

Data and Profiles - Market Profiles

Malaysia: Market Profile

🕒 24 Feb 2021

📝 Fitch Solutions



1. Overview

Malaysia is one of the most open markets in the world. Its economy is well diversified and has successfully weathered the impact of external shocks. This has been bolstered by strong macroeconomic management, with low and stable inflation and on-track fiscal consolidation. The financial system remains well-functioning and regulated, boasting a well-capitalised banking system and deep capital markets. An increasingly challenging external environment will reduce opportunities for export-led growth in the short term. However, domestic demand is expected to continue to anchor economic growth, supported by continued income growth and a stable labour market. In the long term, growth will be driven by rising productivity levels.

Sources: World Bank, Fitch Solutions

2. Major Economic/Political Events and Upcoming Elections

January 2019

Sultan Abdullah of Pahang was sworn in, succeeding Sultan Muhammad V.

July 2019

The Ministry of Transport in Malaysia sanctioned the 29.9km Komtar-Bayan Lepas Light Rail Transit (LRT) project with 30 conditions, after reviewing a detailed project study submitted to the ministry by Penang Economic Planning Unit. The conditions included a Detailed Environmental Impact Assessment for the project and the Penang South Reclamation, a social impact assessment, a heritage impact assessment and traffic impact assessment. The MYR8.4 billion (over USD2 billion) project was part of the MYR46 billion (almost USD11.2 billion) Penang Transport Masterplan.

September 2019

Vsolar Group's wholly-owned Solar Interactive had entered a collaboration and alliance agreement with Genbayu Gemilang for the construction of a solar energy generation facility in Negeri Sembilan, Malaysia. The photovoltaic (PV) facility, with an installed capacity of up to 90MW, would be built on a nearly 1.2sq km site owned by Genbayu at Setul in Seremban.

November 2019

UK-based medical device maker Smith & Nephew unveiled plans to build its new manufacturing facility in Penang, Malaysia. The facility, which would mainly support the company's orthopaedics franchise, would come up at Batu Kawan Industrial Park. Construction was likely to start in early 2020, while the first production batches were expected to be shipped before the end of 2022.

January 2020

Bank Negara Malaysia, the central bank cut the overnight policy rate by 25bps to 2.75% to bolster the economy amid signs of global slowdown.

February 2020

Malaysia's Prime Minister Mahathir Mohamad stepped down.

March 2020

Muhyiddin Yassin was sworn in as prime minister on March 1.

Malaysia put a Movement Control Order (MCO) in place from March 18 and would be effective until at least April 28, 2020. All public gatherings, borders, schools and universities, and non-essential businesses were closed.

To reduce the effect of Covid-19 in the state, Malaysia released a stimulus package of MYR25 billion (1.7% of GDP) on March 27, including additional health spending and wage subsidies to help employers retain workers and infrastructure spending in East Malaysia. The government also set up a MYR50 billion fund for working capital loan guarantees for all Covid-affected businesses.

June 2020

A Recovery Movement Control Order (RMCO) took effect on June 10, lifting most restrictions on domestic activities and movement. Borders remain closed and restrictions on overseas travel had been extended to at least December 31, 2020, although the authorities are discussing travel bubbles with other countries in the region.

The prime minister announced tax incentives aimed at attracting foreign companies to relocate their businesses to Malaysia.

July 2020

AIMS Data Centre had started construction on a new Tier III datacentre facility in Cyberjaya. The datacentre would have a white space of 22,296.7sq m and a power capacity that was scalable up to 50MW. The new facility was expected to go online in late 2020, according to DatacenterDynamics.

October 2020

Top Corporation, a Japan-based medical device company, opened its new manufacturing company, Medijoy International, in Tech-Valley Industrial Park in Seremban. This was the second manufacturing company Top Corporation was operating in Malaysia. The plant would produce consumables, such as syringes, needles, catheters and infusion sets for the Malaysian and South East Asian market, expanding the production operations of Top Corporation's existing Meditop facility, which employs around 2,000 people.

November 2020

The Malacca state government cancelled the USD10.5 billion Malacca Gateway as the project's developer had failed to complete the reclamation works after three years as contracted.

December 2020

Malaysia budget carrier AirAsia announced plans to reduce its fleet size, as it faces increasing financial pressures as a result of the Covid-19 pandemic. A month earlier, its Japanese subsidiary, AirAsia Japan, filed for bankruptcy.

January 2021

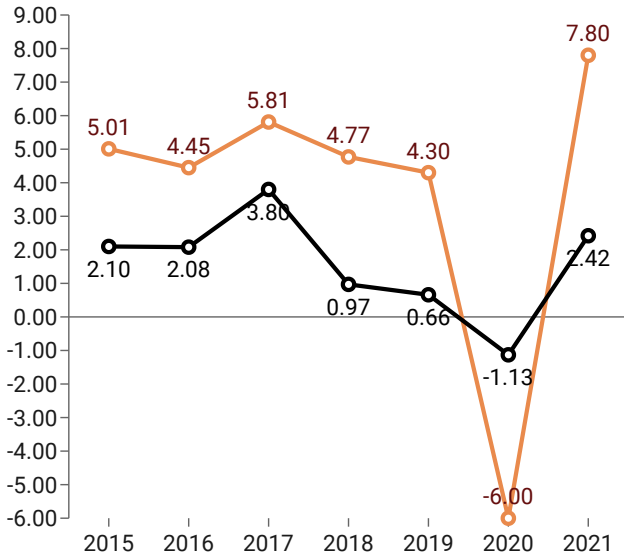
On January 11, Prime Minister Muhyiddin Yassin announced that an initial two-week lockdown would begin on January 13 (lasting until January 26) in five states – Penang, Selangor, Melaka, Johor and Sabah – and the federal territories of Kuala Lumpur, Putra Jaya and Labuan.

On January 12, King Abdullah of Pahang approved the government's move to declare a state of emergency, citing the need for those powers to fight the third wave of infections. The emergency would last until August 1.

Sources: BBC Country Profile – Timeline, IMF, Fitch Solutions

3. Major Economic Indicators

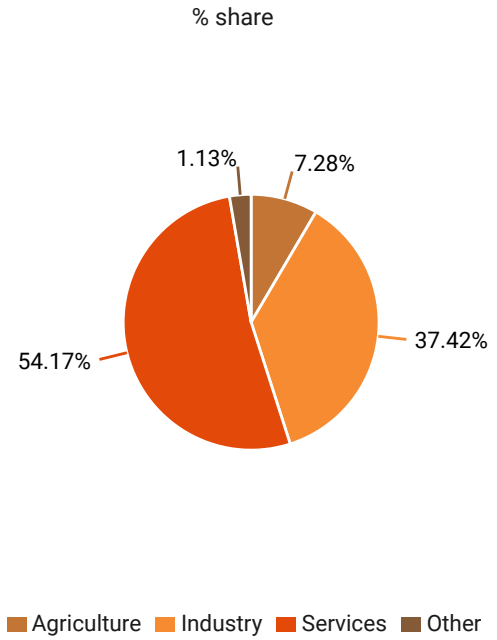
Real GDP and Inflation



— Real GDP — Inflation

2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 22, 2021

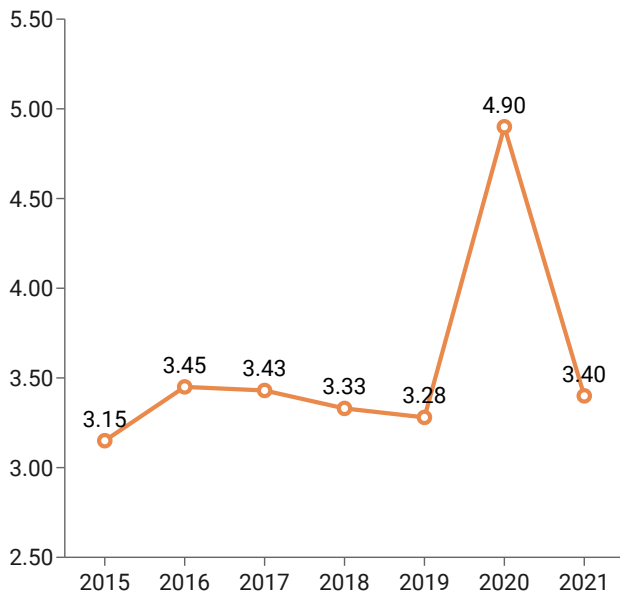
GDP by Sector (2019)



