

International Business Guides Malaysia



HSBC

Together we thrive

- 01 Welcome
- 02 Malaysia: A new powerhouse for Southeast Asia
- 03 Country profile
- 04 Society & culture
- 05 Working practices & values
- 06 Business etiquette
- 07 Economy
- 08 Labour & business
- 09 Taxes & wages
- 10 Investment & trade
- 11 Infrastructure
- 12 Cost of living
- 13 HSBC in Malaysia

Welcome to Malaysia

Malaysia is a forward-thinking country with a vision. With access to 600 million people in the region, a booming economy and sound infrastructure it's also one of the most attractive countries for foreign direct investment in Southeast Asia.

Located strategically in the heart of ASEAN, Malaysia has one of the highest standards of living in the region. Add in the already excellent transport links, with plans for significant investment over the coming years, and the country is an ideal regional and international base for businesses.

HSBC's presence in Malaysia dates back to 1884 when the Hongkong and Shanghai Banking Corporation Limited established its first office in the country, on the island of Penang.

Today, HSBC Bank Malaysia Berhad has more than 4,000 employees and a network of 68 branches, helping our clients grow their businesses and embrace all of the opportunities Malaysia has to offer.

Get in touch to find out how HSBC can help you and your business thrive in Malaysia.

We look forward to seeing you here!



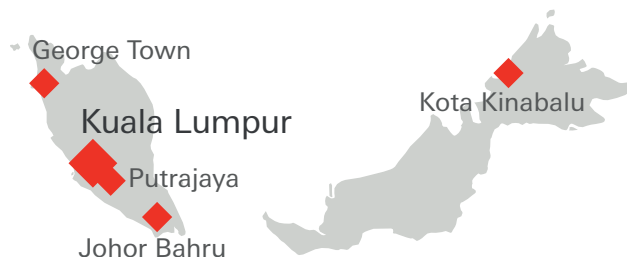
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Essentials



Capital city
Kuala Lumpur

Other major cities
**Putrajaya, Johor Bahru,
George Town, Kota
Kinabalu**

Population
32 million¹

Size
330,323 sq km

GDP
USD11,028 per capita¹

Main languages
**Bahasa Malaysia (official
language), English,
Mandarin and Tamil**

Currency
Malaysian Ringgit (RM)

Time zone
UTC +8

Top exports
**Electronic equipment,
semiconductors, petroleum
and liquefied natural gas,
wood and wood products,
and palm oil²**

Top imports

**Electronics, machinery,
petroleum products, plastics,
vehicles, iron and steel
products, and chemicals²**

Typical office hours

**9.00am - 5.00pm, Monday to
Friday**

Unemployment rate
3.4%³

Corporation tax
24%⁴

Dialling code
+60

Emergency numbers
**999 (police and ambulance)
or 994 (fire brigade)**

Sources:

¹World Bank Group, 2018

²Central Intelligence Agency (CIA), 2017

³Trading Economics, 2018 ⁴PwC, 2018

^{*}Map shows cities of economic significance
according to the CIA, 2017

Malaysia: A new powerhouse for Southeast Asia

Strategic location in Southeast Asia

Businesses that base themselves in Malaysia can plug into 600 million people within the region. This is also a large domestic market with close to 32 million residents. It is diverse and has strong consumer markets.

Cost-effective within the region

Malaysia is a cost-competitive location within Southeast Asia. Prices are fair, especially for setting up a manufacturing base. It is ranked 10th in the Asia Pacific region in terms of financial attractiveness.

Big on natural resources

Malaysia benefits from an abundance of natural resources, including oil, rubber, timber, minerals and palm oil. It produces 39% of the world's palm oil and 44% of world exports of this product. Increasing, global demand for commodities bodes well for this nation.

Productive, educated workforce

The country is ranked high globally in terms of the pay to productivity ratio of its workers. Invest here and you will be tapping into a young, educated and productive workforce, which is largely English speaking.

A young nation with a plan

Malaysia only recently celebrated 60 years of independence, yet most economic sectors have a plan. The country knows where it wants to be, whether to do with infrastructure, economic progression or business diversification. The government is also pro-business.

Booming and attractive economy

There are strong fundamentals in Malaysia. The economy is growing, unemployment is low and tax breaks are attractive. No wonder it's been one of the top recipients of foreign direct investment in the region.

Country profile

“Saya suka berada di sini” means “I like it here” in Bahasa Malaysia, the national language. The reply is: “what is there not to like?” The economy’s strong, infrastructure works well, and there’s a relatively well educated workforce.

2017 saw Malaysia celebrate its 60th year since independence. This country, at the heart of Southeast Asia, has evolved into a modern economy with forward-thinking industrial policies and some of the highest living standards in the region.

It also has aspirations to transform its economy from one centred on commodities and natural resources to one that has an industrial base concentrated on high-tech and value-added, digitally focused industries for the 21st Century.

Multinational corporations from more than 40 countries have invested in over 5,000 companies in manufacturing and services in Malaysia.

Between 2009 and 2016, Gross National Income increased by nearly 50%. This is a country on the rise, also having secured record levels of foreign direct investment.

Read on to discover more about the dos and don’ts of doing business in Malaysia. Also find out how trading in or with the country could help boost the future growth of your business.

5 reasons to do business in Malaysia¹

01 Third richest country in Southeast Asia

After Brunei and Singapore, Malaysia is high on the region's rich list. It is also home to the largest number of listed companies in ASEAN, the Association of Southeast Asian Nations. At USD29 billion, Bursa Malaysia recorded the highest amount of funds raised in the last five years out of the 10 ASEAN countries.

