



ASIA PERSPECTIVE

Comprehensive Overview Study: Part 1 of 3

Malaysia's Manufacturing Environment & Investment Guideline

Uncover the opportunities and challenges of investment in a rapidly growing market

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About Us



Asia Perspective is an independent management consultancy with global presence and local knowledge. We assist our clients with business advisory regarding analysis, strategy and implementation. Our mission is to turn our clients' Asia business vision into reality and add significant value to their business.

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1 Executive Summary

Malaysia is a multiethnic Southeast Asian (SEA) country bordering Thailand, Singapore and Indonesia. Over the past decades, the country has transformed into one of the best performing economies in Asia, showing an average GDP growth of 5,3% since 2010. From the manufacturing sector to the service sector, Malaysia offers great opportunities, such as a secure business environment, an excellent infrastructure, a skilled workforce and a thriving domestic market.

Since 2018, the world has seen various political events influencing the economy, of which Brexit and the US-China trade war have been the most influential. While China is facing challenges keeping its manufacturing from decreasing, some SEA countries benefit from the spillover effect. The impact in Malaysia has been shown by an increase of both foreign and domestic investments into the manufacturing and trade sector.

Foreign investors looking at the Malaysian manufacturing sector need to understand its business scene and political environment to be able to select the most suitable location for establishing a business and utilize on available opportunities. Therefore, Asia Perspective has conducted this research on the business environment of the manufacturing sector in Malaysia, presenting a comprehensive overview of the economic regions of Malaysia and their key manufacturing industries, trade agreements, logistics capacity, the ease-of-doing business, tax incentives, and incorporation processes.

The main topics in this study are:

Part 1:

- What are the economic corridors of Malaysia and how do they differentiate?

Part 2:

- What free trade agreements does Malaysia have, and how well-established is Malaysia's logistical infrastructure for trading?
- What tax incentives does Malaysia offer to manufacturing companies?

Part 3:

- How easy is it to start a business and deal with daily operations in Malaysia?
 - How do you incorporate a manufacturing business in Malaysia?
-

The study concluded that Malaysia has proven to be one of the most promising investment-destinations in Southeast Asia, thanks to the supportive business environment the country offers. However, there are challenges to consider when entering this market. Therefore, companies need to take thorough consideration and approach the situation proactively before deciding to enter into the Malaysian business scene.

As part of the 9th Malaysia Plan, introduced in 2006, aiming for balanced socio-economic growth between states and ethnic groups, the Malaysian government introduced five economic corridors. Since then, each economic corridor has developed different strengths and weaknesses and are more suitable for certain industries due to its different infrastructures and support systems.

This study also uncovers the benefits of each corridor and the extensive opportunities of doing business in Malaysia, as well as covering the challenges of entering the market. Further, the study presents a comprehensive overview of the ease-of-doing business within the country, revealing which areas that are challenging and which areas that are easily handled. Lastly, the study also reveals that the most common company entities for foreigners are either Private Limited Companies or Labuan Companies. The study explains the difference and the incorporation steps for them both.

Some specific findings are:

- Kuala Lumpur/Selangor State is the most consequential contributor to Malaysia's GDP. While the city of Kuala Lumpur focuses on the service sector, Selangor State is the most important manufacturing hub of Malaysia.
- The economic corridor North Cost Economic Region (NCER), in the North West of Peninsular Malaysia, is the second-biggest GDP contributor behind Kuala Lumpur/Selangor State. The corridor's manufacturing sector is distinctly dominated by electronics and is able to provide the most cutting-edge infrastructure and support for high-tech companies in the industry.
- The economic corridors East Cost Economic Region (ECER) and Sarawak Corridor of Renewable Energy (SCORE), located in the North East of Peninsular Malaysia and North West of Borneo respectively, are the most suitable for manufacturing petroleum, chemicals, rubber, glass, steel and plastic products.
- The economic corridor Sabah Development Corridor (SDC), located North East of Borneo, possesses ample biodiversity resources. As a result, SDC benefits companies manufacturing palm oil, wood, furniture and paper.
- By the end of 2019, Malaysia's logistical performance was one of the best in SEA. Most import and export are done by sea, the majority through seven major container ports along the coastal line. However, manufacturers with time-sensitive products may consider other destinations, since the ability to track and trace consignments and delivery timeliness of Malaysia were deemed inferior to those of the neighboring countries.
- Malaysia's development and industrialization heavily relies on international trade. Therefore, Malaysia have signed Free Trade Agreements with many countries and territories around the globe. Manufactured goods accounts for 85% of Malaysia's total trade volume in 2019, with electronics being the biggest export category.
- The ease of doing business has improved significantly in Malaysia over the past few years. However, there are some obstacles that investors may encounter when doing business in Malaysia, including time consuming and costly procedures for starting a business, long-spun tax compliance procedures and weak insolvency frameworks. Investors should be aware of these barriers and prepare properly, or use external support if needed, to mitigate the risks of entering Malaysia.
- Malaysia offers a wide range of tax incentives for manufacturing projects, amongst which Pioneer Status and Investment Tax Allowance are the most popular ones. Promoted activities and products eligible for tax incentives are extremely diverse, and therefore available for almost every manufacturing project.
- The two business entities that foreigners usually opt for in Malaysia are either a Private Limited Company or a Labuan Company. Each of the entities has its own regulations and benefits that investors should consider carefully before choosing. A Private Limited Company will be a better choice for companies that want to do business in Malaysia and a Labuan Company is more suitable for financial service providers or international trading operations.