■ Agriculture ■ Industry ■ Services ■ Other

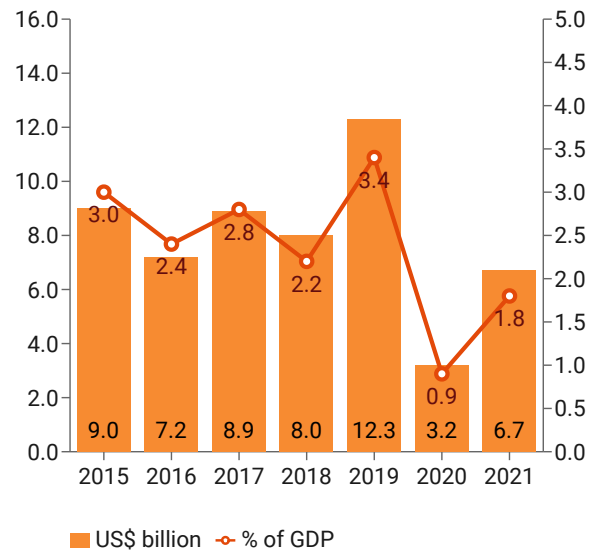
Source: World Bank
Date last reviewed: January 22, 2021

Unemployment Rate



2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 22, 2021

Current Account Balance



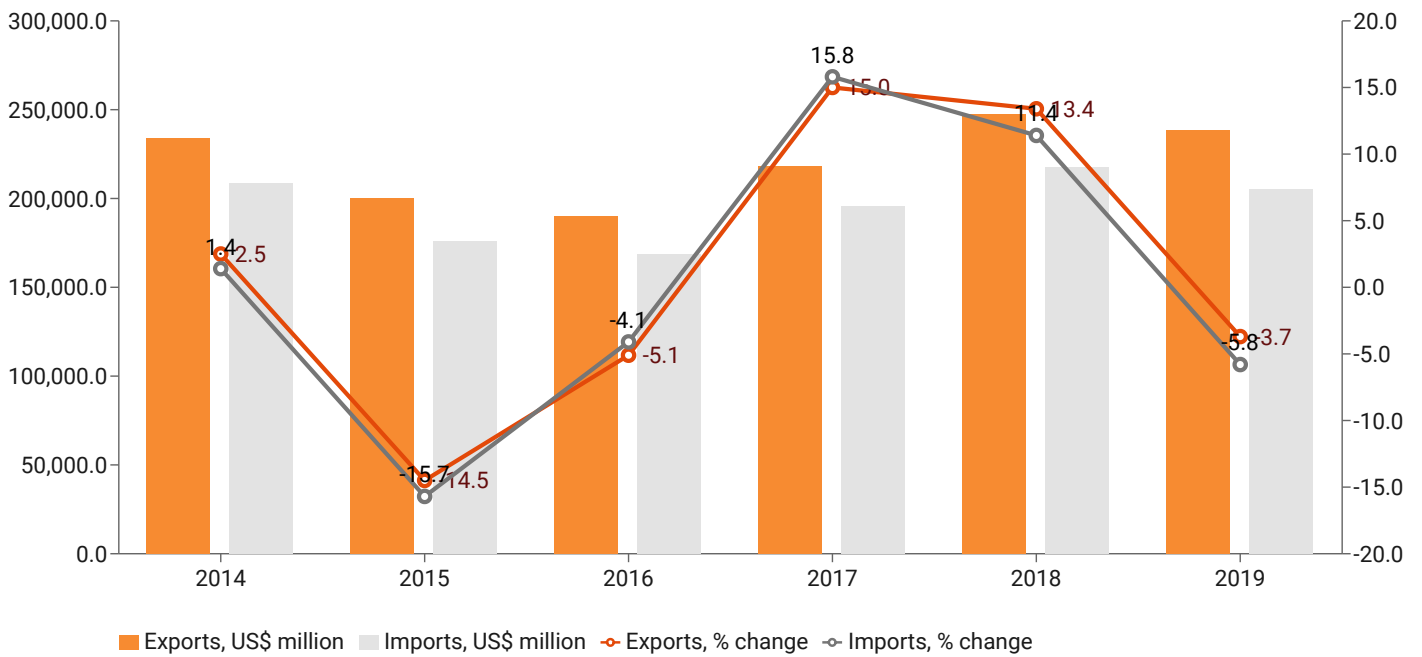
■ US\$ billion — % of GDP

2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 22, 2021

4. External Trade

4.1 Merchandise Trade

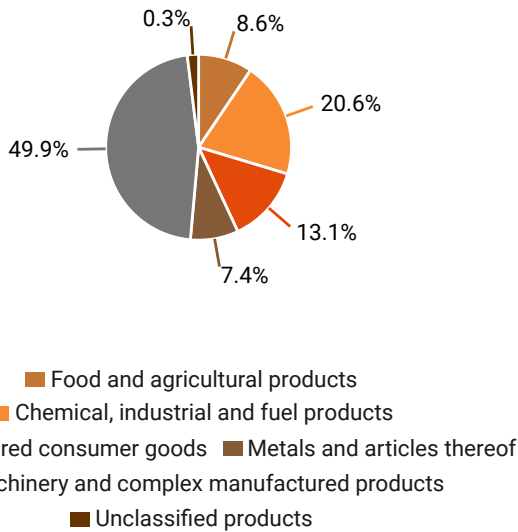
Merchandise Trade



Source: WTO
Date last reviewed: January 11, 2021

Major Export Commodities (2019)

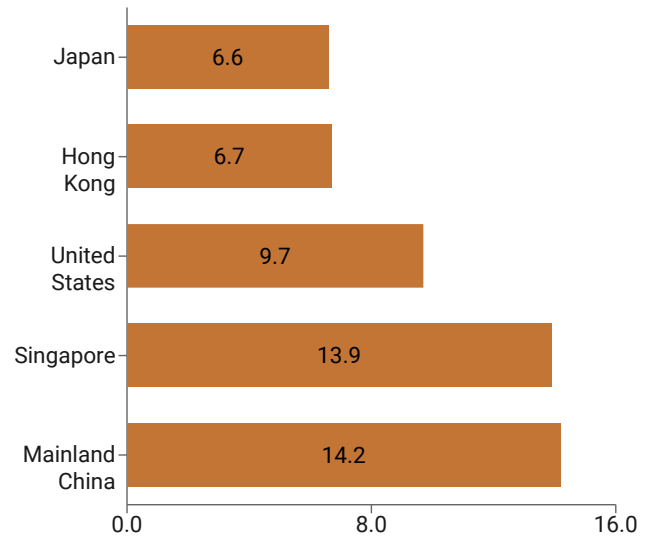
% share



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 22, 2021

Major Export Markets (2019)

% share



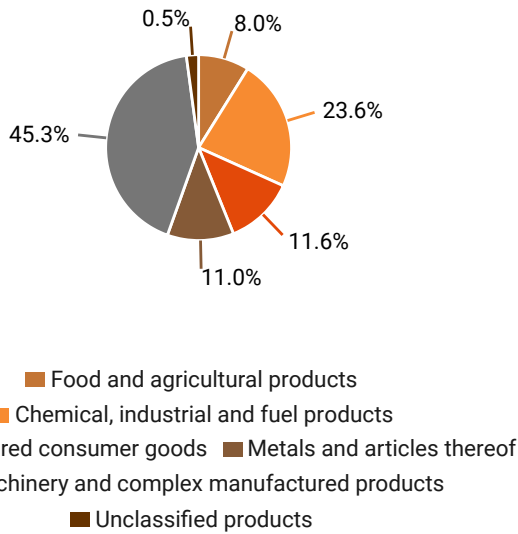
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 22, 2021

Major Import Commodities (2019)

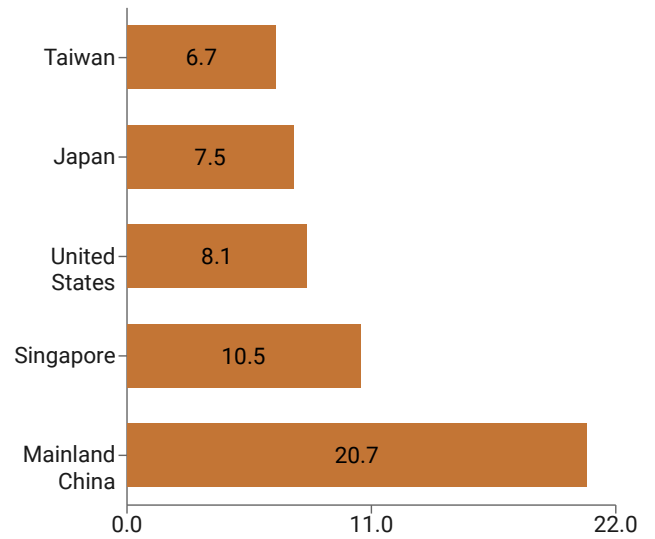
% share

Major Import Markets (2019)