02 Outperforming neighbours

The economy is poised to outgrow the league of middle-income nations by 2020. The World Bank forecasts growth of at least 5% in 2018.

03 Stable and English speaking

The United Malays National Organisation and the coalition it leads has ruled since the country's inception 60 years ago. English is also used at all levels of industry and administration.

04 Gateway into Asian markets

It is cost-competitive to locate here and set up a strategic base in order to export to other markets within the region. The transport infrastructure is also strong for those who want to use Malaysia as a hub.

05 Driver of growth

Malaysia has been identified by the Asian Development Bank as one of the countries - along with China, India, Japan and South Korea - that will be the future primary drivers of regional growth.

5 key challenges²

01 Competition lacking

Government restrictions mean the competitive environment in Malaysia can be challenging. In many cases it is imperative to have a local partner to compete in the market.

02 Election impact

With the momentous 2018 General Election result announcing a new government for Malaysia, the country is expected to undergo a number of reforms over the coming years.

03 Cultural diversity

As a multi-ethnic, multicultural and multilingual society, these varying cultures can heavily influence the Malaysian approach to business.

04 Cost of labour

Some of the other countries in the ASEAN region, such as Indonesia, offer lower labour costs than Malaysia – so it's good to be aware of your advantages when it comes to operating here.

05 Commodity reliance

Malaysia is still partly dependent on commodities from petroleum to palm oil, and a slump in oil prices have had an impact.

Sources:

¹Export.gov, 2017

²TMF Group, 2017

Society & culture

In this section

- Language
- Food
- Religion
- Values
- The social concept of 'face'
- Bumiputera
- Customs & celebrations
- Useful phrases



The country uses a catchy slogan to tout its global appeal - 'Malaysia, Truly Asia' - which encapsulates how this Southeast Asian nation is a microcosm of the region as a whole.

Walk around a pasar malam or night market and you will see why. Malay, Chinese and Indian vendors are hawking a diverse potpourri of wares, speaking English, Mandarin, a bit of Tamil and, of course, Malay effortlessly.

This nation, which includes two states on the island of Borneo, Sabah and Sarawak, as well as the long teardrop of tropical, peninsular Malaysia itself, is a rich diversity of cultures and people are also warm and friendly.

The mix works. Society on the whole is harmonious and well-integrated, with English used as a common tongue by many. Having said that, although people are integrated in school, few marry outside their own ethnicity.

Companies can also be dominated by one ethnic group, along family and racial lines. It's all part of maintaining one's own identity, customs and way of life, while being Malaysian at the same time. If you do business here you'll soon work out how it functions practically and that it does so very well.

Language

In Malaysia, the language is officially known as Bahasa Malaysia, which translates as the 'Malaysian Language'. It is similar to Bahasa Indonesian, spoken in the neighbouring country. Both languages are used by ethnic Malays. Malay and English are in fact the country's official languages.

There are a number of Chinese languages spoken here including Mandarin, Cantonese, Hokkien and Hakka, along with Indian languages, specifically Tamil. In the states of Sabah and Sarawak on the island of Borneo there are several indigenous languages including Iban and Kadazan-Dusun. In terms of ethnic make-up, 68.8% are Bumiputera, 23.2% are Chinese and 7% are Indian.

Food

Kuala Lumpur is a well-known gastronomical hub of Asia. The ethnic mix here is featured heavily in the cuisine. The variety is extensive. There's a wide choice of venues, from roadside hawker stalls to fine dining, so whole families can afford to eat out regularly. A lot of the culture and business entertaining revolves around food. The obvious influences are Malay, Chinese and Indian. Interestingly, there's a Chinese-Malay fusion cuisine known as Nyonya. It was conceived by the early Chinese immigrants who settled in Melaka and Penang. Malaysia is undoubtedly a foody heaven.

Religion

Malaysia is a moderately Islamic country by global standards. The majority Malay population practice Sunni Islam and it's the official religion of the country. But other religions are freely practiced, tolerated and enjoyed alongside Islam including Christianity, Hinduism, Buddhism and Taoism. There are some indigenous tribes that still practise animistic religions. Islam makes up 61% of the population with Buddhism accounting for 20%, Christianity 9% and Hinduism 6%.

Values

This is a pluralistic society that is very tolerant and extremely mindful of the complex mix of people that reside here. It's all about promoting harmony between the different ethnic groups. Malaysia has endeavoured to promote a moderate and progressive form of Islam that also embraces the diversity of the country's population. Although in recent times there have been calls for more emphasis on stricter Islamic codes of conduct.

The social concept of 'face'

It doesn't matter whether you are Malay, Chinese or Indian, all of the ethnic strands in Malaysia understand and exercise the concept of 'face'. This personal notion encompasses a set of qualities about one's self that need to be upheld at all times - the idea of one's own sense of dignity, good name, good character and prestige. People will go to great lengths to preserve someone's face. The expression 'to save face' is often used.

You must always avoid shaming or talking badly of someone in both a public and private arena. Personal esteem and prestige must be upheld. This is especially true in business situations.

Bumiputera

The idea of the Bumiputera (meaning sons of the soil in Malay) must be understood if you're to do business in Malaysia. This is the name given to the indigenous people of Malaysia, who have a special place in society and business.

Policies were brought in during the early 1970s to narrow the inequality between poorer Malays and wealthier ethnic-Chinese. The policy was supposed to end in the 1990s, but it still exists today.

For the Bumiputera there's a generous quota for university places, the right to own a portion of shares in listed companies, cheaper housing and access to government facilities to help start businesses. The Bumiputera's share of the economy has grown tenfold over the years.

