



Trending investments

Malaysia, your regional investment destination

February 2020



EY

Building a better
working world

In today's disruptive world, Malaysia's economic diversity and resilience have elevated her position to become an attractive investment destination for discerning investors worldwide.

In fact, Malaysia's trade and investment ties with Chinese traders were forged 600 years ago during the spice trade. And in recent decades, Chinese investors' interest in Malaysia spans a diverse range of sectors from automotive, integrated fishery terminals, regional logistics, to real estate, tourism and industrial segments, including power, aluminum, steel, paper and petrochemicals.

Malaysia's strategic central location in the heart of Asia's key trading routes, proximity to Asian economic titans, China, Japan and India, and access to ASEAN's US\$2.8 trillion market are propelling her growth trajectory.

With Malaysia's new focus on harnessing future-relevant industry 4.0 technologies, Malaysia is advancing to the next level of global competitiveness.

We hope *Trending investments* in Malaysia can provide useful insights into Malaysia's diverse investment opportunities, attractive tax incentives and regulatory reporting requirements to enhance your understanding of Malaysia's dynamic and diverse eco-system.



Tan Lay Keng
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Focus

1

What and where are Chinese investments in Malaysia?

2

What are the attractive tax incentives in Malaysia?

3

What are the other investment considerations?

4

Appendix:

- ▶ Malaysia's socio-economic indicators
- ▶ Malaysia's rules and regulations: snapshots

“

As China is our largest trading partner, FDI from China should be comparable with the U.S. As such, a 'Special Channel' to attract investments from China shall be established under **InvestKL**.

Source: Budget Speech 2020, Ministry of Finance, 11 October 2019

1 What and where are Chinese investments in Malaysia?

China is Malaysia's largest trading partner, an active M&A player and a key FDI investor.

#1
largest trading partner

#1
most active M&A player

#2
largest FDI contributor

Chart 1: Malaysia-China external trade

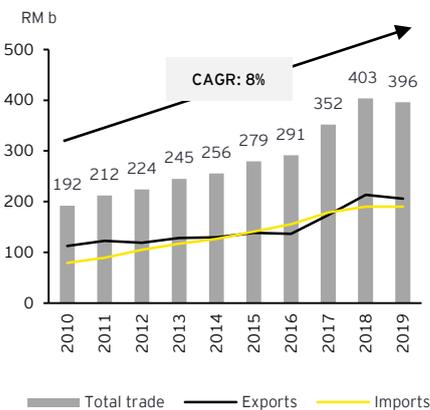


Chart 2: Malaysia-China completed deal activities

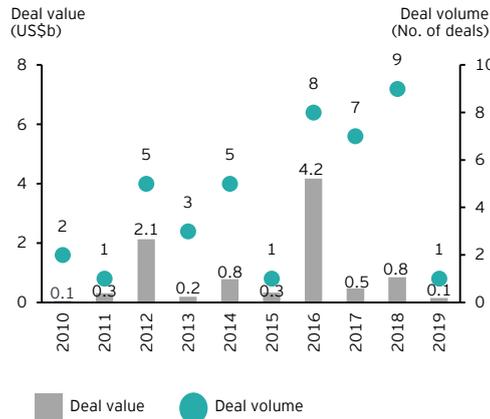
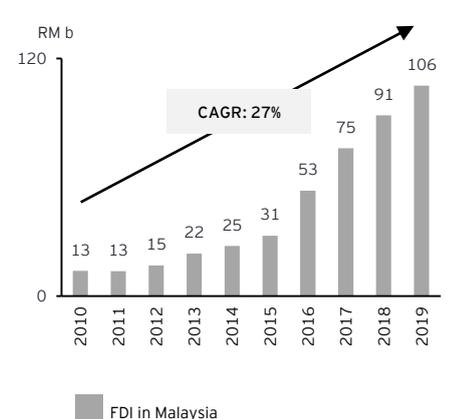


Chart 3: Malaysia-China FDI (net position)



► **Key exports to China:**

Chemicals and chemical products, electrical and electronic products, petroleum products, manufactured goods

► **Key imports from China:**

Electrical and electronic products, metal manufactured products, chemicals and chemical products, transport equipment

► On average, four China acquisitions valued at **US\$0.9b** are transacted annually.

