



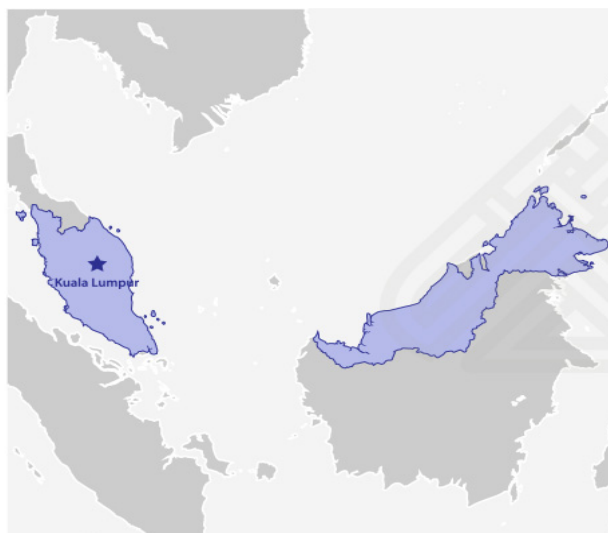
# China Plus One Series: Understanding Malaysia's Appeal to Foreign Investors

Written by: Zoey Zhang, [ASEAN Briefing](#), [Dezan Shira & Associates](#)

- *In recent years, many foreign companies based in China have started planning to move investment to alternative locations in Asia to supplement their operational capacity.*
- *In this series, we profile potential destinations for foreign investors looking to strategically diversify their presence in the Asian market.*
- *A “China plus one” strategy is one where investors complement their core China operations with investment in another country to lower costs, diversify risks, and access new markets.*

Located in the heart of Southeast Asia along the Straits of Malacca, Malaysia is well internationalized and boasts one of the most advanced economies of Southeast Asia. The development of the country benefits from decades of industrial growth and political stability.

## Facts on Malaysia, 2018



📍 Land area	329,847 km <sup>2</sup>
📍 Capital	Kuala Lumpur
👤 GDP	US\$358.58 billion
👤 GDP per capita	US\$11,072
👤 Population	32.4 million
👤 Median age	28.7
👤 Labor force	15.6 million
🗳️ Political System	Federal constitutional monarchy
💰 Currency	Malaysian ringgit
🌐 Major languages	Malay (official), English, Chinese dialects, and the Indian languages – Tamil, Telugu, and Malayalam
✝️ Major religions	Islam (64%), Buddhism, Taoism, Hinduism, Christianity, Sikhism

Source: World Bank, Central Bank of Malaysia (BNM), BBC

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## Economy and industry

Malaysia's economy is well diversified and resilient. It continues to grow at a sustained pace despite the impact of external shocks. Its economy has been on an upward trajectory, with an average growth rate of [5.4 percent](#) since 2010.

In 2018, Malaysia recorded a GDP of US\$358.58 billion, [outranked](#) only by [Indonesia](#), [Thailand](#), and Singapore among the Association of Southeast Asian Nations (ASEAN) countries. Its GDP per capita was US\$11,072 and it maintained a low and stable inflation rate of 0.97.

Malaysia GDP Annual Growth Rate, 2013 – 2019		
Year	Real GDP growth rate (%)	Inflation (%)
2013	4.7	2.1
2014	6.0	3.1
2015	5.1	2.1
2016	4.5	2.1
2017	5.7	3.8
2018	4.7	1.0
2019 (f)	4.5	1.0

f: forecast

Source: IMF, World Bank

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Economic Structure of Malaysia, 2018				
	Output value (RM billion)	Output value (US\$ billion)	Percentage of GDP (%)	Growth rate (%)
Services	683.1	166.7	55.5	6.8
Manufacturing	283.3	69.2	23.0	5.0
Mining	97.0	23.7	7.9	-1.5
Agriculture	95.6	23.3	7.8	-0.4
Construction	55.8	13.6	4.5	4.2

Source: Central Bank of Malaysia (BNM)

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Since gaining independence in 1957, Malaysia has shifted from being an economy based on agriculture and commodities to one driven by manufacturing and services.



In 2018, the manufacturing and services sectors accounted for 23 percent and 55.5 percent of Malaysia's GDP, respectively.

Now, the insatiable global demand for electronics, commodities like oil and gas, as well as rising domestic consumption, are fueling Malaysia's economic growth.