Customs & celebrations

The patchwork of ethnicities leads to a wide array of celebrations and festivities in Malaysia. It's important to remember that doing business during Ramadan or Chinese New Year is a 'no-no'. Add in Christmas for the Christian minority, the Indian celebration of the Festival of Lights (Diwali) and there's not a month that goes by without some sort of celebration. Quite a lot of them are public holidays nationally and there are also holidays that apply to each state relating to the birthdays of local sultans. Check a Malaysian calendar and local partners or you could be facing a colourful celebration rather than a business meeting!

Malaysia's cities are fairly relaxed. But go rural and this can be a fairly conservative place. Dress modestly. If you are a Muslim you could be subject to local Sharia law.

Useful phrases

English

Malaysian

Good morning

Selamat pagi

Good afternoon

Selamat tengah hari

Goodnight

Selamat malam

Welcome

Selamat datang

Goodbye

Selamat tinggal

Have a safe journey

Selamat jalan

How much is this?

Berapa harganya ini?

Thank you

Terima kasih

How are you?

Apa khabar?

Do you speak English?

Boleh cakap Bahasa Inggeris?

Yes

Ya

No

Tidak

I come from

Saya datang dari

My name is

Nama saya

Working practices & values

As culturally diverse as its society, so too is Malaysia's workforce. On the surface, many office environments in Malaysia appear a lot more relaxed than say in Hong Kong, Japan or Singapore.

Don't forget that lunchtime is sacred, so don't plan a meeting in the lead up to any food. Meetings can also be flexible in terms of what time they start and finish.

Many different ethnic groups happily toil alongside each other. English is the lingua franca in many offices, especially of multinational corporations.

If a complicated business concept comes along it's quite natural for Malaysians to launch into a conversation in Malay to get it sorted and understood by all.

Attitudes to work and business do vary by ethnicity to some degree. Expect a more punctual attitude to meetings and enterprise when it comes to dealing with ethnic Chinese, while Malays and Indian executives can be more relaxed.



Business etiquette

In this section

- Greetings
- Dress code
- Negotiations
- Business cards
- Sealing the deal
- Entertaining
- Golden rules



In Malaysia, you should tailor your business etiquette to the ethnic group you're dealing with. What may be appropriate to a Chinese business compatriot may not go down too well with a Malay colleague.

The left-handshake and your insistence on a Friday business meeting will certainly be irksome to a Malay client. Offering white flowers and a clock as a gift is going to be frowned upon by your Chinese hosts.

Remember that the vast majority of businesses in Malaysia are small to medium enterprises. Many are run along family and ethnic lines, since this is where the base of trust is likely to exist, whereas many multinational corporations, overseas offices of international corporations and organisations are much more diverse. Ethnicity is played down and they can be highly professional places where English is spoken widely and is the language of business communication. This is in stark contrast to dealings with the government and government agencies, where the vast majority are done in Bahasa Malaysia.

Greetings

This is predominantly a Muslim country, so physical touching between sexes is not that appropriate. The best option is to wait and see how you are approached for greetings.

Bowing slightly with your hand placed over the position of your heart to demonstrate respect can be more appropriate in Malaysia. You will find that there are official titles given to people of authority in the country. If you are meeting a government official in person or at a conference you may hear the terms in the box below. Do use them if you address these people, as a mark of respect.

Malaysians hold these titles in high-regard. Among all ethnicities make sure you introduce yourself to older, higher ranking people first and women over men – this etiquette is a mark of respect.

Tun - the highest honour bestowed by the King, this is limited to 50 living men and women

Tan Sri - the second highest honour bestowed by the King

Datuk or Dato' - the highest title given to rulers

Haji (for men) or Hajjah (female) - the title held by those who have made the pilgrimage to the Haj

Dress code

Dress modestly and conservatively, as this is a country that has a high-respect for the Islamic faith. Revealing garments are inappropriate and rural areas are more conservative than city regions.

Clothes that fully cover a woman's body are common, as are headscarves. Light-fitting and lightweight clothes are advised since this is a hot, tropical country. There is rarely a need for a coat unless you are in the Central Highlands, Peninsula Malaysia or on Mount Kinabalu in Sabah. A short-sleeved shirt is not uncommon among men, with no jacket or tie for average office wear, although meetings and conferences are more formal with suits and ties.

Negotiations

Patience is a virtue when it comes to negotiations in Malaysia, which can mean many long hours and very detailed discussions.

Keep an eye out for non-verbal cues, whether it be body language, voice tones or expressions. There's a lot that is indirect in Malaysian communications, whether you're negotiating with Chinese, Malay or Indians. Not much is given away. Elements may be hinted at rather than making a statement directly. No individual or company wants to lose face, hence the indirect communication.

Business cards

If you're visiting someone in their office, at a conference or at an event then you are well advised to take a mountain of business cards. If you're really keen, you may want them translated into Bahasa Malaysia or Chinese (Mandarin) on the reverse, depending on your audience.

As with many countries in Asia, cards themselves have a soul. Receive and present them with dignity and both hands, and receive them in the same way observing what's printed. Place them carefully in a card holder or on the table in front of you. Don't treat them candidly or flippantly.

Sealing the deal

It's hard for someone to say 'no' in Malaysia, which again comes down to the issue of saving face. No-one wants to lose out or walk away empty handed if no deal is imminent. Rather than say 'no' directly it's quite common for someone to say: 'I will try' or 'I will see what I can do'. This allows everyone to maintain harmony in a relationship. What it doesn't do is provide a direct answer, so you can never be sure if the deal's been sealed. It also might buy time for a more consensual approach to decision making. In Asia, this is popular. By asking questions in round-about ways you can more easily judge whether the deal is on or not. Insight from third parties can also help.