► **Key deals include:**

- Shanghai Pharmaceuticals Holding Co. Ltd's acquisition of Cardinal Health (Malaysia) Co Ltd for **US\$1.2b**
- Zhejiang Geely (China)'s acquisition of a major stake (49.9%) in Malaysia's Proton Holdings for **US\$107m**

► China is Malaysia's key FDI contributor - largely in the **manufacturing and services** sectors.

► In Jan-Sept 2019, approved manufacturing FDI from China stood at 49 projects with a total value of **US\$1.63b** (RM6.83b).

Sources:
 ► Media releases
 ► MIDA
 ► Bank Negara Malaysia



1 What and where are Chinese investments in Malaysia?

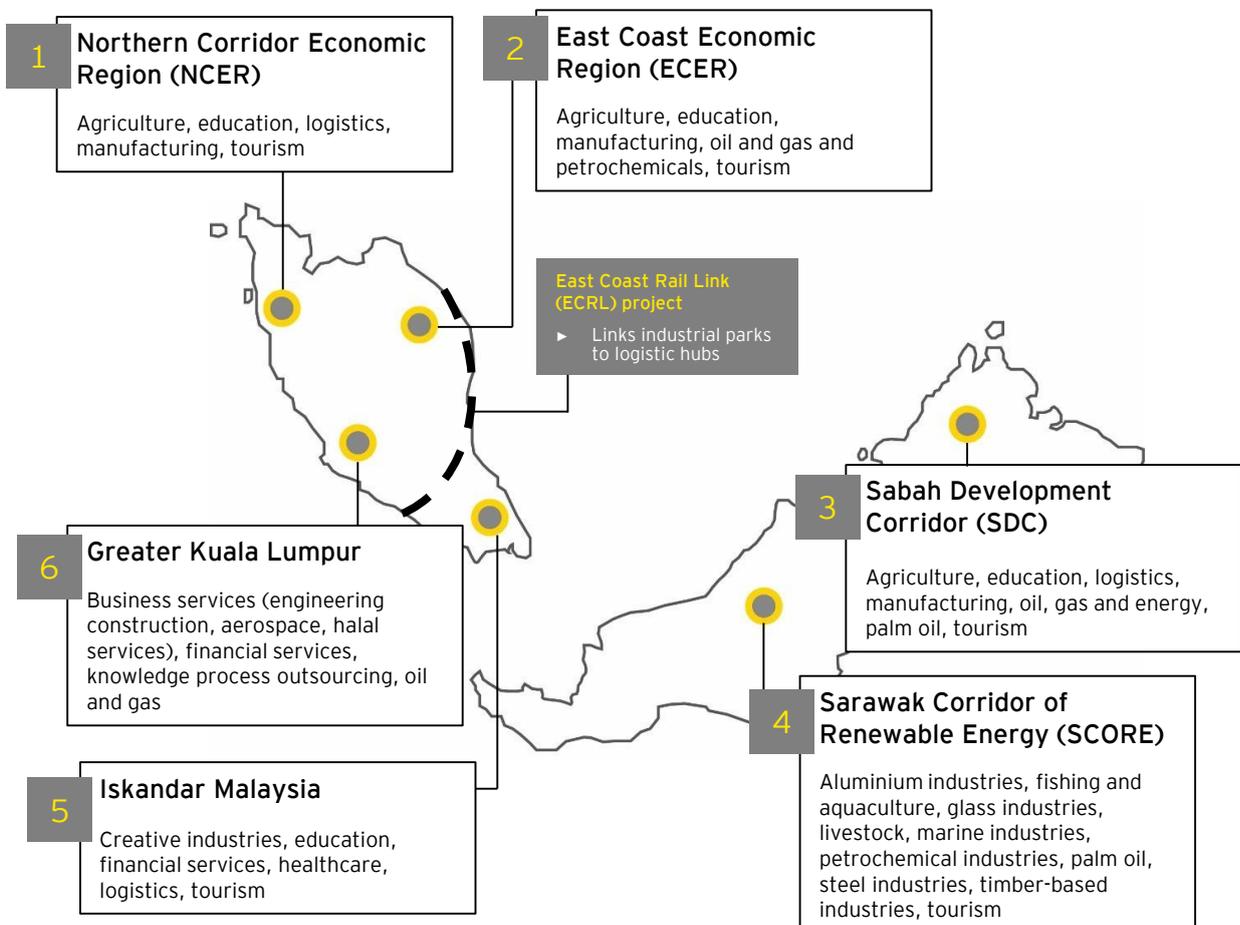
Malaysia's six economic growth corridors offer diverse business opportunities, from agro-based, manufacturing to business services.