2 Kuala Lumpur/Selangor State and Malaysia's Five Economic Corridors

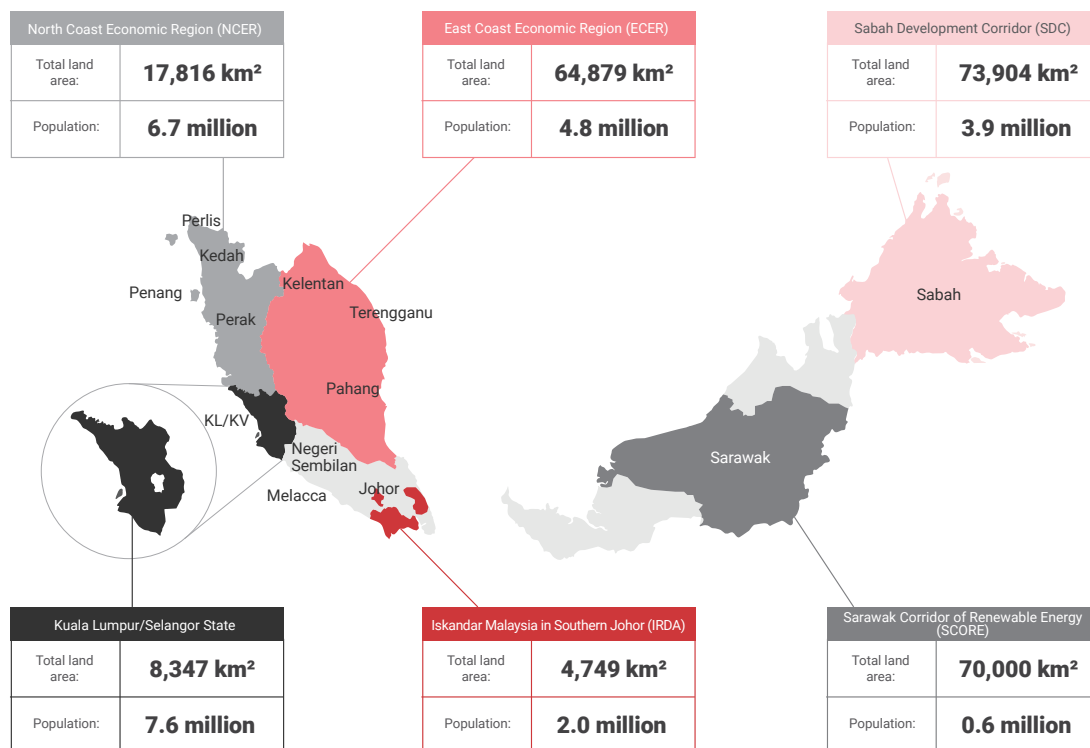
Since gaining independence in 1957, Malaysia has transformed from a low-income country to an upper-middle-income country. Malaysia's GDP per capita reached USD 11,240 in 2018, marking a 100% growth since 2005. It is a successful development story; a multiethnic nation that has diversified its economy from one that initially was agriculture and commodity-based to one that is based on robust manufacturing and services, while at the same time reducing poverty and improving interstate income distribution among population groups. Openness to trade and investments has been the key to economic growth and employment creation in Malaysia. The country is one of the most open economies in the world, ranking 12th among 190 assessed countries and territories by the World Bank in 2019. It was rated the second-best country to incorporate a company in SEA, only behind Singapore in 2019.

During the late 1990s, the income disparities between rural and urban areas appeared to be widened. Kuala Lumpur and its surrounding Selangor State saw a magnificent development and rocketing growth while other regions struggled. As a reaction, Malaysia introduced the idea of economic corridors in the Ninth Malaysia Plan, a comprehensive blueprint allocating the national budget from 2006 to 2010. In the mid-term review of the Ninth Plan, five economic corridors were announced: Iskandar Malaysia in Southern Johor (IRDA) with Johor Bahru as its center, the Northern Corridor Economic Region (NCER) with Georgetown as its center, the East Coast Economic Region (ECER) with Kuantan as its center, Sabah Development Corridor (SDC) with Kota Kinabalu as its center, and Sarawak Corridor of Renewable Energy (SCORE) with Kuching as its center.

Figure 1

Kuala Lumpur/Selangor State and Malaysia's Five Economic Corridors

Location, area and population

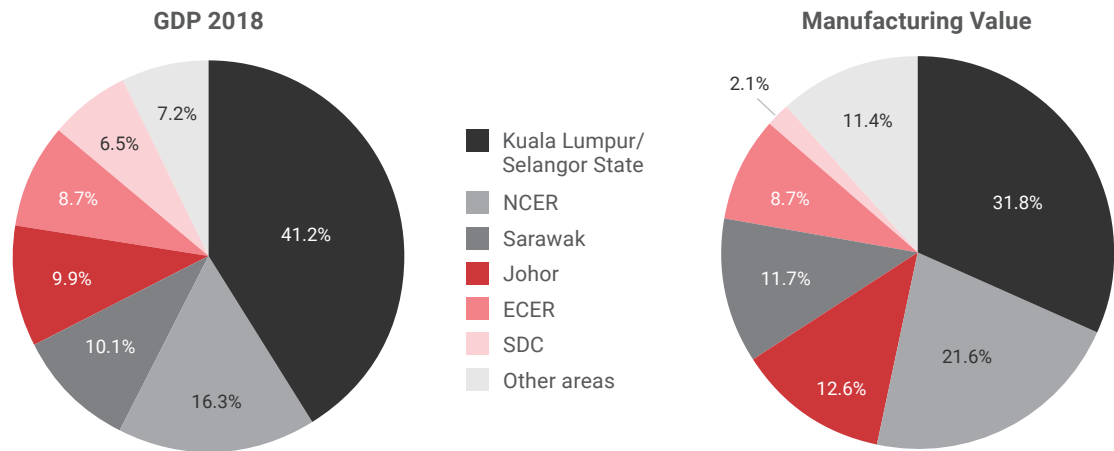


Source: Economic Corridors, Malaysia Investment Development Authority

Figure 2

Contribution by Kuala Lumpur/Selangor State and Economic Corridors to Malaysia's GDP and Manufacturing Value in 2018