Entertaining

The Chinese banqueting table in a restaurant or an invite to a Malay home are just two of the venues you might expect when it comes to business entertaining. Sometimes formal, other times intimate, over food is the best chance you'll get to make better bonds on the business front. If invited to someone's home for dinner, bring the host a present from your home country, pastries or quality confectionary. Never bring alcohol, especially to a Muslim house.

You're unlikely to be served alcohol although Malay Chinese do drink. Reciprocating the offer by inviting your previous host can be a way to further cement relationships. If your business partner is Malay do remember they will expect Halal food at the restaurant rather than a Chinese meal involving suckling pig.

Golden rules

01 **This is a largely Muslim country**

Respect all Islamic traditions in business and personal relationships, whether it involves meeting on a Friday, greeting Malay female executives or entertaining without alcohol or pork.

02 **Remember the concept of 'face'**

Chinese, Malay and Indian all exercise the concept of face in their daily lives. Make sure you 'save face' and promote it, as well as harmony, in your dealings with people.

03 **Respect, where respect is due**

Whether you're receiving business cards, reciprocating a dinner invite, greeting those with honorary titles or elderly statesman, respect is fundamental to this multi-ethnic and multicultural society.

04 **Don't get frustrated**

Negotiations, business relationships and consensus building within corporations – it all takes time. Don't expect responses at the speed of thought. Malaysians will get back to you on their terms.

Economy

In this section

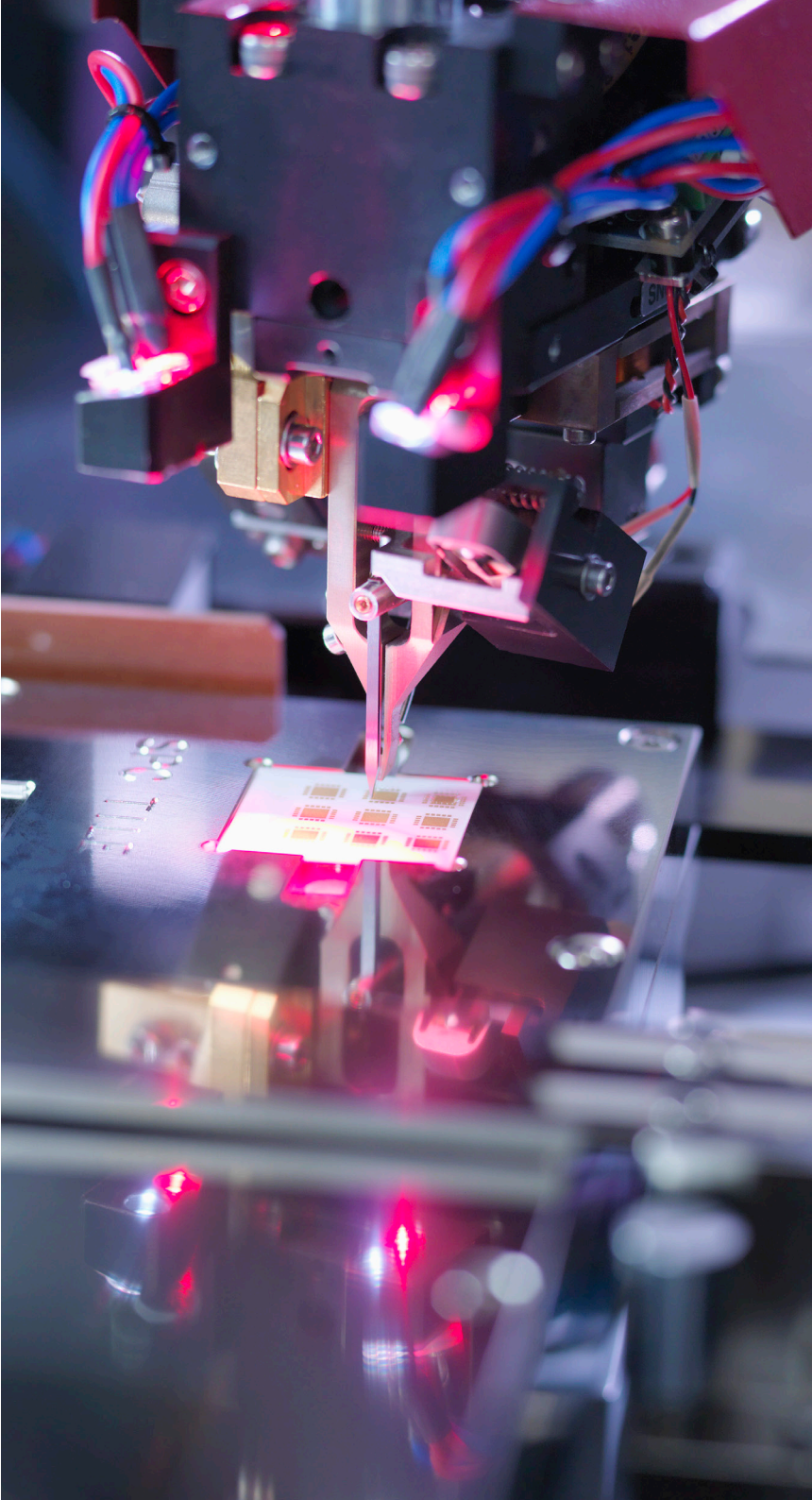
Highlights

Regional economies

Exports & imports

Currency

The Islamic economy



Highlights

- ◆ Malaysia's economy is rebounding. Growth has been among the fastest in Asia, and more so than many developed economies such as the US, EU and UK. This has been driven by domestic demand and manufacturing.
- ◆ Exports are expected to continue to rise, in line with global growth and trade in advanced and regional economies.
- ◆ Malaysia has one of the lowest interest rates relative to the US, since the global financial crisis.