Overseas investors in Malaysia may consider an array of business opportunities, from the main commercial hub (Greater KL), Malaysia's Silicon Valley (Penang), real estate development (Iskandar Malaysia), infrastructure construction (East Coast Economic Region), agro-based industries (Northern Corridor) to resource-rich states (Sabah and Sarawak).

In addition, Malaysia has launched its Industry 4.0 Blueprint (Industry 4WRD). The five focus sectors in Malaysia's Industry 4.0 Blueprint which will act as a catalyst for Malaysia's economic development in the next decade include:

- ▶ Aerospace
- ▶ Chemical
- ▶ Electrical and electronics
- ▶ Machinery and equipment
- ▶ Medical devices

Chart 4: Malaysia's economic corridors and promoted sectors



Sources:

- ▶ Industry4WRD: National Policy on Industry 4.0, 2018, Ministry of International Trade and Industry (MITI) Malaysia
- ▶ EY research

Malaysia's development initiatives under the Shared Prosperity Vision 2030 anchored on **sustainability, inclusivity and equitable growth**.

Table 1: Malaysia's proposed key economic growth activities (KEGA) across all states in Malaysia as outlined in *Shared Prosperity Vision 2030*

Key economic growth activities	States in Malaysia													
	Perlis	Kedah	Pulau Pinang	Perak	Selangor	Kuala Lumpur	Negeri Sembilan	Melaka	Kelantan	Terengganu	Pahang	Johor	Sabah	Sarawak
Agro-based	●	●			●		●				●	●		●
Aquaculture				●						●			●	
Commodities-related										●	●	●	●	●
Creative industries				●										
Education										●		●		
Financial services ¹						●								
Halal								●						
High-tech ²		●	●		●									
Renewable energy	●													●
Rural industries					●				●					
Logistics	●	●	●		●				●		●	●		
Tourism ³	●	●	●	●		●	●	●	●	●	●	●	●	●

Note:

**States in Malaysia exclude Putrajaya which is the Federal government administrative center and diplomatic hub

¹ Financial services include regional financial hub and Islamic fintech 2.0 hub

² High tech includes aerospace, automotive, MRO, Industry 4.0 hub, industrial parks and manufacturing

³ Tourism includes Asia tourism (Asia gateway), agro-tourism, eco-tourism, island and coastal tourism, health tourism and heritage tourism

Sources:

► Shared Prosperity Vision 2030, Ministry of Economic Affairs Malaysia



2

What are the attractive tax incentives in Malaysia?

Incentives to propel development

Malaysia offers various statutory and discretionary incentives to attract foreign investment in high value-added activities. These incentives are aimed at accelerating development in areas with strong potential for economic growth.

What are Malaysia's investment policies and incentives?

Investor-friendly policies with minimum restrictions on equity ownership, profit repatriation and hiring of expatriates. Additionally, a range of incentives, including Principal Hub incentives, Pioneer Status (PS), Investment Tax Allowance (ITA), and MSC status, is offered to qualified investments in Malaysia.

