

Comprehensive Overview Study: Part 3 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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5 Ease of Doing Business in Malaysia

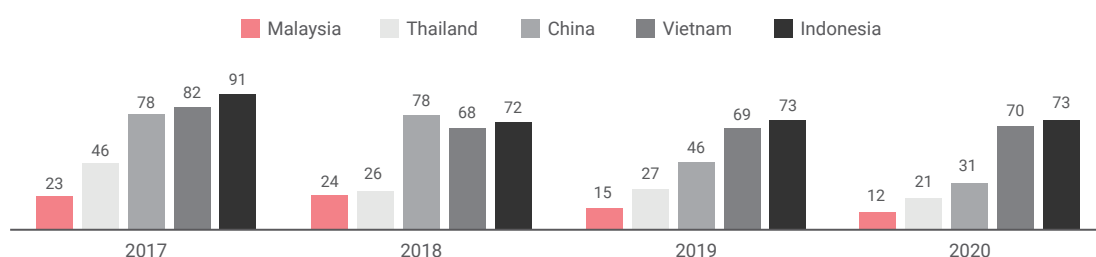
Malaysia's ranking in The World Bank's annual report Ease of Doing Business has improved over the past few years, from 23rd in 2017 to 12th in 2020. This result is a recognition of the efforts to adopt international regulatory best practices, with the aim of fostering Malaysia's business environment.

In comparison with other manufacturing hubs within the region (China, Thailand, Vietnam, and Indonesia), Malaysia has constantly showed a more stable performance and higher competitiveness in improving their ease of doing business. For a long period of time, Malaysia has remained the second-best country for doing business in SEA (only behind Singapore).

Figure 23

Ease of Doing Business in Malaysia Compared to China and Other SEA Countries During 2017-2020

The lower the ranking, the more favorable it is to do business



Source: Ease of Doing Business from 2017 to 2020, The World Bank

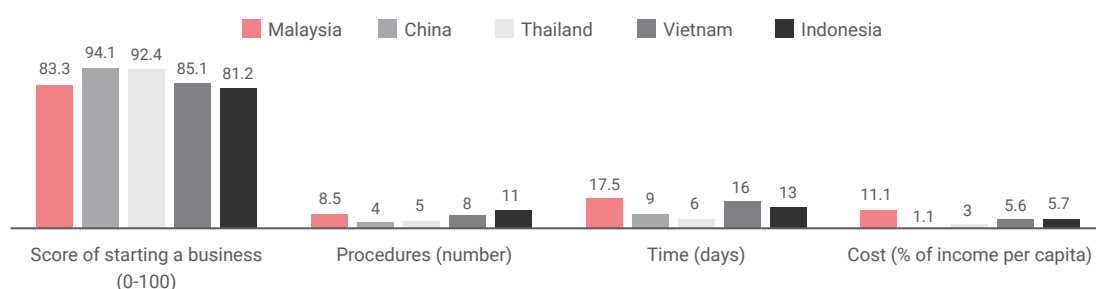
5.1 Starting Up a Business

The process of incorporating a business was made easier and less costly by the introduction of an online registration system. But regardless of the new tools, the overall process of starting a business in Malaysia was still ranked 126th in 2020. This is due to the fact that there are on average 8.5 procedures to register a business in Malaysia, takes 17 to 18 days and costs 11.1% of the annual income per capita. In addition, despite the fact that Malaysia has removed 70% of its all-round foreign equity ceiling, foreign equity restrictions still remain in certain sectors. These are imposed by the different Ministries, and not by centralized regulations. Ministries may also impose equity restrictions as a condition to obtain a license. Therefore, it is advised that foreign companies seek consultancy from local firms in advance, to be prepared and save time during the incorporation process.

Figure 24

Ease of Starting Up A Business in Malaysia Compared to China and Other SEA Countries

The higher the score of starting a business, the better incorporation process; the lower number of procedures, processing days and costs, the better incorporation process



Source: Doing Business 2020, the World Bank Group

5.2 Setting Up a Business Location & Accessing Finance

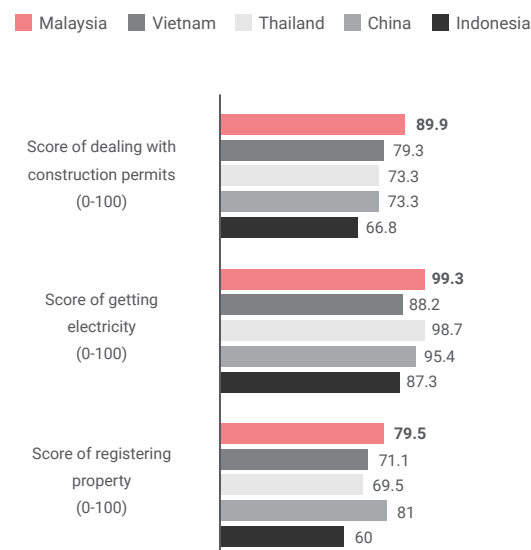
The ease of setting up a business location in Malaysia is determined by the process of dealing with construction permits, getting electricity and registering property. Malaysia ranks high compared to other countries in Asia Pacific and other regions. Therefore, it is perceived that the process of setting up a business location in Malaysia is favorable.