GDP (Current USD)
\$296.5 billion¹

GDP Per Capita
\$11,028¹

Real GDP Growth
4.2%¹

Inflation Rate
2.7%²

Economic Structure

Services (% of GDP) **53%¹**
 Industry (% of GDP) **38%¹**
 Agriculture (% of GDP) **9%¹**

Compared to most of ASEAN's ten-member countries, Malaysia's economy looks like a real star. It is one of the most successful in the region, thanks to sound macro-economic fundamentals and a more diversified economy.

Malaysia may have been traditionally fuelled by natural commodities such as petroleum and palm oil, but the economy is trying to wean itself off these sectors. For instance, it's been reducing its reliance on oil and gas revenues from 41% in 2009 to 14% in 2017. Commerce, tourism, leisure and medicine are all industries that have expanded, along with science and technology.

Between 2012 and 2021, GDP growth is expected to average around 5%, according to one rating agency. This makes Malaysia one of the fastest growing A-rated countries, surpassed only by China and Ireland, and on the same level as Malta. In fact, the economy has been expanding at its fastest pace in more than three years.

Not content with the growth it's achieved since independence, which is a lot, Malaysia has worthy aspirations going forwards. The aim is for the country to become one of the top 20 global economies by 2050. It has a national plan, Transformasi Nasional or TN50, that it is embedding to achieve this. The goal will be to boost productivity, innovation and creativity.

	Exports	Imports
Global Ranking	24³	26³
Value	\$189.6 billion¹	\$168.5 billion¹
% of GDP	68%¹	61%¹

Sources:

¹World Bank Group, 2018

²Trading Economics, 2018

³World Trade Organization, 2017

Regional economies

Southeast Asia is framed within ASEAN, the Association of Southeast Asian Nations, when it comes to regional economies, of which there are ten. Several countries, including the Philippines, Thailand and Malaysia, have been posting strong growth.

Any structural weaknesses are buoyed by China and its growing economic presence and role in the region. Chinese tourism and exports into the Asian giant are also playing a part. Exports to China from Malaysia grew by more than 40% in the first half of 2017.

China has been investing heavily in infrastructure and property, while purchasing natural commodities such as palm oil, rubber, rice and coal, as well as electronic components. Some say such investment from China means more direct influence on Malaysia's affairs from Beijing.

China's Belt and Road Initiative is creating enormous economic opportunities throughout the region, including Malaysia. It is Chinese President Xi Jinping's signature project.

Estimates indicate that infrastructure projects in Asia alone will require investments of USD1.7 trillion a year through to 2030.

Exports & imports

Rewind half a century and you wouldn't recognise a lot of Malaysia's trade compared to today. The economy is now more broad-based and export-driven.

In 2016, Malaysia exported USD184 billion, making it the 20th largest exporter in the world, buoyed by integrated circuits. In fact, electrical and electronic products now account for close to 37% of exports (RM283 billion in January to October 2017). Petroleum products stand at 8%, chemicals are 7%, and palm oil is only at 5%, while machinery, liquid natural gas (LNG) and metal manufacturing are all at 4%. Imports by sector show a similar profile suggesting a certain pattern of re-exports. Malaysia has posted 240 consecutive months of trade surplus since November 1997.

Malaysia has set up a special economic zone off the north-west coast of Borneo, between Sabah, Sarawak and Brunei on the island of Labuan.

The Labuan International Business and Financial Centre (Labuan IBFC) is where more than 2,700 companies now operate, including banks, trust companies and insurance firms.

Currency

Malaysia's currency is the ringgit (MYR) and it operates on a managed-float exchange regime against a trade-weighted basket of currencies. Offshore trading of the ringgit is also against the country's policy.

Bank Negara Malaysia, the central bank, announced an increase to the Overnight Policy Rate (OPR) to 3.25% in January 2018. In the same month, the country's gross international reserves stood at over USD100 billion¹. Financial conditions are supportive of economic growth in the post-Election environment. However, strength in the US dollar also looms large on markets such as Malaysia.

The World Economic Forum has stressed that one of the most problematic factors in doing business here relates to foreign currency regulations.

Malaysia's new government has tasked the central bank with restoring the value of the ringgit currency to its full potential within three years.

The Islamic economy

Malaysia has made a concerted and strategic play for the Islamic finance market and Islamic-focused economic sectors. In terms of the Global Islamic Economy Indicator, which measures 73 countries, and indices from halal food, travel, fashion, finance, clothing and pharmaceuticals, Malaysia ranks first, way ahead of the second placed country, the United Arab Emirates.

Malaysia was placed first for Islamic finance, second for Halal travel and pharmaceuticals, as well as cosmetics. The country has also been acknowledged as having the 'best developed ecosystem for Islamic finance' and 'the strongest regulatory framework'.

Source:

¹Ministry of Finance Malaysia, 2018

Labour & business

In this section

Highlights

Workforce

Productivity

Bankruptcy

Audit & accounts



Highlights

- ◆ Malaysia is now in the middle-income trap when it comes to productivity. Per capita income has stalled at around USD11,000 a year.
- ◆ The country’s workforce is one of the best in Southeast Asia in terms of quality, with respect to wages, training, education and age.
- ◆ There’s been an acute labour crunch in recent years, with close to full employment. Malaysia's new government plans to reduce the country's dependency on foreign workers.