Malaysia's foreign investment policies



100% foreign equity ownership - manufacturing and selected services sectors



Freedom to employ expatriates in key positions



Freedom to repatriate capital, interest, dividends and profits

Malaysia's selected key incentives for foreign investors

Pioneer status (PS)

Income tax exemption ranging from 70% to 100% for 5 to 10 years

Investment tax allowance (ITA)

60% or 100% on qualifying capital expenditure for 5 years

Reinvestment allowance

60% on qualifying capital expenditure for 15 consecutive years

Principal Hub incentives

Incentives for MNCs to establish regional and global hubs

Tiered income tax (0%, 5% or 10%) up to 10 years

MSC status

70% - 100% income tax exemption for up to 5 years for technology-related services companies, Global Business Services (GBS) or Knowledge Process Outsourcing (KPO)

Halal industry

100% income tax exemption on capital expenditure for 10 years or income tax exemption on export sales for 5 years

China Special Channel

On 20 January 2020, InvestKL, under the International Trade and Industry Ministry, launched the China Special Channel (CSC) to attract and support Chinese companies and MNCs seeking to create new businesses or regional hubs in Malaysia.

CSC facilitates all investment opportunities into Malaysia, with a focus on **high-value, high-impact and high-tech investments**.

CSC also streamlines the engagement process with suitable production sites and tax incentives whilst supporting the talent pipeline.

Malaysia's tax rates

Malaysia has competitive tax rates compared to other countries in the region. Businesses in Malaysia are subject to a single-tier tax system of 24% on the company's profit. Personal income is taxed at progressive rates up to 30%.

Some of the indirect taxes in Malaysia include Sales and Services Tax (SST), Real Property Gains Tax (RPGT), excise and import duties and stamp duty.

In addition, Malaysia imposes Transfer Pricing and Withholding Tax rules.

Corporate income tax:

Single-tier tax rate of 24%

Indirect taxes

- ▶ **Sales tax:** 5%, 10% or a specific rate for coal and petroleum products
- ▶ **Service tax:** 6% or specific rate for credit card services
- ▶ **Real Property Gains Tax (RPGT):** 5% - 30% depending on the holding period of the real property
- ▶ **Excise duties:**
Vary from a composite rate of RM0.1/liter; 15% of value for certain spirituous beverages; 105% on value of motorcars (varies according to engine capacity)
- ▶ **Import duties:**
Ad valorem rates of 2% - 60% (on goods subject to import duties)
- ▶ **Stamp duty:**
Rate varies according to the nature of instruments / documents and transacted values (payable by the buyer/transferee)

Personal tax:

Progressive rates up to 30%

Other tax rules

- ▶ **Transfer Pricing (TP):**
 - ▶ Taxpayers are required to determine and apply arm's-length pricing for inter-company pricings and to prepare contemporaneous TP documentation.
 - ▶ Malaysia has implemented Country-by-Country Reporting (CbCR) and master file requirements in line with the OECD's BEPS Action 13.
- ▶ **Withholding tax (WHT)**
 - ▶ WHT is imposed on certain payments to non-residents as follows:
 - ▶ 10% for royalty, specific services, use of moveable property and other income (e.g. commissions and guarantee fees)
 - ▶ 13% for payment to non-resident contractors for services under a contract*
 - ▶ 15% for interest payment
 - ▶ WHT rates may be reduced under relevant tax treaties.

Note:

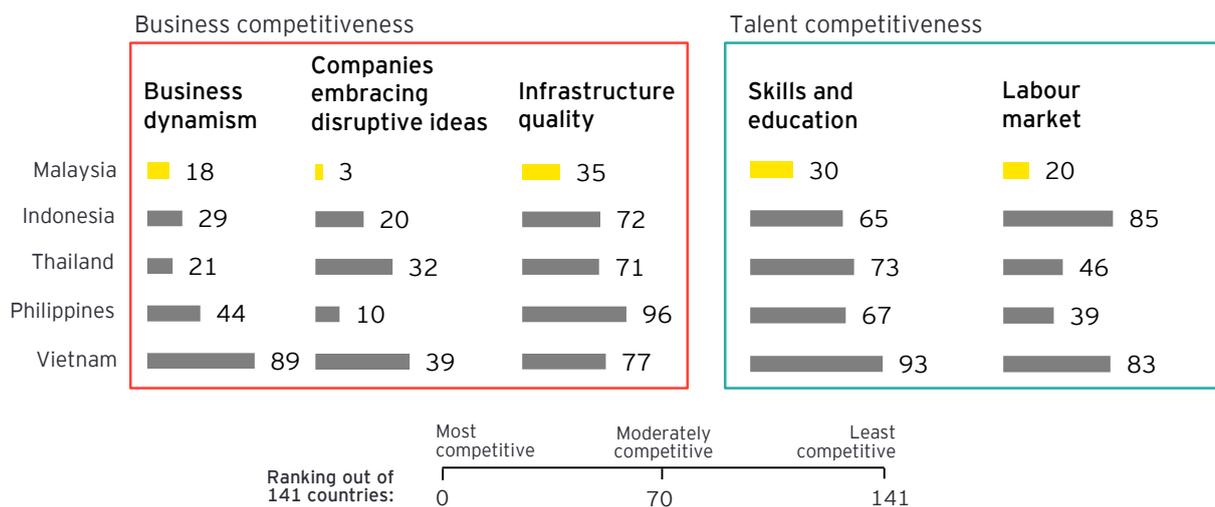
*The 13% WHT for payments to non-resident contractors consists of 10% on account of tax payable by non-resident contractors and 3% on account of tax payable by employees of non-resident contractors



3 What are the other investment considerations?

Amongst her ASEAN peers, Malaysia is ahead in business dynamism, talent and infrastructure.

- ▶ Malaysian companies are among the top 20 globally for business dynamism and among the top three in the world for companies embracing disruptive business ideas.
- ▶ Malaysia has the best infrastructure ranking in terms of electricity supply, quality of roads, efficiency of transport services and liner shipping connectivity.
- ▶ Malaysia is one of the top-tier countries with a skilled workforce and quality education.
- ▶ Malaysia's overall labour market ranking is 20th, with a well-functioning and flexible labour market.



Malaysia's credit ratings

- ▶ Malaysia's favorable credit ratings are indicative of Malaysia's economic stability.

	Rating	Outlook
S&P	A-	Stable
Moody	A3	Stable
Fitch	A-	Stable

Note:
 ▶ Malaysia's credit ratings, as of February 2020

Malaysia's competitiveness rankings



2nd

Ease of Doing Business within ASEAN
World Bank's Doing Business Report 2019



2nd

Most competitive market within ASEAN
World Economic Forum's Global Competitiveness Report 2018/2019



3rd

Most attractive destination for global business
AT Kearney: 2019 Global Services Location Index

Note:

- ▶ Business dynamism metrics include attitudes toward entrepreneurship risk, willingness to delegate authority, growth of innovative companies and companies embracing disruptive ideas.
- ▶ Infrastructure quality metrics include electricity supply, road quality, efficiency of train, air and sea transport services, and liner shipping connectivity index.
- ▶ Labour market metrics include cooperation in labour-employer relations, active labour policies, ease of hiring foreign labour, internal labour mobility and pay and productivity.
- ▶ Skills and education metrics include skills of graduates, digital skills among population, ease of finding skilled employees, extent of staff training and quality of vocational training.

Source:
 The Global Competitiveness Report 2019, World Economic Forum (WEF)

Kuala Lumpur's cost competitiveness among Asia-Pacific cities

Kuala Lumpur is one of the most affordable cities in Asia-Pacific in terms of office rental, cost of hiring Malaysian professionals and overall living cost.

1

Lowest prime CBD office rentals

Gross effective rental rate for Kuala Lumpur's prime CBD office space is US\$15.2/sqm/month, **the lowest among Asian cities.**

2

Competitive salaries of professionals

In Kuala Lumpur, the average salary for a finance director is US\$100,000 per annum.

In comparison, the average salary for a finance director in **Hong Kong and Singapore are 2.7 times and 1.9 times** that of the Kuala Lumpur's average salary respectively.