The ease of accessing finance is reflected through two topics, 'getting credit' and 'protecting minority investors'. Although Malaysia's strength of legal rights index is a bit under the average of East Asia & Pacific (7.1 on the scale of 0 to 12), the current performance still indicates that collateral and bankruptcy laws are fairly well designed to facilitate lending. Besides, credit registry coverage and credit bureau coverage are much higher in Malaysia than in other countries within the region, and they also demonstrate a high level of transparent credit information. Moreover, of the 190 assessed countries, Malaysia is considered to be one of the countries with the strongest mechanisms to protect minority shareholders against misuse of corporate assets. The indicators of Malaysia in this category are highly impressive.

Figure 25

Ease of Setting Up A Business Location in Malaysia Compared to China and Other SEA Countries

Scores of assessed factors for setting up a business location; the higher score, the better performance

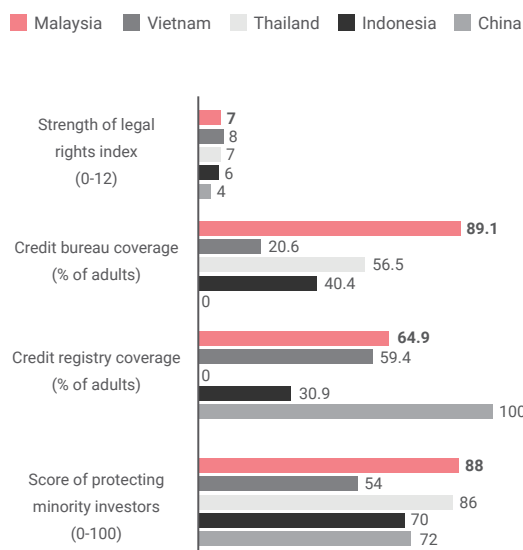


Source: Doing Business 2020, the World Bank Group

Figure 26

Ease of Accessing Finance in Malaysia Compared to China and Other SEA Countries

Scores of assessed factors in accessing finance; the higher score, the better performance

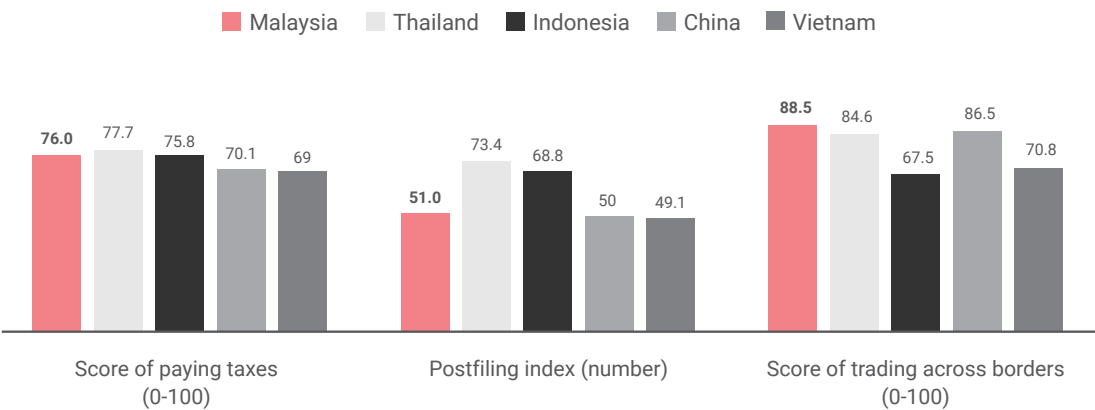


Source: Doing Business 2020, the World Bank Group

5.3 Dealing with Daily Operations

‘Paying taxes’, ‘Post-filing index’ and ‘Trading across borders’ are the three topics on which the ease of dealing with daily operations are determined. Malaysia’s score of paying taxes falls into the upper middle-performing group, which indicates that the tax paying procedure in Malaysia is comparatively good. However, the low post-filing index of Malaysia also indicates that it requires much longer time for administrative matters such as VAT-refunds and corporate income tax audits. Investors, therefore, should take notice of this issue to ensure that it will not get in the way of their companies’ operation. Malaysia’s score of trading across borders, on the other hand, is high. Required time and cost for border compliance and documentary compliance are highly competitive, which makes the daily operations for import and export companies easy.