Population 32 million ¹	Unemployment Rate (as % of Labour Force) 3.4% ³
Human Capital Report (Rank) 42 ²	Minimum Wage (Per Month) RM1,000 (Peninsula Malaysia) ³ RM920 (Sabah, Sarawak) ³
	Maternity Leave 60 consecutive days

Sources:
¹World Bank Group, 2018
²World Economic Forum, 2017
³Trading Economics, 2018

The key ingredients to making a business function well are an infrastructure that works and an efficient, value-for-money labour force. Malaysia has both.

This is not the cheapest country in Southeast Asia for labour, but it does have a sweet spot.

Unemployment is low at just over 3%, which represents roughly half a million people. The squeeze on the market is such that Malaysia sees overseas labour pour in to do work for certain unskilled roles. For instance, labour-intensive sectors such as farming, the construction industry and manufacturing are highly dependent on them.

Also consider wisely where you want to locate when it comes to labour and business. Wages will be highest and workers will be highly-skilled in the state of Selangor, which surrounds the capital Kuala Lumpur. If you’re looking for a lower-skilled, cheaper workforce head for Sabah on Borneo.

The new Malaysian government has announced plans to review the minimum wage across the entire country.

Workforce

Malaysia has made good inroads in leveraging its demographic dividend – a large, young, educated and trainable workforce is now in place in this Southeast Asian nation. The country is keen to leverage this talent as it makes things easier for businesses if they are able to use local personnel, suppliers and services.

Industrial relations here are harmonious, with few trade disputes resulting in strikes. Less than 6% of the working population, 875,000 are members of Trade Unions, with 359,000 in the public sector.

Malaysia has a number of labour laws safeguarding the rights of both employers and employees. This provides a legal framework for the orderly conduct of industrial relations. There's also a large population of foreign workers here.

Local businesses have experienced an acute labour crunch in recent years. With close to full employment, Malaysia has therefore looked to recruit from overseas. According to the Human Resources Ministry, there are just over two million migrant workers, although other estimates put the number at three times this much. The 11th Malaysia Plan has set an upper limit of 15% (2.1 million) foreign workers in the country's job market.

Malaysia's workforce is one of the best in Southeast Asia in terms of quality. The background to this is good education. For instance, there are 20 public and 21 private universities, as well as more than 400 colleges, polytechnics and industrial training institutes.

Currently, 350,000 people are enrolled in higher education in Malaysia, half of whom are studying science and technology.

Productivity

The cheap labour advantage that was prevalent, particularly in Malaysia's manufacturing sector, is beginning to evaporate as the country reaches an economic plateau prevalent among countries that reach this level of income.

One of the ratings agencies believes Malaysia's objective of escaping the middle-income trap will continue to be a challenge moving forward. Part of the issue relates to the wider economy's greater vulnerability to global economic conditions.

Malaysia has high aspirations to boost productivity and take it into the league of high-income countries. The Malaysian Productivity Corporation says that the country is keen to invest in technology, including the Fourth Industrial Revolution in order to boost productivity.

Bankruptcy

When it comes to resolving insolvency, the country still ranks 46th globally in the World Bank Ease of Doing Business report. To put this into perspective, Malaysia has an overall ranking of 24th.

Insolvencies and corporate reorganisations in the country are governed by the Companies Act 2016. It came into force at the beginning of 2017, introducing two new insolvency processes: judicial management and voluntary administration. The idea being that companies could exercise more debt restructuring.

The Bankruptcy (Amendment) Bill also came into force in Malaysia in October 2017. Some say this marked the dawn of the new personal bankruptcy regime in the country, particularly for guarantees. The new bill is said to be more debtor-friendly, with the aim to reduce the number of bankruptcies in the coming years and also make it more difficult for creditors to start and carry on with bankruptcy proceedings against debtors and guarantors. Certainly, the new law brings more order, but Malaysia has still not adopted the UNICTRAL Model Law on Cross-Border Insolvency 1997.

Audit & accounts

Suruhanjaya Syarikat Malaysia (SSM), or the Companies Commission Malaysia in English, is the organisation that deals with corporations, their audits and accounting procedures. Audited profit and loss must be filed to this government body. Financial statements must be audited by a regulated auditor.

The Malaysian Accounting Standards Board is the authority for accounting standards in the country, offering amendments and changes whether it be to taxation or other standards.

Audit provisions are under Malaysia's Companies Act 2016. A company with a share capital may be incorporated as a private company in Malaysia, which is identified through the term: 'Sendirian Berhad' or 'Sdn. Bhd'.

The minimum paid up capital for a 100% foreign-owned business in Malaysia is RM500,000. Part owned locally and overseas is RM350,000 and a 100% Malaysian fully-owned company is RM250,000.

Note that all government bodies operate in the Malay language. All documentation, official statements and processes are stated in Bahasa Malaysia. Not everything is in English, even though English is widely spoken. If engaging with the Malaysian bureaucracy you'll need to employ someone who speaks and reads Malay.

Taxes & wages

In this section

- Highlights
- Corporate taxes
- Individual taxes
- Withholding taxes
- Indirect taxes
- Foreign-owned enterprise
- Tax incentives



Highlights

- ◆ When it comes to paying taxes, Malaysia ranks just above the average for East Asia and the Pacific, below Hong Kong, Singapore, South Korea and Japan.
- ◆ Following the 2018 General Election, Goods & Services Tax (GST) will be abolished and replaced with the previous Sales & Services Tax (SST).
- ◆ All major tax bases are expected to grow moving forward, despite income tax cuts proposed in the 2018 Budget.