3

Affordable cost of living

A highly affordable city, Kuala Lumpur ranked **23rd among key Asian cities**

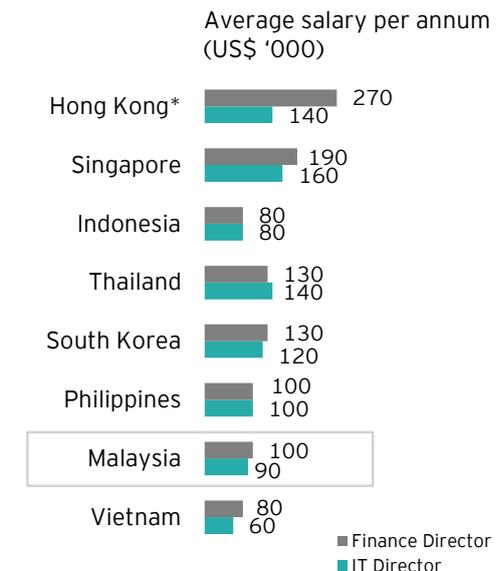
The top 10 most expensive Asian cities are:

1. Hong Kong
2. Tokyo
3. Singapore
4. Seoul
5. Shanghai
6. Beijing
7. Shenzhen
8. Guangzhou
9. Osaka
10. Nanjing

Chart 5: Prime office rental in key Asia-Pacific cities



Chart 6: Average salary for finance and IT professionals in Asia-Pacific¹



Sources:

- ▶ Mercer's Cost of Living Index, 2019
- ▶ Asia-Pacific Prime Office Rental Index, Q32019, Knight Frank Research
- ▶ Salary Survey 2020, Greater China & South East Asia, Robert Walters
- ▶ EY Research

Note:

- ¹Currency conversion to US\$ as at 20 Feb 2020
- *Salary is based on 8-14years experience



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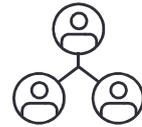
Appendix: Malaysia's socio-economic profile

Balanced socio-demographics

- ▶ Malaysia's population of 32.7m is the 45th most populous country globally.
- ▶ Malaysia's multi-ethnic and multi-lingual people comprise Malays, Chinese, Indians.
- ▶ Malaysia's population density of 99 persons per km² is ranked 114th globally.
- ▶ More than three quarters of Malaysians are urbanites.
- ▶ Malaysia's average life expectancy of 75 years is slightly below the OECD average of 79 years.



32.7m
Population (2019)



99
Population density
(persons per km²)



78.4
Urban population
(% of total)

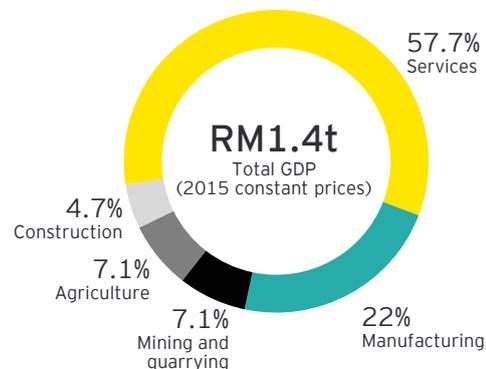


75
Life expectancy
(years)

Steady and diversified economy

- ▶ In 2019, Malaysia achieved GDP growth of 4.3%, above the estimated global GDP growth of 2.9% by the International Monetary Fund (IMF).
- ▶ Malaysia's economy is forecasted to grow between 3.2% to 4.2% in 2020
- ▶ Malaysia's diversified economy is driven by the services sector, contributing to more than half (57.7%) of Malaysia's GDP,
- ▶ It is anticipated that growth in the services sector will continue to drive Malaysia's future growth and output.

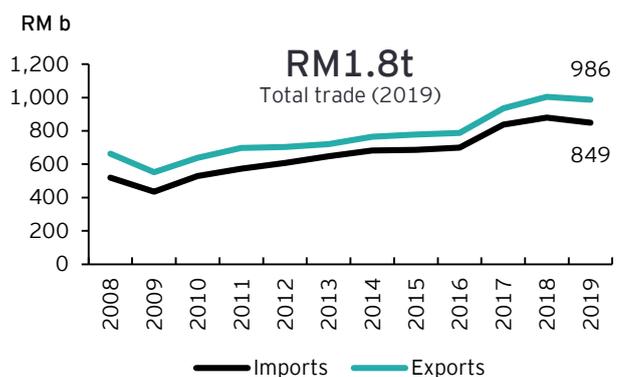
Chart 7: Malaysia's key economic activities



Growing external trade

- ▶ Malaysia's total trade registered a at RM1.8t in 2019.
- ▶ With uncertainties arising from the US-China trade tensions and unfavorable economic conditions, Malaysia's external trade is affected due to softer global demand from key trading partners.
- ▶ Malaysia's key trading partners include China, ASEAN, US and Japan.