Figure 27
Ease of Dealing with Daily Operations in Malaysia Compared to China and Other SEA Countries
The higher the score/index, the better the performance



Source: Doing Business 2020, the World Bank Group

6 Incorporating a Manufacturing Business in Malaysia

According to The Industrial Coordination Act 1975 (ICA), manufacturing companies with shareholders' funds of USD 603,000 and above, or engaging 75 or more full-time paid employees, must apply for a manufacturing license from the Ministry of International Trade and Industry (MITI). The manufacturing licenses application must be submitted to the Malaysian Industrial Development Authority (MIDA), an agency under MITI in charge of the promotion and coordination of industrial development in Malaysia.

6.1 Getting Approval for Industrial Projects

The approval of industrial projects in Malaysia is decided based on the Capital Investment Per Employee (C/E) Ratio. Projects with a C/E Ratio of less than USD 13,300 are categorized as labor-intensive and thus will not qualify for a manufacturing license or for tax incentives. Nevertheless, a project will be exempted from the above guidelines if it fulfils one of the following criteria:

- The project's added value to the product or activity is 20% or more.
- More than 15% of the staff is in a management, technical or supervising position.
- The project undertakes promoted activities or manufactures products as listed in the List of Promoted Activities and Products for High Technology Companies.
- The project is located in a promoted area.

In addition, all manufacturing projects (except expansion projects at the same location) needs to obtain approval in the form of a no-objection-letter from the State Government verifying the location of a project. Moreover, depending on the nature of the products manufactured or activities involved, investors may be required to obtain other approvals or licenses from the relevant government agencies, such as approval for planning, approval for building, certificate of fitness for occupation, approval for business-related licenses, approval from the Department of Environment or the Department of Occupational Safety & Health.

6.2 Incorporating a Company in Malaysia

The approval of industrial projects in Malaysia is decided based on the Capital Investment Per Employee (C/E) Ratio. Projects with a C/E Ratio of less than USD 13,300 are categorized as labor-intensive and thus will not qualify for a manufacturing license or for tax incentives. Nevertheless, a project will be exempted from the above guidelines if it fulfils one of the following criteria:

6.2.1 Private Limited Company (Sdn Bhd Co.)

- Governed by Companies Act 2016, Laws of Malaysia.
- Registered with the Companies Commission of Malaysia (SSM).
- Allowed to do business with Malaysian residents.
- Common businesses includes consulting, manufacturing, restaurants, travel agencies and telecommunication.
- Set-up fee the first year: USD 855 – 1,700.
- Annual Fee: USD 490, excluding accounting, audit and tax compliance.

Figure 28

Incorporation Process of a Private Limited Company

Requirements and steps to incorporate a Private Limited Company in Malaysia



Source: Guidelines for registration of foreign company, Companies Commission of Malaysia (SSM)

6.2.2 Labuan Company

- Governed by Labuan Companies Act 1990 (LCA 1990).
- Registered with the Labuan Financial Services Authority (Labuan FSA).
- Common businesses includes banking, insurance, leasing, factoring, money broking, commodity trading, credit token businesses and company management businesses.
- Shipping operations are limited to activities carried out in Labuan or outside of Malaysia.
- Transactions in Malaysia ringgit (the local currency) are generally prohibited.
- The opening of an operational, management or marketing office outside Labuan must be approved by Labuan FSA. Besides, the company may have to accept certain conditions and pay an annual fee between USD 1,200 and USD 1,700 upon the office establishment.
- The company are eligible to enjoy several benefits including Malaysia's Double Tax Agreements with over 80 countries, competitive tax regime with the tax treatment ranging from 0 to 3 percent of the net profit (depending on the business activities) and exemption from import duties, sales tax and capital gains tax.
- Set-up fee the first year: USD 3,500.
- Annual Fee: Minimum of USD 1,850, excluding accounting, audit and tax compliance.

Figure 29

Incorporation Process of a Labuan Company

Summary of tax incentives and their applications in different industries and types of business in manufacturing



Source: Incorporation and Registration Procedures, Labuan International Business and Financial Centre (Labuan IBFC)

7 Conclusion

Malaysia has been one of the best performing economies in Asia during the last decade, with an average GDP growth of 5.3% since 2010. Through its different economic corridors and geographical regions, Malaysia offers opportunities to every sector of the manufacturing industry. Thanks to its secure business environment and efforts to adopt international regulatory best practices, Malaysia is an almost ideal investment destination for foreign investors looking to expand its manufacturing operations. With excellent infrastructural capabilities, a skilled workforce and a thriving domestic market, there is many opportunities in the country.

