed, she said: "Naturally of course. Not only our business, but across the board there has been [a slowdown], particularly the impact from the multinational companies." She declined to provide figures on how much Microsoft business in Malaysia have dipped. However, Yasmin expressed hopes that the Malaysian government's 7 billion ringgit (US\$1.9 billion) economic stimulus package unveiled last week, will help to minimize the impact on the local economy, as well as the IT sector.

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(Source: <http://www.zdnetasia.com> Feb '09)