Ease of doing business – Paying Taxes (Rank)

73¹

Corporate Income Tax (Rate)

24%²

Personal Income Tax (Rate)

28%²

Malaysia's tax base is wide. Wages are on the rise and the GINI coefficient, which measures income inequality, has been dropping. It's now the lowest in the country's history.

Corporate taxes here account for more than a quarter of total tax revenues, while personal income tax accounts for 15%.

Higher wages are also on the cards in Malaysia. There's been a pick-up in hiring. Higher oil prices and the weak ringgit have also hit. The positive economic outlook is likely to bode well for Malaysia in the future.

Malaysia's new government has announced a review of tax systems to make income and corporate tax rates competitive compared with other ASEAN countries. Tax rates for companies, small businesses and part-time workers will also be subject to this.

Corporate taxes

While other countries have slashed corporate tax rates and opted for a wider basket of taxes, Malaysia maintains its rate at 24%. There's also a lower rate, whereby you pay only 18% on the first RM500,000. Above that, the 24% is charged. There have been calls on the government to reduce it in order to be more competitive within the region. For instance, Singapore, Malaysia's neighbour to the South, has a corporate tax rate of 17%.

However, there are some allowances depending on the profit levels posted. Malaysia's rate was reduced to 24% in 2016 after the implementation of the GST (Goods & Services Tax) in April 2015. Malaysia's corporate taxes are territorial. You are only taxed on income derived in the country and income sourced from overseas is exempt.

Sources:

¹World Bank Group, 2018

²PwC, 2018

Individual taxes

The maximum individual tax rate is 28%. In the latest budget for 2018, income tax was cut by 2% for those earning RM20,000 to RM70,000 a year, in an attempt to benefit Malaysian workers and boost personal income.

It's worth noting that expatriates can benefit from a specific tax regime on their income, if they're not defined as a resident fiscally or if the period of employment in Malaysia doesn't exceed 60 days a year.

There's individual tax relief for spouses and even a category called a 'lifestyle tax relief'. In Malaysia, the tax year runs alongside the calendar year, beginning on 1st January and ending on 31st December.

Both employers and employees need to make contributions to the Social Security organisation (SOCSO). This is also true of the Employees Provident Fund (EPF).

Withholding taxes

There is no withholding tax paid on dividends, however there is a tax on interest paid to a non-resident of 15%. There are withholding taxes on royalties (10%), technical fees (10%) and the income of non-resident entertainers (15%). The rate is reduced under specific tax treaties though.

Indirect taxes

Malaysia replaced the Sales & Services Tax (SST) with Goods & Services Tax (GST) in 2015. The 2018 General Election result saw the proposed reinstatement of SST and the abolishment of GST.

Foreign-owned enterprise

People from overseas are allowed to own businesses fully in Malaysia. Foreign investors can easily relocate their business to the country in order to conduct their operations here. Firstly, you need to apply for an Employment Pass. However, to qualify you need to have a minimum paid up capital.

This is as follows:

- ◆ RM500,000 if the company is 100% foreign owned
- ◆ RM250,000 if the company is 100% locally owned
- ◆ RM350,000 for mixed foreign and local ownership

Non-resident companies deriving their income within the country are taxed at a flat rate of 24%.

Tax incentives

There are particular incentives for certain sectors of the economy including IT services, biotech, Islamic finance, manufacturing, energy conservation and environmental protection.

Malaysian legislation highlighting these include the Promotion of Investments Act 1986, Income Tax Act 1967, Customs Act 1967, Excise Act 1976 and Free Zones Act 1990.

The incentives involve partial or total relief from tax payments for a specified period, involving tax holidays of between five and 10 years depending on the sector and type of investment. There are also allowances on capital investments.

For instance, high-tech firms get tax breaks on capital expenditures for research and development. They're also exempt for duties on imports and offered a 10-year tax break of up to 70%. This is also true for companies in priority sectors such as tourism, manufacturing and technical training.

Aside from tax incentives there's also grant matching. For example, if you are investing in smart-manufacturing, RM245 million is available under the Domestic Investment Strategic Fund (DISF) to upscale facilities.

Investment & trade

In this section

- Highlights
- Ease of doing business
- Foreign investment
- Competitiveness
- Government incentives
- Capital markets & banking
- Intellectual property rights



Highlights

- ◆ Malaysia is the third best destination in the world for outsourcing and offshoring, after India and China, according to the Global Services Location Index from A.T. Kearney.
- ◆ To date the country has attracted more than 5,000 overseas companies from more than 40 countries to establish their operations in Malaysia.
- ◆ This Southeast Asian nation is ranked third among 190 economies, worldwide, for protecting minority investors, in the World Bank Doing Business Report 2017.

FDI Net Inflows
(Current USD)
\$4.1 billion¹

Ease of doing business -
Starting a business (Rank)
111¹

Ease of doing business
- Trading across borders
(Rank)
61¹

Enabling Trade Index
(Rank)
37²

There's no doubt that Malaysia has a strong and well institutionalised state, one that's provided social stability, a high-level of human development and robust economic development over time.

It must also be realised that this nation is one that is predominantly focused on small to medium sized enterprises (SMEs). If you're starting one in this Southeast Asian nation, you'll feel at home. SMEs make up 97% of all businesses here.

Malaysia likes zoning its industries as well. If you're setting up a business pick the right space. Industry is situated in over 500 industrial estates and free zones with clusters that have been developed throughout peninsula Malaysia, Sabah and Sarawak.