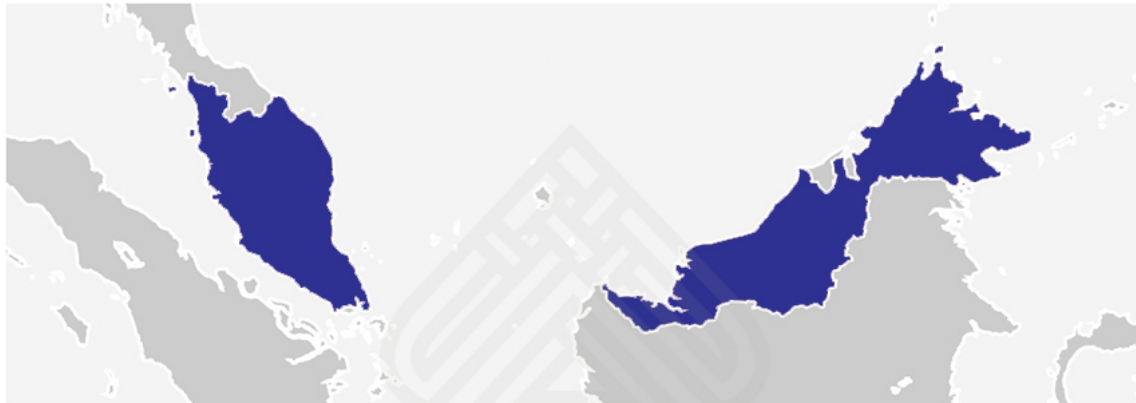
Categorized as an [upper-middle-income economy](#), Malaysia is on its way to achieving high-income status by 2024. The government's 11<sup>th</sup> Malaysia Plan aims to boost productivity, encourage innovation, and increase labor's share of income to attain this goal.

## Trade, investment, and business

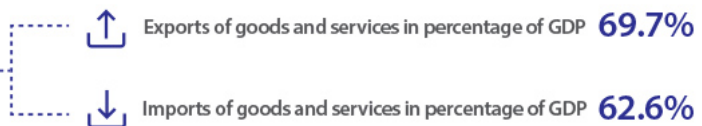
### Trade

Located on a major shipping channel connecting the Indian Ocean to the west and the Pacific Ocean to the east, Malaysia recognizes the importance of international trade. Its growth is highly reliant on trade, with a trade to GDP ratio averaging over 130 percent since 2010. In 2018, Malaysia shipped US\$ 247.3 billion worth of goods around the world, reflecting a 5.6 percent gain since 2014.

Malaysia's Growth is Highly Reliant on Trade



132%

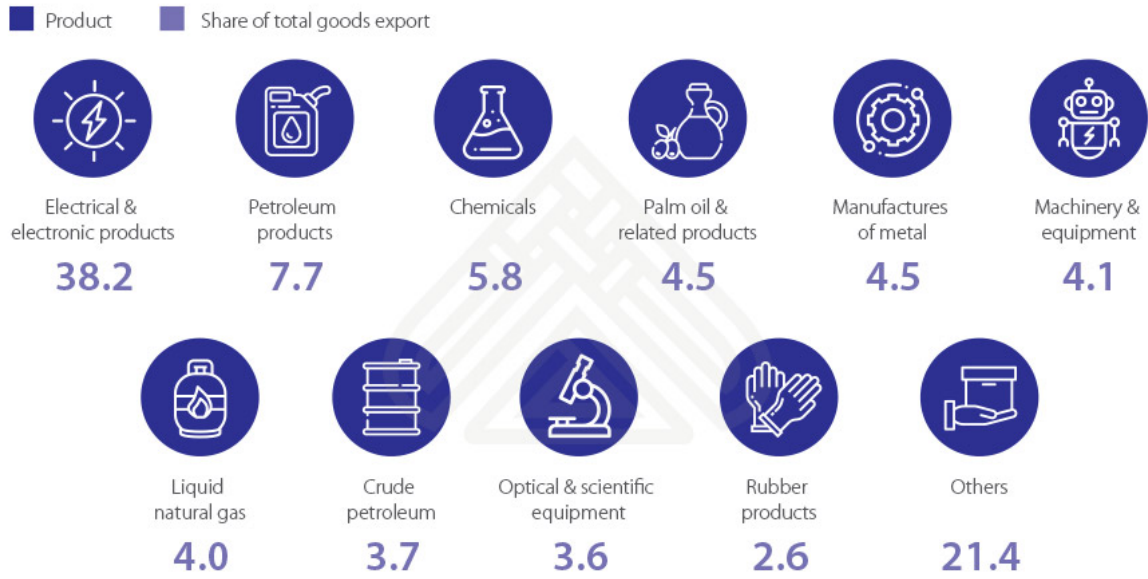


Source: OECD

Graphic© Asia Briefing Ltd.