% share



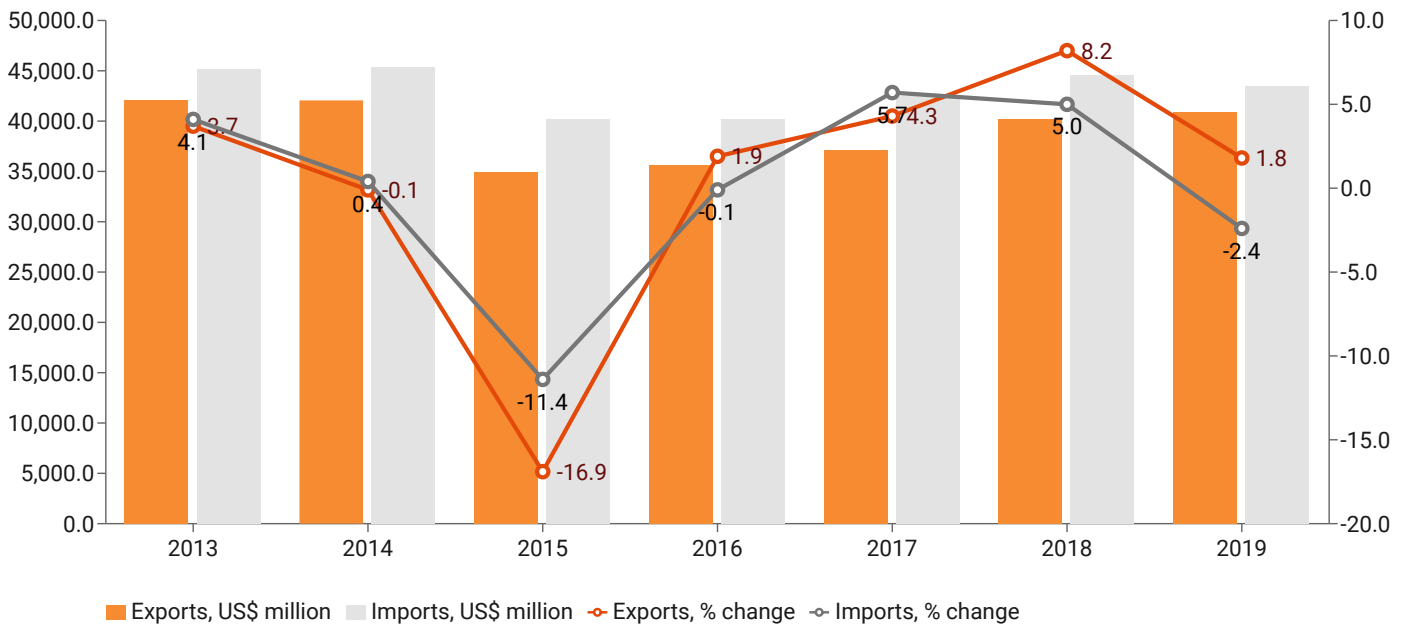
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 22, 2021



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 22, 2021

4.2 Trade in Services

Trade in Services



2019 (estimate)
Source: WTO
Date last reviewed: January 11, 2021

5. Trade Policies

- Malaysia has been a member of the World Trade Organization (WTO) since January 1, 1995.
- Malaysia is a member of the ASEAN, alongside Brunei, Cambodia, Indonesia, Laos, Myanmar, Philippines, Singapore, Thailand and Vietnam. Malaysia has preferential tariffs for imports from ASEAN members (these cover textiles, textile products, wheat flour, wood products and iron and steel products), as well as being more informal on certification procedures and rules of origin from the bloc.
- Malaysia's average applied most-favoured-nation tariff increased from 5.6% in 2013 to 7.5% in 2017.
- Almost all rates (99% of tariff lines) are ad valorem, while duty-free lines account for 56.2% of all tariff lines. The number of different tariff rates increased from 19 in 2013 to 25 in 2017.

- Ad valorem tariff rates range from zero to 60% for industrial products and 0-90% for agricultural products. Among different product groups, average tariffs are highest for transport equipment (the simple average tariff rate was 21.5% in 2017).
- Import duty exemptions are applied to local and foreign manufacturing companies on raw materials and components used in the manufacture of goods for export and for machinery and equipment not available in Malaysia, but used directly in the manufacturing process.
- Malaysia requires import licenses for imports of "sensitive" or strategic industries (mainly construction equipment, autos, agriculture, meat and basic machinery).
- Export duties range from 5-30% and apply to 217 tariff lines (mainly crude oil, palm oil and wood).
- The export of products such as rubber, timber, palm oil and tin requires special permission from relevant government agencies and, in order to encourage domestic processing, these may be subjected to additional taxation.
- Malaysia's average tariff rate stands at 4.4%. Import duties levied on goods imported into Malaysia generally range from 0-50%. Goods such as raw materials, machinery, essential foodstuffs and pharmaceutical products are not dutiable or are subject to lower tariffs.
- Importers of meat and poultry products must meet halaal certification standards. The import of pork is subject to an additional permit requirement and a valid import permit issued by the Malaysian Quarantine and Inspection Services must be obtained for every consignment of pork.
- Alcohol beverages are subject to an effective tariff rate of up to 500% of their value when import duties and excise taxes are combined.
- Malaysia has imposed various anti-dumping measures on a wide range of products, predominantly in the areas of machine parts, steel, iron and machinery on goods coming from Mainland China and a few other Asian nations to protect domestic industries.

Sources: WTO – Trade Policy Review, Fitch Solutions

6. Trade Agreements

6.1 Multinational Trade Agreements

Active

1. Malaysia is a member of the WTO (effective date: January 1, 1995).
2. ASEAN Free Trade Area (AFTA – effective as of January 1993): AFTA reduces tariff and non-tariff barriers between member states. The 10 members of the AFTA are Brunei, Cambodia, Indonesia, Laos, Myanmar, Philippines, Singapore, Thailand and Vietnam. Five of the member states are significant trading partners of Malaysia. Advantages will also accrue from the planned integration of the ASEAN Economic Community (AEC) which will provide a significant advantage to Malaysia, reinforcing its position as a manufacturing hub.
3. ASEAN-Mainland China Free Trade Agreement (FTA) and Economic Integration Agreement (effective date: January 2005 for goods and July 2007 for services): The FTA is a comprehensive economic co-operation between ASEAN member states and Mainland China. The goal of the agreement is not only to eliminate tariffs, but also to address behind-the-border barriers that impede the flow of goods and services. Mainland China is Malaysia's largest trade partner, accounting for 13.9% of Malaysia's exports and supplying 19.9% of imports.
4. ASEAN-South Korea FTA (AKFTA – effective date: July 2007 for goods, May 2009 for services): AKFTA aims to create more liberal, facilitative market access and investment regimes between South Korea and ASEAN. A business council was set up in December 2014 to enhance economic cooperation between parties and boost total trade to USD200 billion by 2020. The agreement allows 90% of the products being traded between the ASEAN and South Korea to enjoy duty-free treatment. South Korea is one of Malaysia's top 10 trade partners.
5. ASEAN-India Comprehensive Economic Cooperation Agreement (effective date: January 2010): The agreement involves the liberalisation of tariffs on over 90% of products traded between the two regions, including the so-called 'special products', such as palm oil (crude and refined), coffee, black tea and pepper.
6. ASEAN-Australia-New Zealand FTA (AANZFTA – effective date: January 2010): The agreement aims to eliminate tariffs on 99% of exports to key ASEAN markets by 2020. AANZFTA aims to decrease barriers to trade in both goods and services, allowing for greater market access. The agreement covers nearly 700 million people.
7. ASEAN-Japan FTA: The ASEAN-Japan FTA is for goods only and came into force on December 1, 2008. The agreement will lead to the progressive elimination of tariffs on all goods and creates a potential regional market of over 750 million people. The FTA benefits a number of important sectors, including manufacturing, mining and agriculture.