Chart 8: Malaysia's external trade performance



Sources:

- ▶ Malaysian Investment Development Authority (MIDA)
- ▶ Department of Statistics Malaysia (DOSM)
- ▶ World Bank
- ▶ International Monetary Fund (IMF)
- ▶ Ministry of Finance (MoF)
- ▶ Monthly highlights and statistics, December 2019, Bank Negara Malaysia (BNM)
- ▶ World population review, United Nations (UN)



Business formation

In Malaysia, the typical duration to establish a business entity* is 14 days (two weeks) and involves 10 procedures.

The five permissible business entities in Malaysia are:

- ▶ Sole proprietorship
- ▶ Partnership
- ▶ Limited Liability Partnership (LLP)
- ▶ Private limited company (Sendirian Berhad)
- ▶ Public listed company

All sole proprietorships and partnerships are unincorporated entities (unlimited liability) and must be registered with the Registrar of Businesses under the Companies Commission of Malaysia (CCM).

An LLP is regulated under the Limited Liability Partnerships Act 2012, while private limited companies (Sendirian Berhad) are governed by the Companies Act 2016.

Public listed companies are bound by the Listing Requirements of Bursa Malaysia under the purview of the Securities Commission Malaysia.



Compliance and financial reporting

- ▶ In accordance with the Companies Act 2016, all accounting, financial and business transaction records must be kept at the company's registered office.
- ▶ All transactions must be recorded within 60 days of completion.
- ▶ All financial statements must be prepared in accordance with the Malaysian Accounting Standards Board (MASB)-approved accounting standards.

For Malaysian private entities, the business reporting standards must comply with either

- ▶ The Malaysian Private Entities Reporting Standard (MPERS), or
- ▶ The Malaysian Financial Reporting Standard (MFRS)

Entities other than private entities shall apply the Malaysian Financial Reporting Standard (MFRS) which is an IFRS-compliant framework.



Protection of intellectual property

In Malaysia, intellectual property (IP) rights are protected in accordance with international standards. Malaysia is a signatory to international treaties on IP such as:

- ▶ Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)
- ▶ The Paris Convention
- ▶ The Berne Convention
- ▶ The Patent Cooperation Treaty

Malaysia's key legislations on IP include:

- ▶ Copyright Act 1987
- ▶ Industrial Designs Act 1996
- ▶ Industrial Designs Regulations 1999
- ▶ Patents Act 1983
- ▶ Patents Regulations 1986
- ▶ Trade Marks Act 1976
- ▶ Trade Marks Regulations 1997
- ▶ Trade Descriptions Act 2011

The key legislations for businesses operating in Malaysia

- ▶ Capital Market and Services Act 2015
- ▶ Companies Act 2016
- ▶ Competition Act 2010
- ▶ Employment Act 1955
- ▶ Employment (Part-Time Employees) Regulations 2010
- ▶ Financial Services Act 2013
- ▶ Industrial Relations Act 1967
- ▶ Limited Liability Partnerships Act 2012
- ▶ Malaysia Anti-Corruption Act 2009
- ▶ Personal Data Protection Act 2010
- ▶ Trade Union Act 1959

Note:

*Refers to a standard private limited company (Sendirian Berhad)

Sources:

- ▶ Doing Business Report 2019, World Bank
- ▶ Companies Commission of Malaysia (CCM)
- ▶ EY research

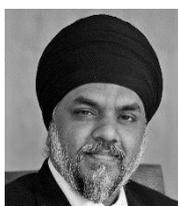
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