## Malaysia's Export of Goods by Product, 2018



Source: OECD-WTO

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## Export of Goods by Country, 2018

Country	Share of total goods export
Singapore	13.9
China	13.9
USA	9.1
Hong Kong, China	7.5
Japan	6.9
Thailand	5.7
India	3.6
Vietnam	3.4
Korea	3.4
Australia	3.4
Others	29.2

Source: OECD-WTO

Graphic© Asia Briefing Ltd.



The country exports a large number of electronics, petroleum products, chemicals, machinery, and natural gas around the world. It is also one of the major producers of oil and rubber.

Overall, Malaysia posted a US\$29.8 billion surplus on goods traded in 2018, up 32.2 percent from US\$22.6 billion a year earlier. It has a large surplus in international electronics trade, including as a net exporter of consumer electronic gadgets.

The most in-demand goods shipped from Malaysia include electronic integrated circuits and its related parts, refined petroleum oil, petroleum gas, computers, optical readers, solar power components, and palm oil.

According to Nomura, the Asia-based financial services group, Malaysia has been one of the top five beneficiaries of the [US-China trade war](#), especially in its exports of [electronic integrated circuits and semiconductor devices](#).

Singapore, China, the US, Hong Kong, and Japan are the top five export destinations of Malaysia's products. [Continent-wise](#), in 2018, 72.2 percent of Malaysian exports by value were delivered to Asian countries, while 10.6 percent to Europe and 10.3 percent to North America.

Malaysia highly values regional and bilateral trade agreements. It joined the General Agreement on Trade and Tariff (GATT) in 1957, which was replaced by the World Trade Organization (WTO). The country is thus a founding member of the WTO.

Malaysia is one of the ten ASEAN member countries and is a member of the Regional Comprehensive Economic Partnership (RCEP) negotiations – an international free trade agreement (FTA) between the ten ASEAN countries and six countries that have signed FTAs with ASEAN, namely Australia, China, India, Japan, New Zealand, and South Korea.

Malaysia is also a member of the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) – which used to be the Trans-Pacific Partnership Agreement (TPPA), a trade agreement between the 12 Pacific Rim countries, and was renamed as CPTPP after the US withdrawal under President Donald Trump.



By far, Malaysia has seven bilateral FTAs with Australia, Chile, India, Japan, New Zealand, Pakistan, and Turkey. Through ASEAN, Malaysia has regional FTAs with China, Japan, Korea, India, Australia, New Zealand, and Hong Kong. It also participates in the ASEAN Trade in Goods Agreement (ATIGA).

Malaysia's Free Trade Agreements	
Bilateral FTAs	Regional FTAs
<b>Effective</b>	
<ul style="list-style-type: none"> <li>• Malaysia-Australia FTA</li> <li>• Malaysia-Chile FTA</li> <li>• Malaysia-India FTA</li> <li>• Malaysia-Japan FTA</li> <li>• Malaysia-New Zealand FTA</li> <li>• Malaysia-Pakistan FTA</li> <li>• Malaysia-Turkey FTA</li> </ul>	<ul style="list-style-type: none"> <li>• ASEAN FTA</li> <li>• ASEAN-Australia-New Zealand FTA</li> <li>• ASEAN-China FTA</li> <li>• ASEAN-India FTA</li> <li>• ASEAN-Korea FTA</li> <li>• ASEAN-Japan FTA</li> </ul>
<b>Partly Effective</b>	
<ul style="list-style-type: none"> <li>• The Trans-Pacific Partnership Agreement (TPPA)/ the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP)</li> </ul>	
<b>Under negotiation</b>	
<ul style="list-style-type: none"> <li>• Malaysia-EU FTA</li> <li>• Malaysia-European Free Trade Association Partnership</li> </ul>	<ul style="list-style-type: none"> <li>• ASEAN-EU Free Trade Agreement</li> <li>• The Regional Comprehensive Economic Partnership (RCEP)</li> </ul>