Percentages of GDP and manufacturing value contribution by Kuala Lumpur & Selangor State and Economic Corridors



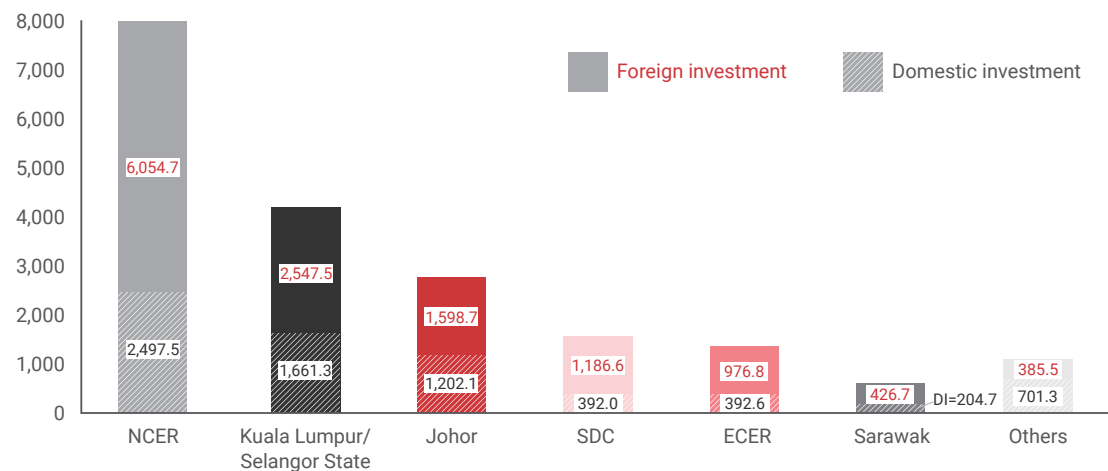
Source: Raw data from State Socio-Economic reports 2018, Department of Statistics of Malaysia

Since 2018, global changes, such as the UK leaving the EU and the US-China trade war, have affected the global manufacturing scene. While China has been affected hard by the trade war, the tension has also opened up doors for Malaysian manufacturers to potentially capitalize on and become alternative suppliers of goods for both the US and China. The relocation of sourcing to Malaysia is especially noticeable in production industries such as petroleum, metals and electronics. During 2019, Malaysia's manufacturing sector approved 988 investment projects valued to USD 20.2 billion, 65.14% of which from foreign investors.

Figure 3

Manufacturing Investment Value in Malaysia by Region in 2019

Domestic and foreign investments in the manufacturing sector, in economic corridors and states of Malaysia (million USD)



Source: Projects Approved by State 2019, Malaysian Investment Development Authority

2.1 Kuala Lumpur/Selangor State

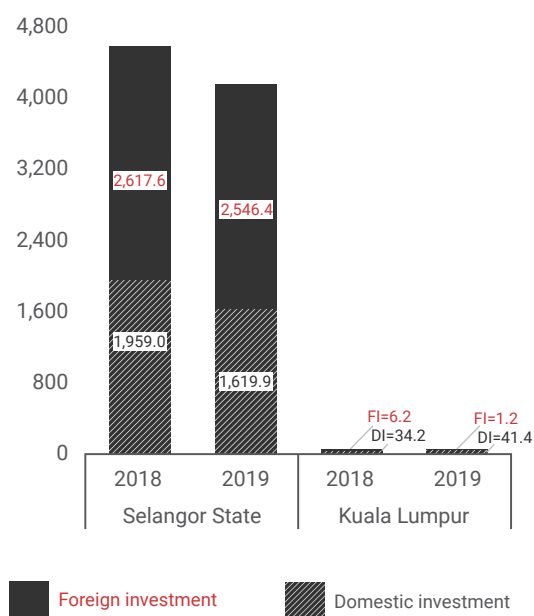
Kuala Lumpur and Selangor State covers 8,347 square kilometers combined and are the home to 7.6 million people. Kuala Lumpur is the capital of Malaysia (encapsulated into its own federal territory within Selangor State) and covers a small area of 243 square kilometers, inhabiting 1.8 million people. Together, Kuala Lumpur and Selangor State accounts for the biggest contribution to Malaysia's GDP. Kuala Lumpur's economy is dominated by the service sector, accounting for 87.8% of the areas GDP. In 2018, the service sector in the capital grew by 7.3% from previous year, driven by trade, finance and sub-insurance sectors. In its Structure Plan 2020, Kuala Lumpur aims to become an international commercial and financial center. Manufacturing plays a minor role of Kuala Lumpur's GDP, accounting for 2.9% in total.

Selangor State is the most important manufacturing hub of Malaysia, and the state alone accounts for 29.9% of the manufacturing value of the whole country. The manufacturing sector maintained a high annual growth of 7.3% in 2018, with the main drivers being electronic and optical products. In terms of infrastructure, Selangor State has an advantage from its proximity to the federal territories, access to the world by two major airports and the largest container port of Malaysia, Port Klang.