8. ASEAN-Hong Kong FTA (AHKFTA): Hong Kong and the ASEAN commenced negotiations of an FTA and an Investment Agreement in July 2014. After 10 rounds of negotiations, Hong Kong and ASEAN announced the conclusion of the negotiations in September 2017 and forged the agreements on November 12, 2017. The agreements are comprehensive in scope, encompassing trade in goods, trade in services, investment, economic and technical co-operation, dispute settlement mechanism and other related areas. The agreements will bring legal certainty, better market access and fair and equitable treatment in trade and investment, thus creating new business opportunities and further enhancing trade and investment flow between Hong Kong and the ASEAN. The agreements will also extend Hong Kong's FTA and Investment Agreement network to cover all major economies in South East Asia. The agreement came into force on January 1, 2019 but will take time for all members of the ASEAN to comply as implementation is subject to completion of the necessary procedures. Hong Kong is a key export market and the reduction of tariffs will ease the trading process; Hong Kong's potential as a key export market increases the importance of AHKFTA.
9. Comprehensive and Progressive Trans-Pacific Partnership (CPTPP – effective date: March 8, 2018): The agreement comprises Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. The agreement was ratified in Q418, with the deal representing 13.4% of global GDP, making it the third-largest trade agreement after the North American FTA (the USMCA) and the European Union (EU). The agreement aims to cut tariffs, improve access to markets and set common ground on labour and environmental standards and intellectual property protections. The deal is particularly positive for Malaysia, as the United States' increasingly protectionist stance will have negative implications for its main trading partners.
10. Malaysia-Chile FTA (effective date: April 18, 2012): The agreement aims to progressively reduce or eliminate tariffs on their respective industrial and agricultural products. As part of the agreement, Malaysia undertook to fully eliminate import duties on 9,311 tariff lines on date of entry into force. Chile undertook to fully eliminate import duties for 6,960 tariff lines from the date of entry for products that include video recording apparatus and data processing machines (electrical and electronic items), vulcanised rubber thread and cord, surgical gloves, vegetable fats, cocoa butter, fats and oil and parts of aircraft. A number of these measures have been superseded by the CPTPP.
11. Preferential Tariff Arrangement-Group of Eight Developing Countries (effective date: August 2011): The agreement involves countries that are members of the D-8 Organization for Economic Co-operation, namely Indonesia, Malaysia, Bangladesh, Pakistan, Iran, Egypt, Turkey and Nigeria. Objectives of the member countries are to reach a preferential trade agreement to enhance intra-trade and an agreement on administrative assistance in customs matters.
12. Malaysia-India Comprehensive Economic Co-operation Agreement (effective date: July 2011): This comprehensive agreement covers trade in goods, services, investments and the movement of natural persons. The items on which India has obtained market access from Malaysia include basmati rice, mangoes, eggs, trucks, motorcycles and cotton garments, all of which are items of considerable export interest to India. At the same time, adequate protection has been provided by the Indian side for sensitive sectors, such as agriculture, fisheries, textiles, chemicals and autos. This agreement covers a number of categories without provisions in the ASEAN-India Comprehensive Economic Co-operation Agreement.
13. Malaysia-Australia FTA (effective date: January 2013): The agreement is a comprehensive agreement comprising 21 chapters encompassing trade in goods, services, investment and economic co-operation. It also covers intellectual property rights, e-commerce and competition policy and covers certain areas without provisions in the AANZFTA.
14. Malaysia-New Zealand FTA (effective date: August 2010): This comprehensive agreement covers the liberalisation of trade in goods, services, investment and economic co-operation. As part of the agreement, Malaysia and New Zealand will progressively reduce or eliminate tariffs on respective industrial and agricultural products. Malaysian exporters will enjoy free duty on cocoa products, carpets, tyres, margarine, steel wire, iron products and wood furniture. Imports from New Zealand into Malaysia will enjoy zero or lower duties for paper, plastics, automotive components and veneer and chemical products. Certain areas without provisions are covered in the AANZFTA.
15. Malaysia-Turkey FTA (effective date: August 2015): The agreement eliminates and binds duties on 70% of the tariff lines. Malaysia and Turkey will progressively reduce or eliminate tariffs on a substantial number of products traded between both countries, with expected duty-free imports by 2022.
16. Japan-Malaysia Economic Partnership Agreement (effective date: July 2006): The agreement covers trade in industrial and agricultural goods, trade in services, investment, rules of origin, customs procedures, standards and conformance, intellectual property, competition policy, enhancement of business environment, safeguard measures and dispute settlement. The agreement will result in tariff elimination of about 97% of trade in goods between the two countries on a trade volume basis, which will considerably promote trade in agricultural, forestry and fishery products, as well as industrial products between the two countries. The agreement has been somewhat superseded by the ASEAN-Japan FTA.
17. Malaysia-Pakistan Closer Economic Partnership Agreement (effective date: January 2008): The agreement encompasses liberalisation in trade in goods, services, investment, as well as bilateral technical co-operation and capacity building in areas such as sanitary and phytosanitary measures, intellectual property protection, construction, tourism, healthcare and telecommunications.

Signed But Not Yet In Force

Regional Comprehensive Economic Partnership (RCEP): A regional economic agreement that involves the 10-member ASEAN bloc and their FTA partners: Australia, Mainland China, Japan, New Zealand and South Korea. While India withdrew from the agreement in November 2019, in April 2020, member states of RCEP offered India a package to return to the negotiating table. The RCEP is envisioned to be a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement that aims to advance economic cooperation, and broaden and deepen integration in the region. The RCEP will lower tariffs and other barriers to the trade of goods among the 15 countries that are in the agreement, or have existing trade deals with ASEAN. The agreement was finalised in November 2019 and was signed on November 15, 2020. RCEP is expected to come into effect in early 2022.

Under Negotiation

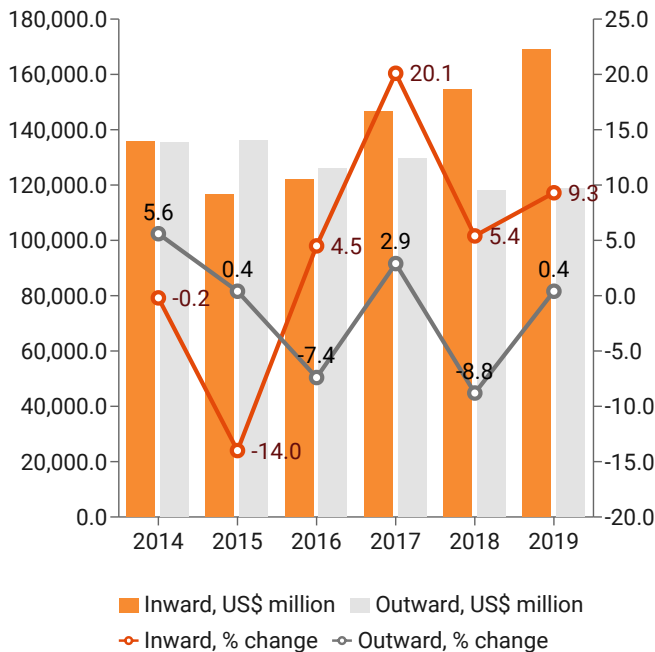
1. Malaysia-United States FTA: Malaysia and the United States are negotiating an FTA. Areas of particular interest to United States' exporters include a reduction of Malaysian trade barriers to automobiles and certain agricultural products, provisions for the enforcement of intellectual property rights and broader access to Malaysia's service sectors, such as financial services, telecommunications and professional services.
2. Malaysia-EU FTA: Malaysia and the EU are negotiating an FTA. The EU is one of Malaysia's largest palm oil markets, importing MYR10 billion worth of palm products in 2016. Bilateral trade between the EU and Malaysia is dominated by industrial products. The EU mainly imports machinery and appliances and mainly exports electrical equipment and machinery (both ways industrial products account for more than 90% of trade). Other sectors of relevance in terms of EU imports from Malaysia are plastics, rubber, animal and vegetable fats and oils and, in terms of exports, mechanical products.
3. Malaysia-European Free Trade Association FTA: Malaysia and the European Free Trade Association (EFTA), consisting of Iceland, Liechtenstein, Norway and Switzerland, are negotiating an FTA. Exports from EFTA states consist mainly of precious stones, machinery and pharmaceutical products. Imports from Malaysia consist mainly of cellular phones and electrical equipment.