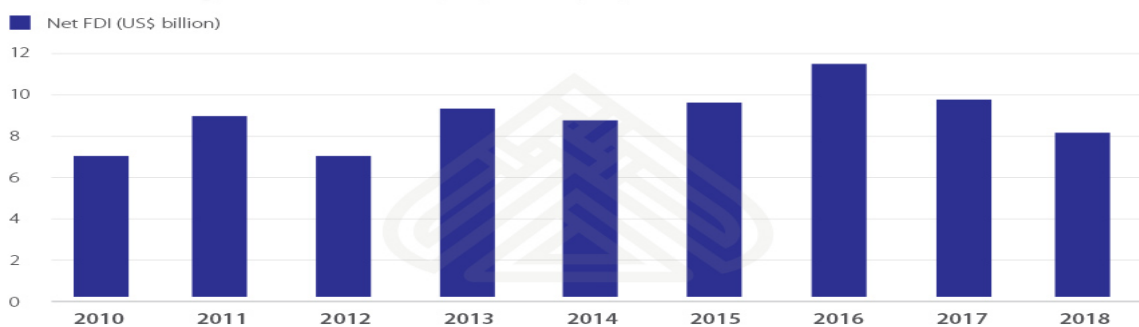
Updated as of January 2020  
Source: Ministry of International Trade and Industry of Malaysia

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## Investment

In 2018, FDI in Malaysia recorded a lower net inflow of RM32.6 billion (US\$7.42 billion) as against RM40.4 billion (US\$9.13 billion) in 2017. The FDI flows were in a downward trend since 2017 due to lower investment in the mining and quarrying sector.

Statistics of Foreign Direct Investment (FDI) in Malaysia, 2010-2018



Source: Department of Statistics Malaysia

Graphic© Asia Briefing Ltd.



More than 50 percent of FDI inflow went into the services sector and 47 percent into the manufacturing sector. The US, China, the UK, Hong Kong, Singapore, and Japan contributed the most FDI in Malaysia in 2018. Continent-wise, Asia (44.9 percent) remained the highest region of FDI flows, followed by Europe (33.7 percent).

The Malaysian government allows 100 percent foreign ownership in healthcare, retail, education, as well as professional, environmental, and courier services sectors. Export-dependent Malaysia is keen to attract FDI and promote high-value manufacturing. Investment incentives like corporate income tax exemption and tax allowance are provided in industries, such as advanced electronics, medical devices, biotechnologies, and green technologies.

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## **Business environment and cost**

In 2020, Malaysia ranked 12<sup>th</sup> among 190 economies in terms of ease of doing business (World Bank [Doing Business Report 2020](#)).



Malaysia's Competitiveness and Efficiency Indicators			
Index	Rankings		
	2018	2019	2020
Corruption Perception Index	61/180	N/A	N/A
Ease of Doing Business	24/190	15/190	12/190
Ease of Paying Taxes Index	73/190	72/190	80/190
Global Competitiveness Index	22/63	22/63	N/A
Logistics Performance Index	41/160	N/A	N/A

Source: World Bank, IMD, Transparency International

Graphic © Asia Briefing Ltd.

The country continues to be attractive to foreign investors due to its broadly liberal and transparent investment policy, a developed infrastructure, attractive incentives, and high cost-competitiveness.

MIDA's website details the costs of starting a business in different regions of Malaysia as well as taxation, human resource, utilities, transportation cost, and living costs (check out [here](#)).

We present some of the key data below.

### Malaysia's tariffs

- Import duties – zero to 50 percent; and
- Export duties – five to 30 percent, applying to 217 tariff lines (the export of products, such as rubber, timber, palm oil, and tin requires special permission from the relevant Malaysian government agencies and may be subjected to higher taxation).

### Malaysia's business taxes

- Corporate income tax – 24 percent on non-resident companies;
- Sales and service tax (SST) – five percent or 10 percent of standard sales tax rates, six percent of service tax rate; and
- Branch tax rate – 24 percent, no tax is withheld on transfer of profits to a foreign head office.

### Malaysia's labor cost

- [Minimum wage](#) – RM1,200/month (US\$295/month).