Figure 4

Manufacturing Investment Value in Kuala Lumpur and Selangor State in 2018 and 2019

Domestic and foreign investments in the manufacturing sector in Kuala Lumpur and Selangor State (million USD)

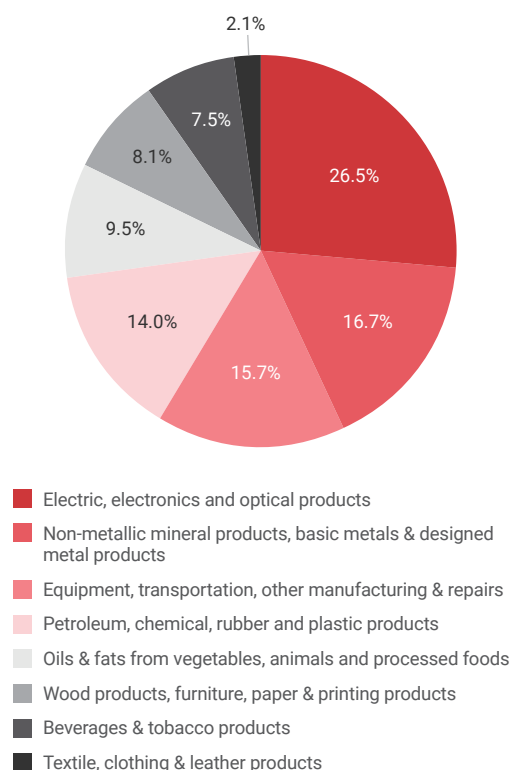


Source: Projects Approved by State 2018-2019, Malaysian Investment Development Authority

Figure 5

Manufacturing Categories by Value in Kuala Lumpur and Selangor State Combined

Percentages of products in the total manufacturing value of Kuala Lumpur and Selangor State



Source: Raw data from Kuala Lumpur and Selangor Socio-Economy 2018 reports, Department of Statistics of Malaysia

2.2 Iskandar Malaysia in Southern Johor (IRDA)

Iskandar Malaysia is the southern gateway into peninsular Malaysia, located in the south of Johor, between the Malacca Straits and the South China Sea, with links to the Indian Ocean. IRDA borders Singapore, one of the most important financial and economic hubs in Asia. Over the years, the State of Johor and its neighbor, Singapore, have established economic and historical links with each other. Iskandar Malaysia and Singapore collectively inhabits over six million people and holds four maritime ports and two international airports, connecting them to the rest of Asia and the world.

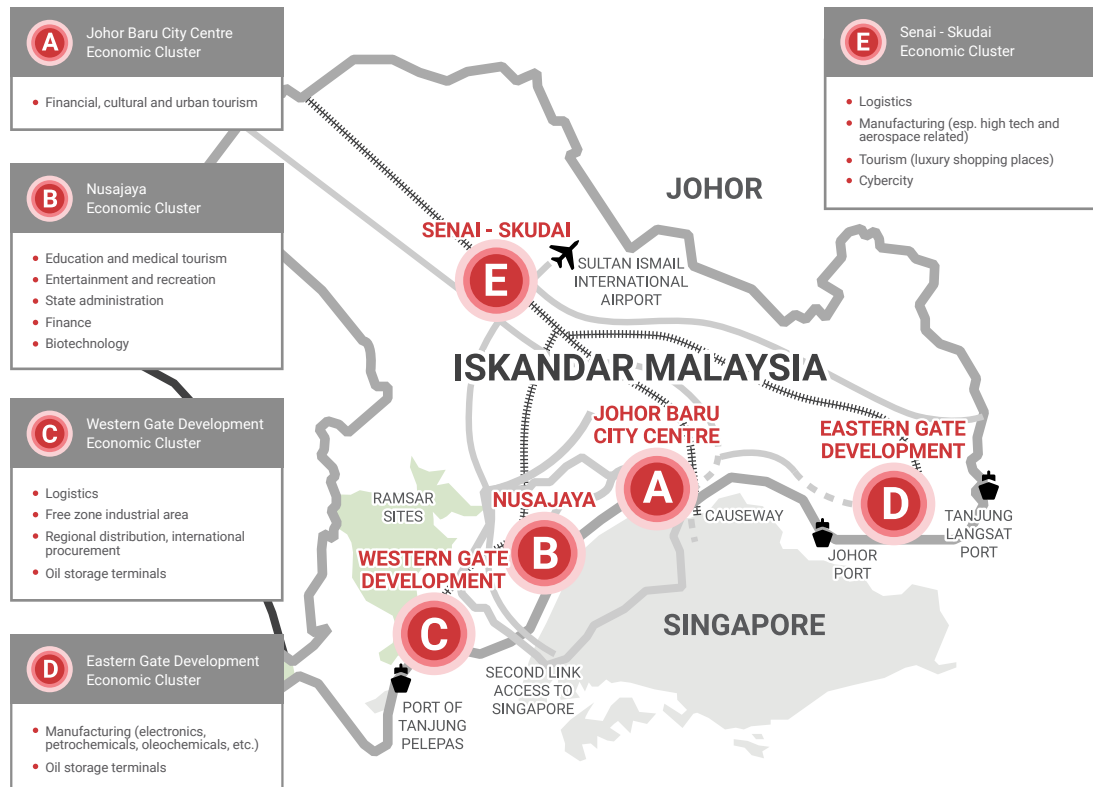
In 2019, the government decided to expand IRDA to include parts of Kluang in central Johor, Kota Tinggi in the east, and Pontian in the west, now covering a total of 4,749 square kilometers. The corridor is in a strategic location that can offer excellent accessibility to other parts of Malaysia and other large economies in Asia by land, air, rail and sea. IRDA focuses on achieving an economic growth that is inclusive, sustainable, and environmentally responsible, by being open to attract external talent and foreign investments.