Sources: WTO Regional Trade Agreements Database, Fitch Solutions

7. Investment Policy

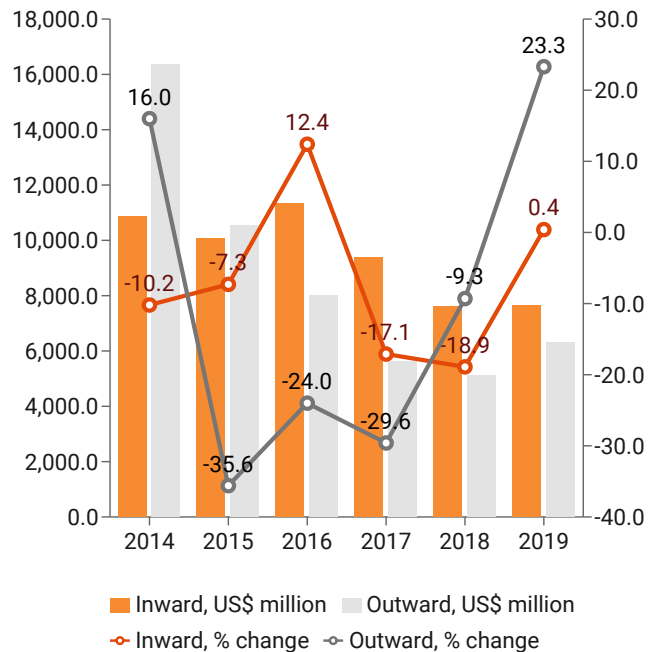
7.1 Foreign Direct Investment

Foreign Direct Investment Stock



Source: UNCTAD
Date last reviewed: January 22, 2021

Foreign Direct Investment Flow



Source: UNCTAD
Date last reviewed: January 22, 2021

7.2 Foreign Direct Investment Policy

1. The Malaysian Investment Development Authority (MIDA) is a government body which promotes local and foreign investments in the country's manufacturing and services sectors and assists in the implementation of projects. In this role, MIDA also makes policy and strategy recommendations regarding industrial development to the Minister of International Trade and Industry. Manufacturing investments must be approved by the MIDA, which will consider various factors including the size of an investment, the share of exported products and the type of financing required and the potential for technology transfer into the local economy and the existence of a local or foreign market for the output. If both local and foreign companies are competing to establish similar projects, the local firm will be given preference.

2. The Government of Malaysia is open to FDI, particularly in the economically important manufacturing industry. In recent years, it has aimed to liberalise the country's foreign investment regime through the Economic Transformation Plan (ETP), removing legal obstacles, introducing targeted areas for investment and establishing special economic zones and targeted 'growth corridors'.
3. In terms of FDI controls, the Malaysian government has the authority to review and approve all investments, foreign and domestic. The investment review is connected to the government's responsibility for granting licences for business to engage in intended activities, whether in the provision of goods or services. This process also serves as a means for the government to assess whether the proposed investment meets the criteria for the various incentives available in target sectors and regions. The process itself is not seen as a barrier or extremely time-consuming for foreign investors.
4. In order to operate in Malaysia, foreign firms must acquire a licence. The Malaysian government extends a full tax exemption incentive of 15 years for firms with 'Pioneer Status' (companies promoting products or activities in industries or parts of Malaysia to which the government places a high priority) and 10 years for companies with 'Investment Tax Allowance' status (those on which the government places a priority, but not as high as pioneer status).
5. The Foreign Investment Committee (FIC)'s primary role is to review investments related to distributive trade (such as retail distributors) as a means of ensuring 30% of the equity in this economic segment is held by the Bumiputera (ethnic Malays and other indigenous ethnicities in Malaysia).
6. Foreign investment in services, whether in sectors with no foreign equity limits or controlled sub-sectors, remain subject to review and approval by ministries and agencies with jurisdiction over the relevant sectors. A key function of this review and approval process is to determine whether proposed investments meet the government's qualifications for the various incentives in place to promote economic development goals.
7. The Malaysian government allows 100% foreign ownership across the following sectors: healthcare, retail, education as well as professional, environmental and courier services. Export-dependent Malaysia is keen to attract FDI and promote high-value manufacturing. Investment incentives, including corporate income tax exemption and tax allowance, are provided in industries such as advanced electronics, medical devices, bio-technologies and green technologies.
8. Restrictions on foreign investment remain in fisheries, energy, telecommunications, finance and transport services and foreign participation in public-private-partnership projects is limited to a ceiling of 25% of share capital.
9. In the oil and gas sector, foreign participation tends to take the form of production sharing contracts. Petroleum Nasional Berhad (Petronas) regularly requires its PSC partners to work with Malaysian firms for many tenders. Non-Malaysian firms are permitted to participate in oil services in partnership with local firms and are restricted to a 49% equity stake if the foreign party is the principal shareholder. Petronas sets the terms of upstream projects with foreign participation on a case-by-case basis.
10. In the telecommunications industry, there is a 70% cap on foreign capital for investments in network facilities providers and network service providers. Non-Malaysians are limited to 70% equity in shipping and logistics companies. These regulatory restrictions on FDI are at odds with the government's otherwise welcoming attitude to foreign investors.
11. Bank Negara Malaysia (BNM), the central bank, allows a greater foreign ownership stake if the investment is determined to facilitate the consolidation of the financial industry. BNM currently allows foreign banks to open up to four new branches throughout Malaysia, subject to restrictions, which include designating where the branches can be set up (ie, in market centres, semi-urban areas and non-urban areas). The policies do not allow foreign banks to set up new branches within 1.5km of an existing local bank. BNM has also conditioned foreign banks' ability to offer certain services on commitments to undertake certain back office activities in Malaysia.
12. In the long term, the government intends to gradually eliminate most of the fiscal incentives now offered to foreign and domestic manufacturing investors. Malaysia seeks to attract foreign investment in the information technology industry, particularly in the Multimedia Super Corridor (MSC), a government scheme to foster the growth of research, development and other high technology activities in Malaysia. Foreign investors who obtain MSC status receive tax and regulatory exemptions, as well as commitments by Malaysia to provide advanced telecommunications infrastructure in exchange for a commitment of substantial technology transfer.
13. The Free Zone Act of 1990 authorised the Minister of Finance to designate any suitable area as either a Free Industrial Zone (FIZ), where manufacturing and assembly take place or a Free Commercial Zone (FCZ), generally for warehousing commercial stock. Currently, there are 13 FIZs and 12 FCZs in Malaysia. Raw materials, products and equipment may be imported duty-free into these zones with minimum customs formalities. Companies that export more than 80% of their output and depend on imported goods, raw materials and components may be located in these FZs. Ports; shipping and maritime-related services play an important role in Malaysia since 90% of its international trade by volume is seaborne. Malaysia is also a major transshipment centre.
14. Goods sold into the Malaysian economy by companies within the FZs must pay import duties. If a company wants to enjoy Common External Preferential Tariff (CEPT) rates within the ASEAN FTA, 40% of a product's content must be sourced from ASEAN. In addition to the FZs, Malaysia permits the establishment of licensed manufacturing warehouses outside of free zones, which give companies greater freedom of

location while allowing them to enjoy privileges similar to firms operating in an FZ. Companies operating in these zones require approval/license for each activity. The time needed to obtain licenses depends on the type of approval and ranges from two to eight weeks.