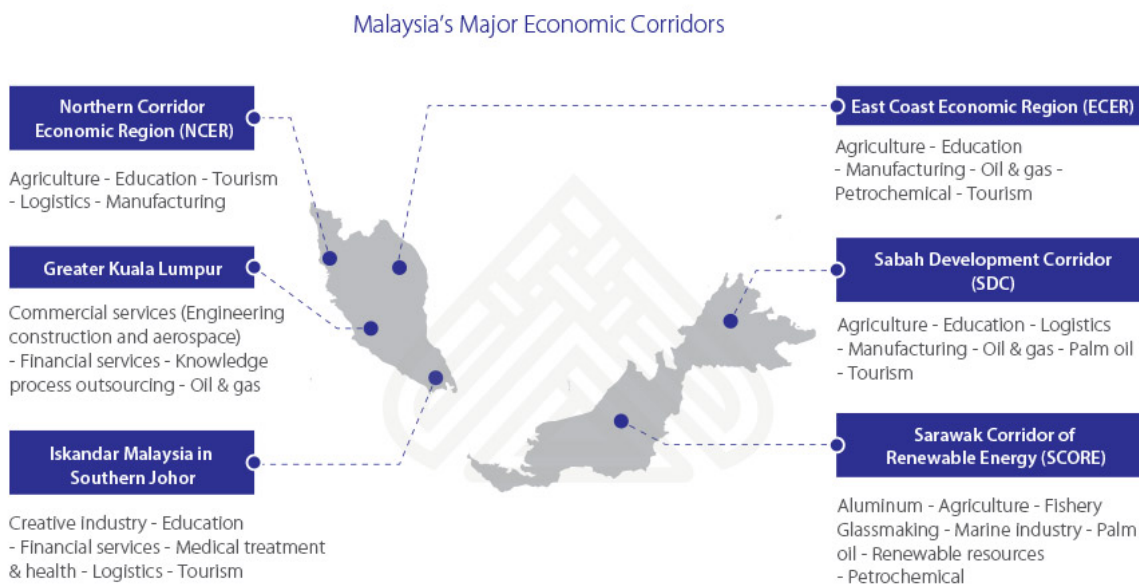




- Social security contributions – 12 percent of employer’s contribution if the employee’s monthly wages are above RM5,000 (US\$1,138.6) per month or 13 percent if the employee’s monthly wages are below RM5,000 per month. Employees’ contribution rate is fixed at 11 percent of monthly wages – regardless of income level.

## Where to invest in Malaysia

Malaysia’s six major economic corridors provide a wide range of investment opportunities



Source: MIDA, Ernst & Young

Graphic © Asia Briefing Ltd.

The following is a summary of the economic corridors:

### Northern Corridor Economic Region (NCER)

The NCER covers the Perlis, Kedah, and Penang state and Northern Perak in the northern part of the Malay peninsula, with an area of about 18,000 square kilometers, focusing on encouraging investment in sectors like agriculture, manufacturing, tourism, education, and logistics.



## **East Coast Economic Region ([ECER](#))**

The ECER covers areas on the east coast including the states of Kelantan, Terengganu, Pahang, and Mersing Jetty port in Johor, with an area of about 67,000 square kilometers across 51 percent of Peninsular Malaysia, focusing primarily on the country's traditional strengths in manufacturing, agribusiness, oil and gas, petrochemical, and tourism.

As inward investment focused almost exclusively on Kuala Lumpur and the southern states of Selangor and Johor, NCER and ECER became key projects to promote investors' interest in the country's northern regions.

## **Sabah Development Corridor ([SDC](#))**

The SDC covers a large part of Sabah state in East Malaysia, with an area of about 74,000 square kilometers, focusing on encouraging investment in tourism, logistics, agriculture, and manufacturing.

## **Greater Kuala Lumpur ([Greater KL](#))**

The Greater Kuala Lumpur area comprises 10 municipalities of Kuala Lumpur and its surrounding areas in Selangor. The government plans to build the Greater Kuala Lumpur area as an international metropolitan as a foothold for Malaysia to progress towards becoming a high-income nation. Commercial services, financial services, and knowledge process outsourcing are encouraged there.

## **Iskandar Malaysia in Southern Johor ([IRDA](#))**

The IRDA is located in Johor state at the southern tip of the Malay peninsula, with an area of about 2,200 square kilometers and focusing on promoting the services sector as a key driver of economic development, such as tourism, education, health care, logistics, creative industries, and financial services. Established in 2006, it was envisaged as a world-class business, residential, and entertainment hub. Investors here are keen to capitalize its proximity to Singapore.



## Sarawak Corridor of Renewable Energy ([SCORE](#))

The SCORE is located in the northwest of Sarawak state in east Malaysia, with an area of about 71,000 square kilometers. Sarawak state is rich in energy resources. Major industries here are oil and gas, aluminum, glass, palm oil, timber, animal husbandry, aquaculture, marine engineering, and other renewable resources.

With its superior business infrastructure, a position as a gateway to regional and global markets, abundant natural resources, and multilingual talent pool – Malaysia is rapidly becoming a major global investment destination. Foreign entities should consider some key points in order to develop an enduring and long-term strategy and successful business action plan for investment in Malaysia. They are advised to seek professional service agencies and match with relevant business partners where applicable so that they have a grasp of Malaysia's company laws, taxation schemes and area-wise incentives, understand regional cost comparisons, and can combine international best practices with local norms in the target area.

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