The corridor's nine priority sectors are education, electrical & electronics, financial services, food & agro-processing, healthcare, logistics, petrochemical, oleochemical and tourism. They are divided into five flagship zones: JB City Centre, Nusajaya, Western Gate Development, Eastern Gate Development and Senai-Skudai. Top foreign investors in IRDA between 2006 and 2019 was China (9.49 billion USD), Singapore (4.84 billion USD), the USA (1.87 billion USD), and Japan (1.29 billion USD).

Figure 6

IRDA's Economic Clusters in Five Regions

Focuses of the five economic clusters of IRDA

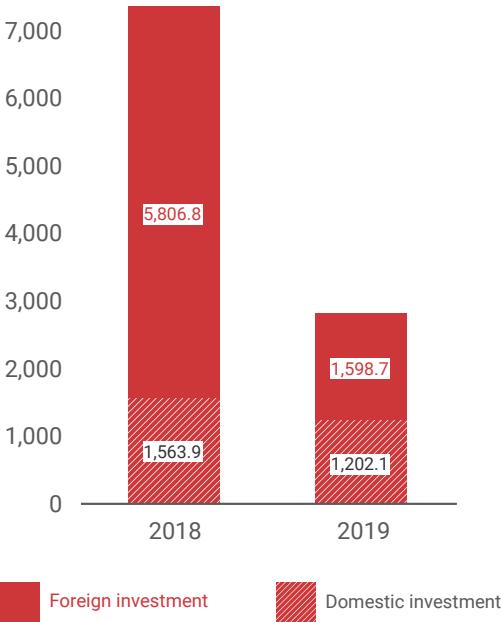


Source: Introduction, Iskandar Malaysia Investment

In 2019, there were 209 manufacturing investment projects accepted in Johor, the State of which IRDA is located in, and the total investment value was USD 2.8 billion, of which foreign investment contributed to 57.1%. Investors find this region the most suitable for electronics production, which is also the leading industry and the key export driver. Over one-third of the employment in manufacturing in Johor are working with electronics. Petroleum and rubber products are the second and third biggest contributor, followed by non-metal mineral products and basic metals.

Figure 7
Manufacturing Investment Value in Johor State in 2018 and 2019

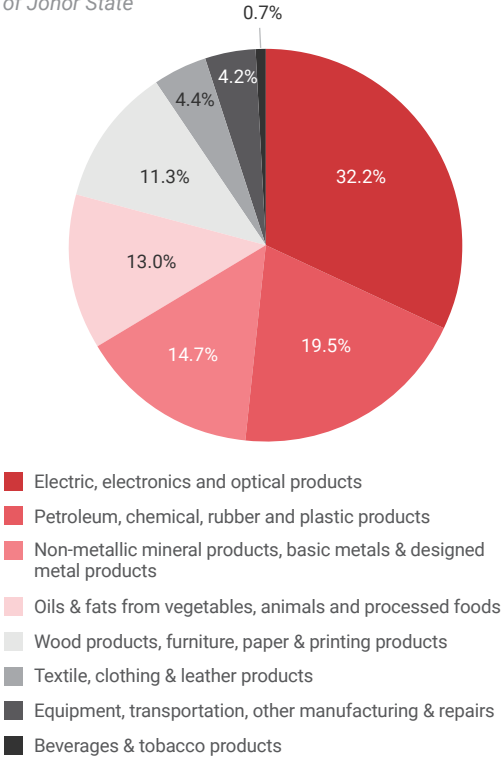
Domestic and foreign investments in the manufacturing sector in Johor State (million USD)



Source: Projects Approved by State 2018-2019, Malaysian Investment Development Authority

Figure 8
Manufacturing Categories by Value in Johor State

Percentages of products in the total manufacturing value of Johor State



Source: Raw data from Johor Socio-Economy 2018 reports, Department of Statistics of Malaysia

2.3 Northern Corridor Economic Region (NCER)

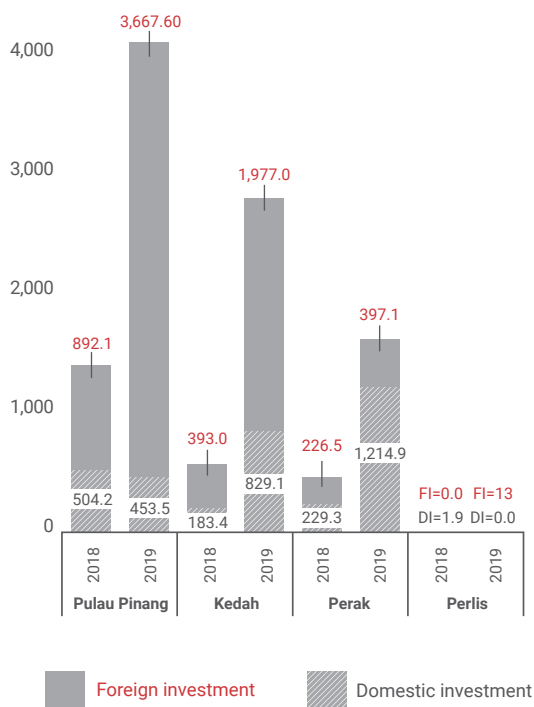
The Northern Corridor Economic Region (NCER) is the largest GDP contributor to Malaysia’s economy among the five corridors. NCER encompasses four states in the Northern area of Malaysia, including Perlis, Kedah, Pulau Pinang and Perak, covering a total of 17,816 square kilometers. The region is strategically located, bordering Thailand and in the proximity of the Malacca Straits. NCER is also located in the middle of the Indonesia-Malaysia-Thailand Growth Triangle. These advantages help the economy and creates a natural bloc for economic cooperation that enables NCER to produce, distribute and export goods beyond Malaysia.