Sources: WTO – Trade Policy Review, [MIDA](#), ITA, US Department of Commerce, Fitch Solutions

7.3 Free Trade Zones and Investment Incentives

Free Trade Zone/Incentive Programme	Main Incentives Available
Peninsular and East Malaysia, including Iskandar Malaysia, Northern Corridor Economic Region, East Coast Economic Region, Sabah Development Corridor and Sarawak Corridor of Renewable Energy	<p>-The Iskandar Malaysia zone in Johor is focused on attracting creative industries, educational sector groups, financial advisers and consultancies. In addition, healthcare services, tourism and logistics services are also offered inducements. These include 10-year exemptions from corporate tax, a royalty withholding tax exemption, freedom to source capital internationally, unrestricted foreign worker quotas and flexible foreign exchange rules.</p> <p>-The Iskandar zone is ideally located for foreign investors looking to expand into other ASEAN countries, including Brunei, Myanmar, Indonesia, Laos, Singapore, Thailand and Vietnam.</p>
MSC	<p>-MSC is a special zone between Kuala Lumpur City and the Kuala Lumpur International Airport, which is focused on promoting Malaysia's IT and multimedia sectors.</p> <p>-Companies with MSC status receive world-class infrastructure, unrestricted quotas of foreign IT workers, unrestricted ownership of MSC companies, free capital and financial mobility, a 100% income tax exemption for profits from MSC activities, international-standard intellectual property protection, freedom from internet censorship, one-stop processing of regulatory approvals and protection under a series of well-developed cyber laws.</p>

Sources: US Department of Commerce, Fitch Solutions

8. Taxation – 2021

- Sales and Services Tax (SST): 5%, 10% or 6%
- Corporate Income Tax: 24%

Source: Inland Revenue Board of Malaysia

8.1 Important Updates to Taxation Information

- A new Global Trading Centre tax incentive was introduced in the 2021 budget. Under this incentive, a concessionary tax rate of 10% will apply for a period of five years (renewable for another five years). Applications are to be made from January 1, 2021 to December 31, 2022.
- On June 5, 2020, government announced key proposals to encourage investment and relocation of manufacturing into Malaysia. These are as follows: 0% tax rate for 10 or 15 years for foreign companies which invest a minimum of MYR300 million or MYR500 million respectively, in the manufacturing sector in Malaysia. 100% investment tax allowance for 5 years for Malaysian companies to relocate their overseas manufacturing facility to Malaysia with a minimum investment of MYR300 million. The application deadline is December 31, 2021.
- The Withholding Tax (WHT) exemption provided to non-resident companies for income received from MSC Malaysia companies has been revoked with effect from January 1, 2020. Effective the same date, the following income received by non-residents from MSC Malaysia companies will be subject to WHT: (i) fee for technical advice or technical services, (ii) licensing fee in relation to technology development, and (iii) interest on loans for technology development.

8.2 Business Taxes

Type of Tax	Tax Rate and Base
Corporate Income Tax (CIT)	- 24% on non-resident companies - 17% for businesses with paid-up capital of MYR2.5 million or less, and gross income from business of not more than MYR50 million
Petroleum income tax (CIT on petroleum operations)	38% on income from petroleum operations in Malaysia. An effective petroleum income tax rate of 25% applies on income from petroleum operations in marginal fields.
SST	- 5% or 10% standard sales tax rates - 6% service tax rate

Branch Tax Rate	24%; no tax is withheld on transfer of profits to a foreign head office
Real Property Gains Tax	30% for a holding period of up to three years from the date of acquisition on gains derived from disposals of real property or shares in real property companies.
Social security contributions for labour	12% of employer contribution if the employee's monthly wages are above MYR5,000 per month or 13% if the employee's monthly wages are below MYR5,000 per month. Employees' contribution rate is fixed at 11% of monthly wages – regardless of income level.
Withholding Tax	Interest: 15% Dividends: None Royalties: 10%
Technical service fees (withholding tax)	10% withholding tax applies to service fees paid to a nonresident (both technical and non-technical services)
Stamp duty	Rates between 1% and 4% on the value of property transfers

Source: Inland Revenue Board of Malaysia

Date last reviewed: January 22, 2021

9. Foreign Worker Requirements

9.1 Localisation Requirements

The employment of foreign nationals is not encouraged in Malaysia with the 11th Malaysia Plan (2016-2020) aiming to limit the ratio of foreign labour to no more than 15% of total labour. Registered local job seekers are given priority over foreigners in filling job vacancies in the country.

Companies are granted a preapproved quota for the number of workers to be imported to Malaysia under the outsourcing licence. The price could range from MYR800 to MYR1,800 per year, on top of the levy, insurance, medical examination and cost of a banker's guarantee, which significantly add to high overheads, particularly for small businesses.

Employers seeking to employ foreign workers must notify the Department of Labour of vacancies by registering at Jobs Malaysia to ensure registered local job seekers are given priority. Foreign workers are employed for a period of 10 years in five permissible sectors (manufacturing, agriculture, plantation, construction and services) and, depending on the categorisation of their employment pass, they may or may not marry or bring their family members, dependants and foreign aides into Malaysia.

9.2 Foreign Worker Permits

The entry of foreign nationals in Malaysia is governed by the Immigration Act of 1963 which also determines the types of employment passes that can be applied for by those aspiring to work in the country. Three types of permits are generally issued by Malaysian authorities which depend on the duration of contract of employment, position to be filled and minimum/maximum salary. They include the employment pass, the temporary employment pass and the professional visit pass permits. Foreign workers who wish to be employed by a company within Malaysia will have to have their application reviewed by the relevant government agencies, such as the Ministry of Manpower. The application for foreign workers by employers is, however, made easier as it can be done at the One Stop Centre at the Foreign Workers Management Division of the Ministry of Home Affairs where various government agencies (departments and ministries) process the application for recruitment of foreign workers under one roof.

9.3 Visa/Travel Restrictions

Visa free access for citizens of North Korea has been discontinued as of March 6, 2017. Nationals of other countries are allowed to enter Malaysia for a maximum stay not exceeding a specified period of days, weeks or months (depending on country of origin). Generally, no visa is required for Commonwealth countries.

Sources: Government websites, Fitch Solutions

10. Risks

10.1 Sovereign Credit Ratings

	Rating (Outlook)	Rating Date
Moody's	A3 (Stable)	7/12/2018
Standard & Poor's	A- (Negative)	26/06/2020
Fitch Ratings	BBB+ (Negative)	04/12/2020

Sources: Moody's, Standard & Poor's, Fitch Ratings

10.2 Competitiveness and Efficiency Indicators

	World Ranking		
	2018	2019	2020
Ease of Doing Business Index	24/190	15/190	12/190
Ease of Paying Taxes Index	73/190	72/190	80/190
Logistics Performance Index	41/160	N/A	N/A
Corruption Perception Index	61/180	51/180	57/180
IMD World Competitiveness	22/63	22/63	27/63

Sources: World Bank, IMD, Transparency International

10.3 Fitch Solutions Risk Indices

	World Ranking		
	2019	2020	2021
Economic Risk Index	27/201	42/201	36/201
Short-Term Economic Risk Score	73.1	64.4	75.8
Long-Term Economic Risk Score	72.6	65.7	68.4
Political Risk Index	85/201	87/201	86/201
Short-Term Political Risk Score	72.5	66.7	66.7
Long-Term Political Risk Score	65.2	64.5	64.5
Operational Risk Index	29/201	27/201	26/201
Operational Risk Score	69.5	70.0	70.4

Source: Fitch Solutions

Date last reviewed: October 13, 2020

10.4 Fitch Solutions Risk Summary

ECONOMIC RISK

Malaysia has a highly diversified economy, with numerous investment opportunities across a wide range of sectors, from manufacturing to services. Meanwhile, exports will face headwinds in the coming years, due to a sharp deceleration in global growth owing to the Covid-19 pandemic, and fiscal concerns remain the biggest risk factor to Malaysia's generally positive economic outlook in the next decade. It remains to be seen if Putrajaya will be able to manage its fiscal situation and cover the additional expenditures required by its stimulus policies while paying down its debt. However, a combination of cheaper labour costs, compared to some regional peers, such as Mainland China and Singapore, strong export diversification in terms of geography and product type, and strategic geographical proximity to key trading partners, adds to the country's attractiveness as a foreign investment destination in the region.