In the Ninth Malaysia Plan, the government introduced its five economic corridors, aiming at fostering a more equal economic development between the urban and rural areas. The five corridors targets to utilize the resources of each geographic region. These corridors can also be used by investors to benchmark different locations and find the best suitable place for different manufacturing operations, but also to get an overview of the Malaysian economy as a whole.

Due to their varying geographical locations, each economic corridor of Malaysia holds different opportunities, which should be studied carefully before deciding to enter Malaysia. While Kuala Lumpur's main GDP contributor is the service sector, the surrounding Selangor State accounts for 29.9% of the whole countries manufacturing value, focusing on electronics and optical products. IRDA offers a strategic geographical location with its proximity to Singapore and international traveling hubs. NCER's manufacturing sector is highly dominated by electronics production and is able to provide the cutting-edge infrastructure and support for high tech companies. ECER and SCORE are the best investment destinations for producing petroleum, chemicals, rubber, glass, steel and plastic products, while SDC possess a wide diversity of natural resources and is therefore a beneficial destination for companies producing palm oil, wood and wood-related products.

Over the past few years, Malaysia have climbed steadily in The World Bank's annual ranking of the Ease of Doing Business. 2020, Malaysia ranked 12th out of 190 countries and territories. For a long period, Malaysia has been the second-best ranked country for doing business in SEA, only behind Singapore. The country offers a favorable process of finding and setting up a business location, accessing finance and a strong protection of minority investors against misuse of corporate assets. Credit registry coverage and credit bureau coverage is much higher in Malaysia than in other countries in SEA, the process of paying taxes rates high globally and trading across borders is perceived to be easy. However, there are still areas where Malaysia lags behind. The post-filing index of Malaysia indicated that it requires a long time for administrative matters, such as VAT-refunds and corporate income tax audits, and the process of incorporating a business in Malaysia was still considered time-consuming, slow and expensive in 2020, despite an introduction of online registration system.

With the second busiest container port in SEA, only behind Singapore, Malaysia's GDP heavily rely on international trade. Thanks to its geographical position and list of Free Trade Agreement's, many companies trading with Malaysia can enjoy lower or totally reduced tariffs, removed quantitative restrictions, hassle-free customs procedures, etc. Malaysia's most fundamental contributor to its international trade is manufactured goods, accounting for 85% of Malaysia's total trade volume in 2019. The exports are dominated by electronics, making Malaysia one of the top electronics exporters in the world. Given the technological development of today with increasing numbers of mobile devices, storage services, artificial intelligence-based products and 5G-technology, an increasing demand of the electronic components manufactured in Malaysia, such as semiconductors, is pretty safe to forecast. The industry has attracted heavy investments over the past decade, contributing to Malaysia's industrialization and development of the country.

The Malaysian government have introduced several tax incentives with the aim to foster foreign investments in the countries manufacturing sector. Its broad variation, based on both geographical locations and manufactured products, makes almost every type of manufacturing project eligible to enjoy these tax incentives, resulting in a lower Corporate Income Tax rate than the set flat-rate of 24%. By being aware of these incentives, investors looking for opportunities in Malaysia can utilize on the governmental policies to reduce costs during the initial years, increasing the chances of succeeding drastically and laying the foundation for future growth.

Foreign investors wishing to incorporate a business in Malaysia usually opt for two different company setups, a Private Limited Company or a Labuan Company, since they both allow 100% foreign ownership. Based on the field of business, the two different options each holds different strengths and opportunities. For manufacturing operations, a Private Limited Company clearly is the alternative to go for while a Labuan Company, with its offshore setup, is superior in the banking, insurance and international trading sectors. The incorporation process of both company types is pretty straight-forward in theory, but as The World Bank's report Ease of Doing Business witness about, the process of incorporating a business in Malaysia is more time-consuming and costly in practice than on paper. Therefore, it is of outmost importance that foreign investors looking at entering Malaysia are aware of the processes and are well prepared before starting the incorporation procedures.

In summary, the study has concluded that Malaysia is one of the most promising investment-destinations in SEA due to its variation of strengths and opportunities in different economic corridors, overall supportive business environment, strategic geographical location for international trade and many corporate tax incentives. By comparing and evaluating the strengths and weaknesses of the different economic corridors, as well as the opportunities and challenges of doing business in Malaysia, this research has presented different aspects of the Malaysian investment landscape from the economic corridor's perspectives, including economic profiles and governance of the corridors. Based on this, the study has made recommendations for companies to select suitable corridors for operations in Malaysia. However, there are challenges that needs to be taken into consideration before deciding to enter the Malaysian market, and the entry strategy needs to be approached thoroughly before deciding to enter the Malaysian business scene.

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

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