The corridor aims to bring development in four economic clusters: agriculture, bio-industry, manufacturing and services. NCER is the key to Malaysia’s food production, accounting for 34% of the country’s paddy production (the majority being rice). Rubber, coconut and palm oil also significantly contributes to the agricultural production in the region. In the service sector, NCER is a hub of international tourism, well-known for its plenteous natural and historical attractions that are recognized by UNESCO. Georgetown is popular for its hundreds-of-year-old architectural heritage, and Langkawi is the top island for tourism in Malaysia.

Since 1971, NCER has hosted many multinational companies, which has helped smaller local enterprises to grow as well. The region has proved its capability of providing a supportive business environment for different types of enterprises.

Figure 9
Manufacturing Investment Value in NCER by State in 2018 and 2019

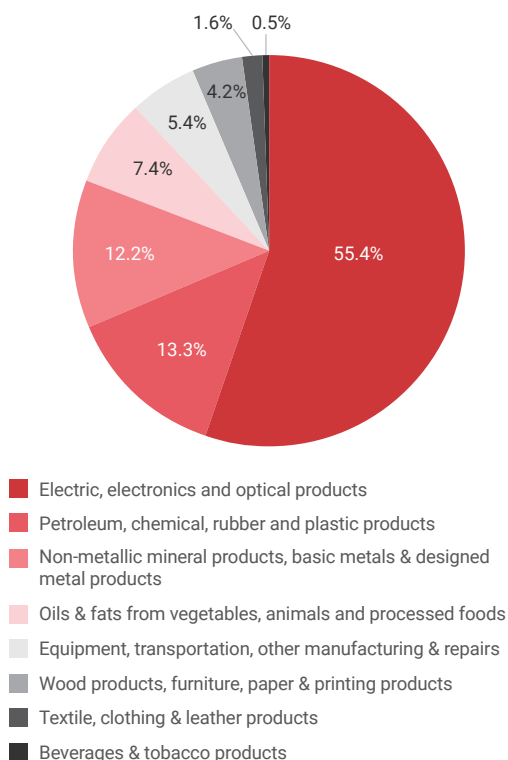
Domestic and foreign investments in the manufacturing sector in the four states of NCER (million USD)



Source: Projects Approved by State 2018-2019, Malaysian Investment Development Authority

Figure 10
Manufacturing Products by Value in NCER

Percentages of products in the total manufacturing value of NCER



Source: Raw data from Palau Pinang, Kedah, Perak, and Perlis Socio-Economy 2018 reports, Department of Statistics of Malaysia

During 2018, NCER attracted USD 2.43 billion over 187 individual projects in the manufacturing sector, including 37.8% domestic investments and 62.2% foreign investments. However, there was a huge increase during 2019, where NCER registered a total of 293 projects worth USD 8.55 billion, of which foreign investment accounted for 70.2%.

Manufacturing plays an influential role in NCER's economy, accounting for about 30% of the region's GDP. In Pulau Pinang, the contribution of manufacturing-to-GDP ratio is the highest among all states of Malaysia, 44% in 2018. With manufacturing as the key economic driver in NCER, Palau Pinang is the top contributor, accounting for 60.3% in total. Comprising more than 50% of the production outputs, the electronics industry is generally the biggest in NCER. Companies producing high-tech products opt for Kedah, the state that provides a world-class infrastructure and facilities for patented, state-of-the-art manufacturing technologies and products.

2.4 East Coast Economic Region (ECER)

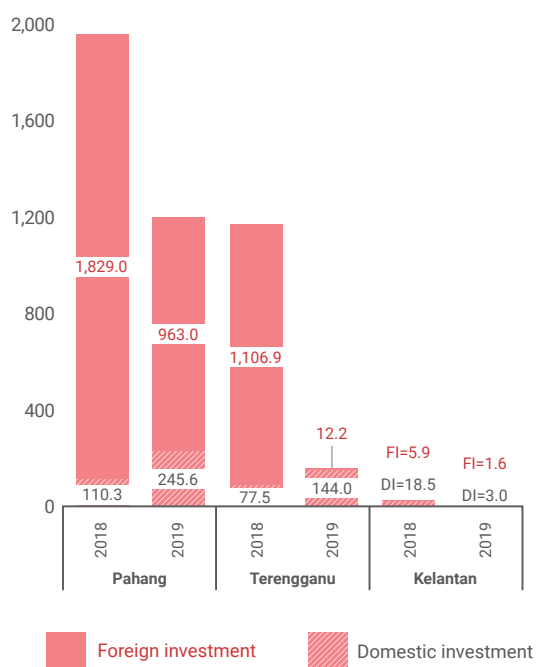
ECER is the third-largest region in Malaysia in terms of landmass. It embraces 51% of Peninsular Malaysia and includes the states of Kelantan, Terengganu, Pahang and the district of Mersing, covering a total area of 65,000 square kilometers. The ECER Master Plan, which was introduced in 2008, outlined the development of the region toward low socio-economic disparities, no poverty and better income and wealth distribution in a sustainable way.

In June 2019, the ECER Master Plan 2.0 was launched. With an outline for the development plan until 2025. The plan aims towards a transformation into a distinctive, dynamic and competitive region. The goals mapped in the plan includes USD 16.7 billion in private investments, 120,000 new jobs and 60,000 entrepreneurial opportunities for the citizens.

The economic growth in the ECER is driven by six essential industrial clusters: tourism, gas & petrochemical, manufacturing, agri-business, human capital development and logistics & services. These clusters are supported by developments in transportation, infrastructure, property and environment to make the region an ideal investment destination.