OPERATIONAL RISK

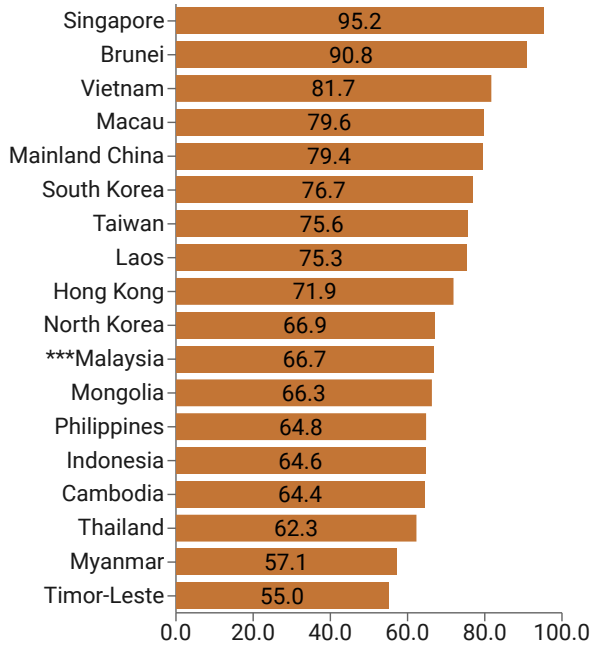
Malaysia's long track record of relative political stability, developed capital markets, moderate crime rates, efficient bureaucracy and sophisticated financial markets make it one of the most attractive emerging markets for investment in Asia. Businesses operating in the country will benefit from the country's liberal trade and investment policies, which have been successful in attracting foreign direct investment into industries such as financial services, tourism and manufacturing. Supply chain risks are minimised by the country's excellent regional and international connectivity that is supported by high quality domestic infrastructure. Key weaknesses in the Malaysian market are the increasing difficulty of employing foreign workers and tight labour market conditions in the long term.

Source: Fitch Solutions

Date last reviewed: January 22, 2021

10.5 Fitch Solutions Political and Economic Risk Indices

Short Term Political Risk Index

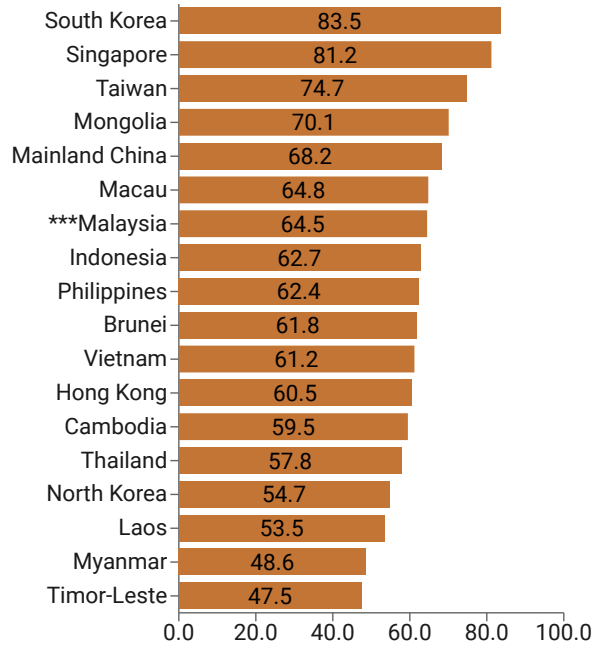


100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: January 22, 2021

Long Term Political Risk Index

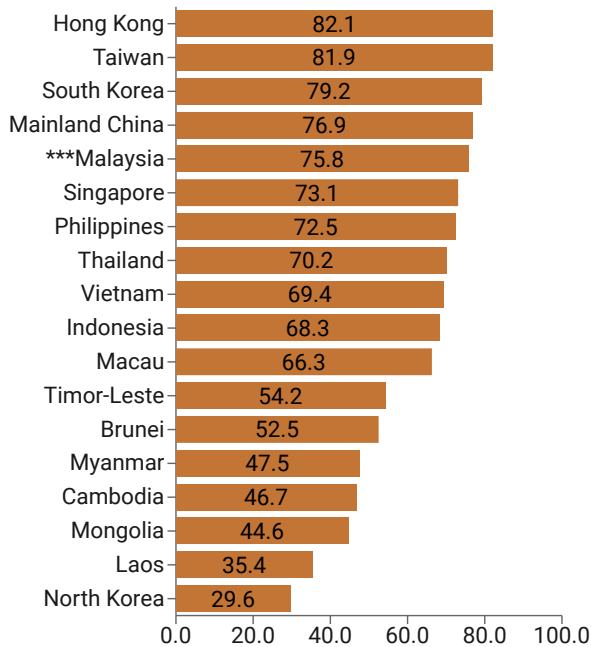


100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: January 22, 2021

Short Term Economic Risk Index

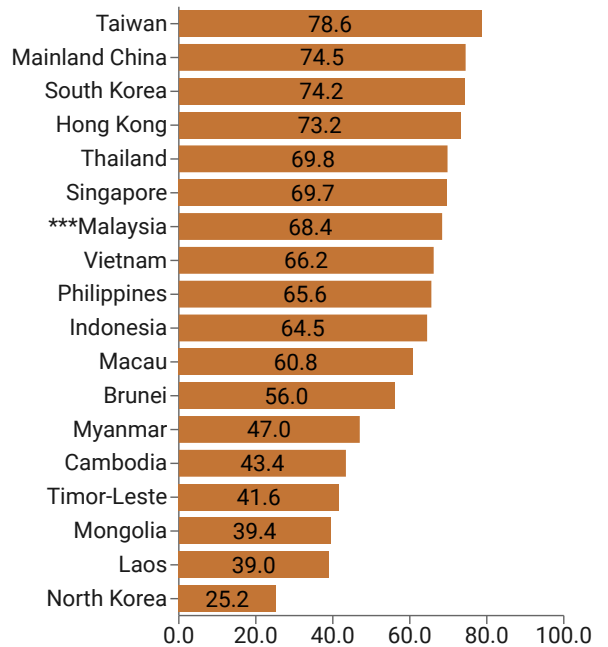


100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: January 22, 2021

Long Term Economic Risk Index



100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: January 22, 2021

10.6 Fitch Solutions Operational Risk Index

	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
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Malaysia Score	70.4	62.0	76.1	76.5	66.8
East and Southeast Asia average	56.5	57.5	57.6	57.3	53.5
East and Southeast Asia position (out of 18)	5	6	4	5	6
Asia average	49.0	50.1	48.5	48.1	49.3
Asia position (out of 35)	5	6	4	5	6
Global average	49.5	49.9	49.6	49.3	49.3
Global Position (out of 201)	26	32	13	23	43

100 = Lowest risk, 0 = Highest risk

Source: Fitch Solutions Operational Risk Index

Malaysia vs Global and Regional Operational Risk Averages



Note: 100 = Lowest Risk, 0 = Highest Risk

Source: Fitch Solutions Operational Risk Index

Date last reviewed: January 22, 2021

Country/Region	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
Singapore	84.8	79.4	91.3	81.5	87.0
Hong Kong	81.1	72.6	89.0	81.2	81.5
Taiwan	74.6	71.4	76.7	77.3	73.1
South Korea	71.7	62.1	71.1	80.6	72.8
Malaysia	70.4	62.0	76.1	76.5	66.8
Macau	64.9	62.0	65.5	64.5	67.8
Brunei	62.8	62.4	58.8	63.8	66.2
Thailand	61.0	56.6	68.3	70.1	48.8

Mainland China	59.4	55.8	61.8	73.3	46.8
Indonesia	56.0	54.9	55.5	60.9	52.8
Vietnam	54.6	51.9	57.4	61.1	48.2
Mongolia	50.1	54.7	52.7	37.6	55.3
Philippines	47.6	54.8	51.0	47.0	37.6
Cambodia	42.1	47.4	43.9	35.6	41.2
Laos	37.1	40.5	34.3	39.3	34.2
North Korea	35.3	54.8	24.7	29.3	32.3
Myanmar	32.3	46.8	32.8	31.4	18.2
Timor-Leste	31.2	44.8	26.5	21.0	32.4
Regional Averages	56.5	57.5	57.6	57.3	53.5
Emerging Markets Averages	46.8	48.3	47.1	45.8	46.1
Global Markets Averages	49.5	49.9	49.6	49.3	49.3