Figure 11
Manufacturing Investment Value in ECER by State in 2018 and 2019

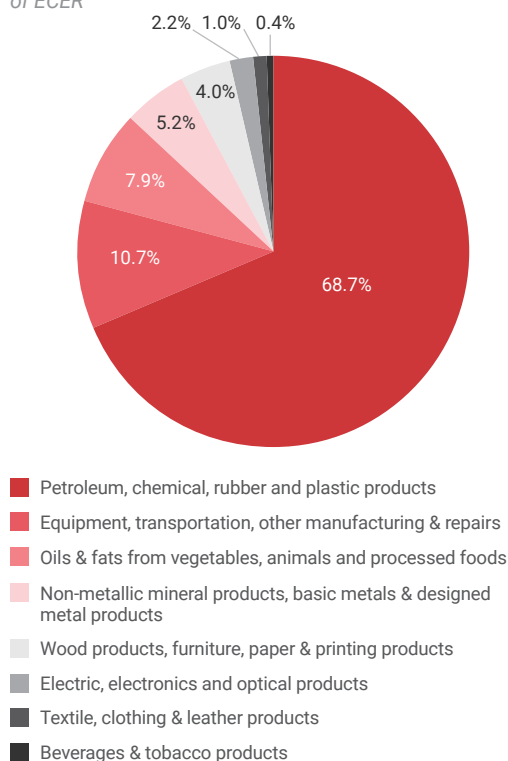
Domestic and foreign investments in the manufacturing sector in the three states of ECER (million USD)



Source: Projects Approved by State 2018-2019, Malaysian Investment Development Authority

Figure 12
Manufacturing Categories by Value in ECER

Percentages of products in the total manufacturing value of ECER



Source: Raw data from Pulau Pinang, Kedah, Perak, and Perlis Socio-Economy 2018 reports, Department of Statistics of Malaysia

Abundant natural resources in ECER provides a competitive foundation for manufacturing, which accounts for 23% of the total GDP in this region. In 2019, ECER attracted USD 1.37 billion in investments from 47 projects in the manufacturing sector, mostly foreign investment, which contributed to 71.3% of the total investment value. The investment value in 2019 dropped by 56.5% from previous year. Among the three states included in ECER, Pahang received the most investment in manufacturing, but Terengganu was the most significant contributor (49%) to the manufacturing sector (during 2018).

2.5 Sabah Development Corridor (SDC)

The Sabah Development Corridor (SDC) was launched in January 2008. It is the largest corridor in Malaysia, with an area of approximately 74,000 square kilometers. The initial SDC plan set out to be implemented over a period of 18 years, from 2008 to 2025. The key strengths of the SDC are its abundant natural resources, rich cultural heritage, access to mega biodiversity resources and its strategic location at the heart of SEA. The development plan of the SDC is divided by three sub-regions, including the Western, Central and Eastern sub-region.

The Western sub-region is identified as SDC's industrial belt. It provides access to the domestic market, product processing, packaging and port facilities. The Central sub-region is Sabah's agricultural hinterland and food production belt. It focuses on encouraging local communities to get involved in income generating activities through agriculture and tourism. The Eastern sub-region is a self-sufficient area with a large hinterland, industries and ports, as well as rich agricultural and biodiversity resources. The focus of this sub-region is promoting agro-bio research, commercial production and processing of agricultural commodities, especially palm oil. The Eastern sub-region also has a vibrant eco-tourism industry.

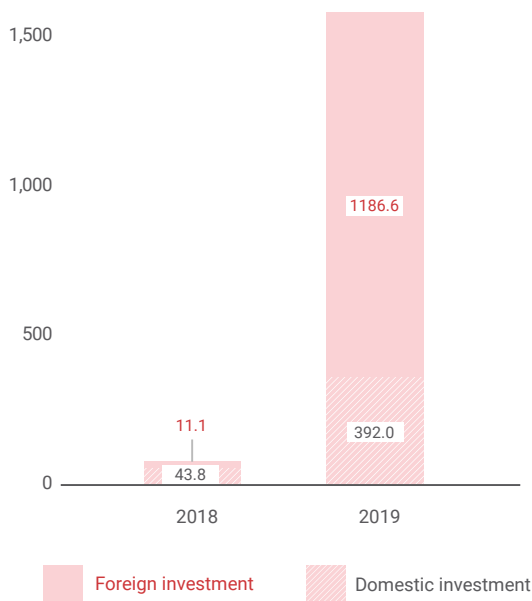
From 2008 to 2025, the SDC aims to triple its Gross Domestic Product (GDP) per capita and increase its GDP with four times. The 2018 numbers show that SDC clearly are on the right path. In total, more than 900,000 new jobs are expected to be generated during the SDC implementation period.

Manufacturing in SDC is inferior to other regions due to the infrastructure challenges. In 2018, SDC only attracted USD 54.9 million from 13 projects in the manufacturing sector, consisting of 79.8% domestic investments and 21.2% foreign investments. However, the total investment value in the manufacturing sector skyrocketed in 2019, with an increase of approximately 28 times from previous year. The explosive growth was partly driven by the neighbouring country Indonesia announcing a relocation of their capital to the Island of Borneo, placing it geographically close to SDC. Foreign investment is now the key contributor, accounting for 75.2%. Domestic investments also grew significantly, but its share is no longer the major one. The main products of SDC are food-related (especially palm oil and fats), apparel, wood, metal and furniture.

Figure 13

Manufacturing Investment Value in SDC in 2018 and 2019

Domestic and foreign investments in the manufacturing sector in SDC (million USD)

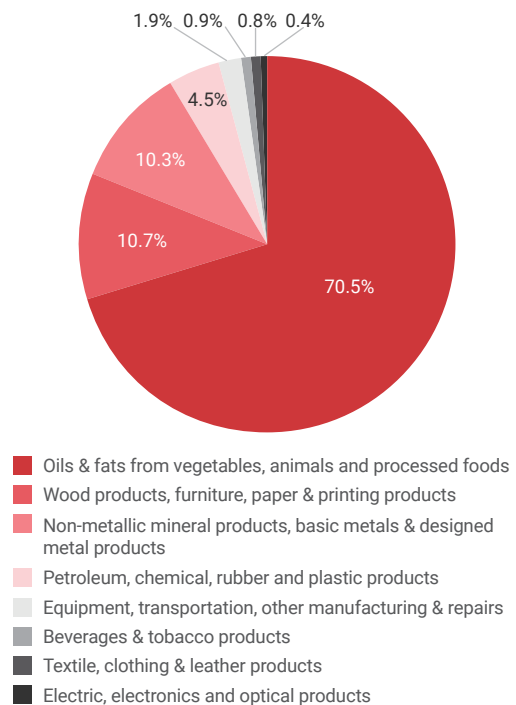


Source: Projects Approved by State 2018-2019, Malaysian Investment Development Authority

Figure 14

Manufacturing Categories by Value in SDC 2018

Percentages of products in the total manufacturing value of SDC



Source: Raw data from Sabah State Socio-Economy 2018 reports, Department of Statistics of Malaysia

2.6 Sarawak Corridor of Renewable Energy (SCORE)

SCORE is the second-largest corridor, with a land area of 70,000 square kilometers and a population of 600,000 people. It is located in the central region of Sarawak, with a thousand-kilometer coastline, 8 million hectares of forest and 5 million hectares of arable and peatland suitable for agriculture.

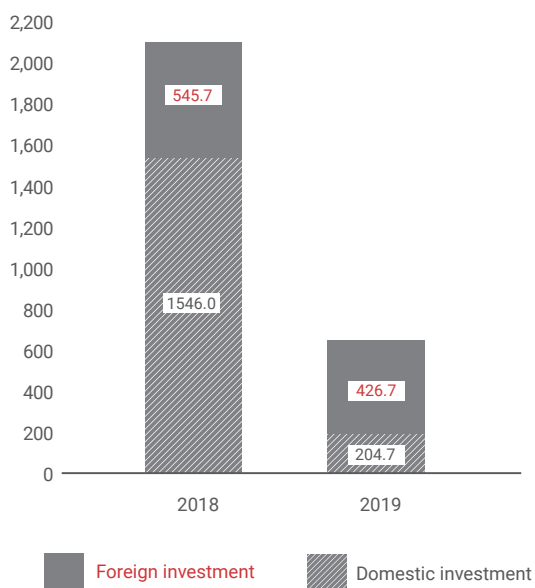
Moreover, the region possesses different valuable natural resources for traditional manufacturing. The corridor holds more than 1.2 billion barrels of oil reserves, about 80 million tons of silica sand deposits and 22 million tons of kaolin, which are the critical inputs for manufacturing ceramics, cosmetics and medical equipment. SCORE also offers a sustainable infrastructure that enables the development of power-hungry production industries, such as aluminum, steel, cement and fertilizers.

SCORE's priority are oil-based industries, aluminum, steel, fishing & aquaculture, livestock, wood, marine and tourism. In 2018, the dominant contributors to the manufacturing sector in SCORE were petroleum, chemicals, rubber and plastic products.

The state of Sarawak is the third biggest investment hub in Malaysia. In 2018, Sarawak state attracted USD 2.09 billion from 11 projects in the manufacturing sector, consisting of 73.9% domestic investments and 26.1% foreign investments. In 2019, Sarawak saw an increase in the number of investment projects to 18. However, the registered value was much lower, with a total worth of USD 631.4 million. The drastic decrease was mainly due the number of domestic investments, which dropped by 86.8%.

Figure 15
Manufacturing Investment Value in SCORE in 2018 and 2019

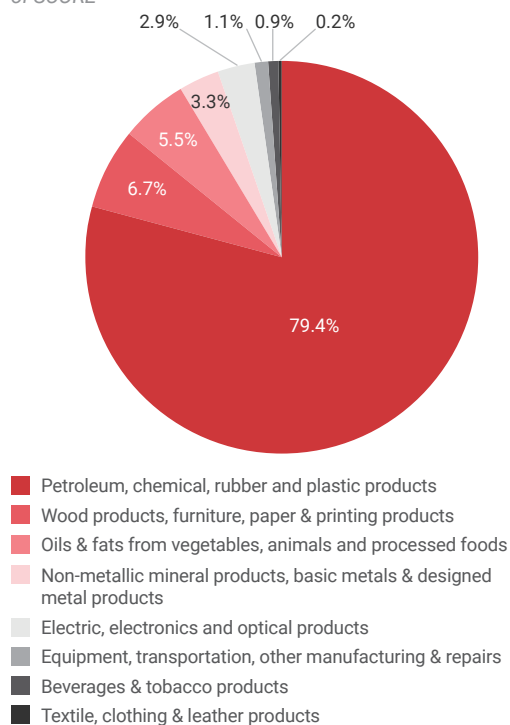
Domestic and foreign investments in the manufacturing sector in SCORE (million USD)



Source: Projects Approved by State 2018-2019, Malaysian Investment Development Authority

Figure 16
Manufacturing Categories by Value in SCORE 2018

Percentages of products in the total manufacturing value of SCORE



Source: Raw data from Sarawak State Socio-Economy 2018 report, Department of Statistics of Malaysia

This concludes part 1 of Asia Perspective's overview of Malaysia as a business environment for manufacturing. For more insight into Malaysia manufacturing opportunities and challenges, see parts 2 & 3 of this report.

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