100 = Lowest risk, 0 = Highest risk

Source: Fitch Solutions Operational Risk Index

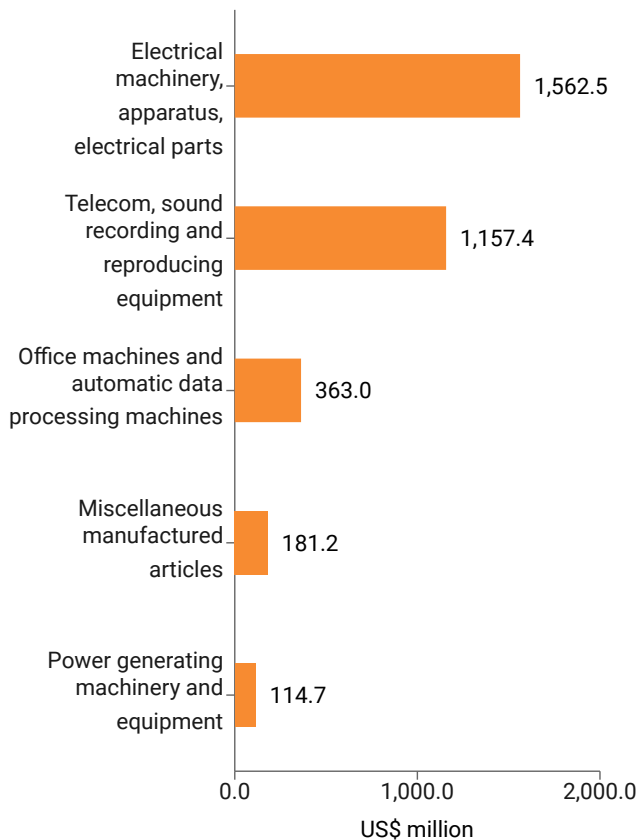
Date last reviewed: January 22, 2021

11. Hong Kong Connection

11.1 Hong Kong's Trade with Malaysia

Major Export Commodities to Malaysia (2019)

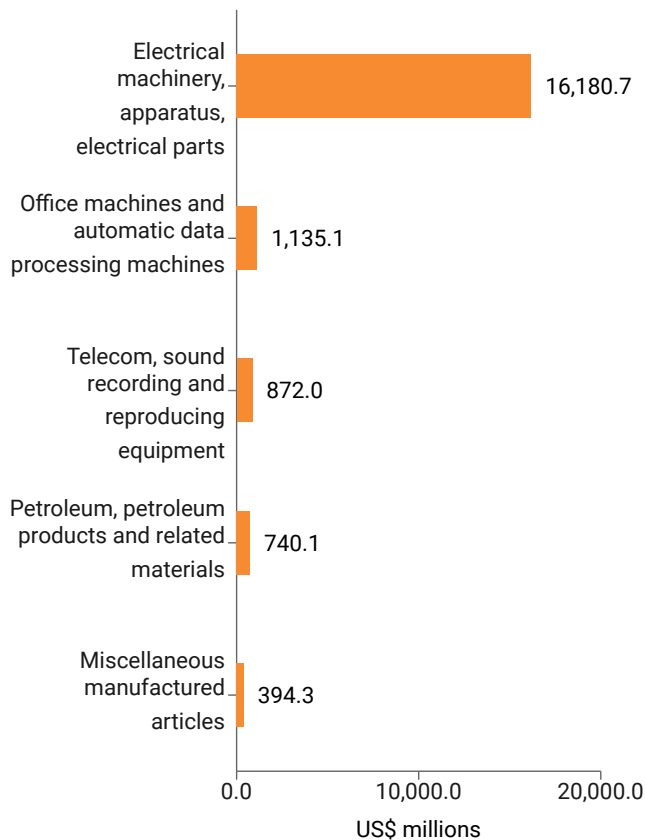
Major Import Commodities from Malaysia (2019)



Note: Graph shows the main Hong Kong exports to Malaysia (by consignment)

Sources: Hong Kong Census and Statistics Department, Fitch Solutions

Date last reviewed: January 22, 2021

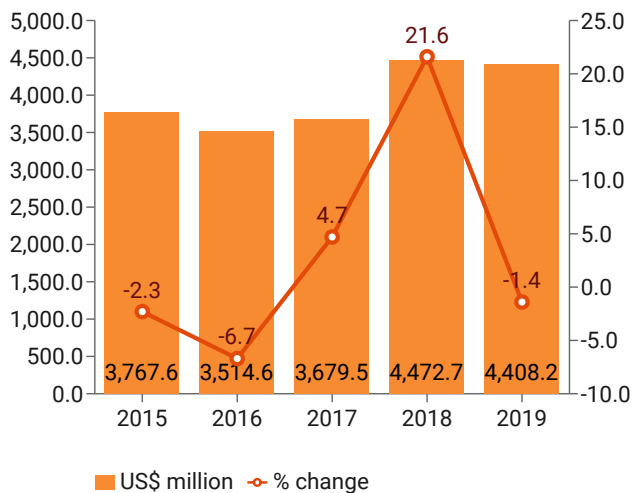


Note: Graph shows the main Hong Kong imports from Malaysia (by consignment)

Sources: Hong Kong Census and Statistics Department, Fitch Solutions

Date last reviewed: January 22, 2021

Merchandise Exports to Malaysia

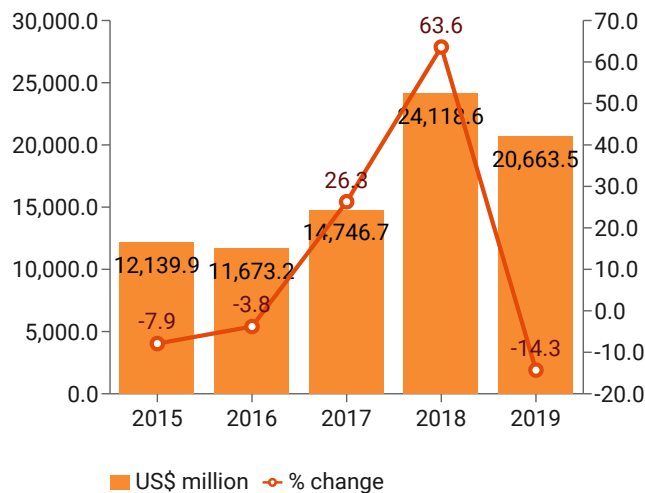


Note: Graph shows Hong Kong exports to Malaysia (by consignment)

Source: Hong Kong Trade Statistics, Census & Statistics Department

Date last reviewed: January 22, 2021

Merchandise Imports from Malaysia



Note: Graph shows Hong Kong imports from Malaysia (by consignment)

Sources: Hong Kong Census and Statistics Department, Fitch Solutions

Date last reviewed: January 22, 2021

Exchange Rate HK\$/US\$, average

- 7.75 (2015)
- 7.76 (2016)
- 7.79 (2017)
- 7.84 (2018)
- 7.84 (2019)

	2019	Growth rate (%)
Number of Malaysia residents visiting Hong Kong	392,562	-23.1
Number of Asia Pacific residents visiting Hong Kong	52,326,248	-14.3

Source: Hong Kong Tourism Board

	2019	Growth rate (%)
Number of Malaysians residing in Hong Kong	19,787	29.6
Number of East Asians and South Asians residing in Hong Kong	2,834,871	3.4

Note: Growth rates for resident data is from 2015 to 2019. No UN data available for intermediate years.

Sources: United Nations Department of Economic and Social Affairs – Population Division

Date last reviewed: January 22, 2021

11.2 Commercial Presence in Hong Kong

2019	Growth rate (%)	
Number of Malaysian companies in Hong Kong	N/A	N/A
- Regional headquarters	N/A	N/A
- Regional offices	N/A	N/A
- Local offices	51	18.6

Source: Hong Kong Census and Statistics Department

11.3 Treaties and agreements between Hong Kong and Malaysia

- Malaysia has a bilateral investment treaty with Mainland China/Hong Kong that entered into force in 1990.
- Malaysia has signed double taxation avoidance agreements with both Mainland China and Hong Kong which entered into force in September 1986 and December 2012 respectively.

Source: [UNCTAD](#)

11.4 Chamber of Commerce or Related Organisations

[The Malaysian Chamber of Commerce \(Hong Kong and Macau\)](#)

Address: Unit 1103, 11/F, Malaysia Building, 50 Gloucester Road, Wan Chai, Hong Kong

Tel: (852) 2997 8668

Fax: (852) 2997 8568

Source: [The Malaysian Chamber of Commerce \(Hong Kong and Macau\)](#)

[The Hong Kong-Malaysia Business Association](#)

Email: je.hoh@hktcd.org

Tel: (60) 3 2381 1061

Website: www.hkm-businessassociation.org

Please click to view [more information](#).

Source: [Federation of Hong Kong Business Associations Worldwide](#)

[Malaysia Consulate in Hong Kong](#)

Address: 24/F, Malaysia Building, 47-50 Gloucester Road, Wan Chai, Hong Kong

Email: mwhongkong@kln.gov.my

Tel: (852) 2821 0800

Fax: (852) 2865 1628

Source: [Malaysia Consulate in Hong Kong](#)

11.5 Visa Requirements for Hong Kong Residents

Visa is issued upon arrival and valid for one month.

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