Invest and trade here and you'll be plugging into Malaysia's growth story. The economy is predicted to grow strongly throughout 2018, at double the rate expected in developed markets such as North America and Europe.

Malaysia is aiming to become a higher-income country with more foreign investment. Robust exports are being counted on as the economy has been expanding at its fastest pace in three years.

Sources:

¹World Bank Group, 2018

²World Economic Forum, 2017

Ease of doing business

When Malaysia slipped a place in the Ease of Doing Business Report published by the World Bank it made the business news. Globally, the country is placed 24th; in the ASEAN region it's ranked second only to Singapore.

In many indices, the country ranks very favourably. The latest Global Competitiveness Report, published by the World Economic Forum, ranks Malaysia fourth among 138 economies in relation to 'strength of investor protection'.

Malaysia realises it needs to do more to reform and improve when it comes to the business regulatory environment. The World Bank has noted that the country has made progress by strengthening access to credit through the new Companies Act 2016, which is now in force. The Southeast Asian nation has also increased minority investor protection by requiring greater corporate transparency and improved infrastructure facilities.

Foreign investment

When it comes to foreign investment Malaysia used to go for quantity. Now, as the country evolves, it goes for quality. The new administration is also trying to leverage Malaysia out of the middle-income trap and into the league of high income countries by 2020.

Malaysia's investment agencies are also targeting high value-added sectors of the economy; as well as R&D activities in new growth industries.

China is one of the strongest supporters of the manufacturing sector in Malaysia. Huawei, for instance, has set up its global operation headquarters here with a data hosting centre and global training centre. The total project cost is RM2.2 billion and employs more than 2,300 people. Alibaba, meanwhile, has launched a Digital Free Trade Zone, the world's first outside China that focuses on e-commerce and digital enterprise.

Over the years Malaysia has invested heavily into Iskandar, a special economic zone that borders Singapore. It's been a real pet project for the country's political elite. Three times the size of the city-state and located in the southern state of Johor, the idea is to draw in a lot of the talent, investment and economic rigour that has made Singapore Southeast Asia's richest country and transplant it in Malaysia. Public investment, government incentives and an array of other projects have been hatched here with a view to creating a hub and double the population of Iskandar to three million by 2025.

Competitiveness

When it comes to competitiveness, Malaysia has a fast-track into investment and trade from a lot of the Islamic nations of the world. For instance, Saudi Aramco is investing USD7 billion, its biggest downstream investment outside of Saudi Arabia alongside Petronas, the state oil company, in Johor. That is the single largest investment in Malaysia.

In the Global Competitiveness Index, Malaysia is ahead of countries such as China, Indonesia and the Philippines. On the global stage, its strengths are in the efficiency of global spending, a reduced burden when it comes to government regulations and the strength of investor protection.

Key areas of improvement when it comes to competitiveness in Malaysia involve access to financing and foreign currency regulations.

Government incentives

The Malaysian Industrial Development Authority (MIDA) is the main government body focused on incentivising and stimulating investment and trade. The biggest incentives that the government offer relate to tax or match funding when it comes to investing and capital allowance. The focus is squarely on high-technology and high value manufacturing.

The last government also launched the Entrepreneur Accelerator Platform Market, or LEAP Market by Bursa Malaysia. This is a new way for SMEs to raise funds and grow their business. Companies that qualify for a LEAP listing include those at an early growth stage that have potential but lack assets.

The SME Masterplan was also developed by government agency SME Corporation Malaysia, aimed at raising the share of GDP contributed by small to medium enterprises with a view to boosting exports and small business prosperity. Soft loans and financing schemes can be accessed through this body.

Following the General Election result, the new government is introducing reforms which will include a number of new incentives.

Capital markets & banking

The government debt burden will remain high but stable moving forward. Banks in this Southeast Asian nation have been benefitting from a growing domestic economy and firm consumer spending. With the fastest growth in the economy in three years this is fuelling both capital markets and banking here.

Malaysia has one of the lowest real interest rates in the region, relative to the US since the global financial crisis, which has led to net outflows from the bond market. The World Economic Forum has also highlighted access to financing as one of the most problematic factors to doing business in Malaysia.

The savings rate is high in Malaysia. The country has a gross savings rate of 30%, as a share of GDP, according to CEIC Data. In 2018, the country plans to liberalise regulation around bonds and their issuance in order to boost participation in these markets. Malaysia's USD307 billion bond and sukuk (Islamic bond) market is the third largest in Asia, relative to GDP. It also has the largest sukuk market in the world.

Malaysia is at the forefront in developing Islamic finance. The country has a vibrant and wide-ranging financial system focused on the Islamic world in terms of banking, capital markets and the Interbank money market.

Intellectual property rights

The legal and accounting practices are based on the British system, which makes it easier for dealing with the law system and interpretations under common law. The Intellectual Property Corporation of Malaysia (PHIM) is responsible for IP here, which involves enforcement of the Intellectual Property Corporation of Malaysia Act 2002.

Malaysia is a member of the World Intellectual Property Organisation (WIPO) and a signatory to the Paris and Berne Convention which govern intellectual property rights.

The Southeast Asian nation is also a signatory to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) promulgated by the World Trade Organisation (WTO).

Malaysia has had success in improving intellectual property enforcement, although according to the US government, issues remain around the relatively high rates of internet and book piracy.

Infrastructure

In this section

Highlights

Transport infrastructure

Digital infrastructure

Infrastructure investment



Highlights

- ◆ There’s a clear vision for where Malaysia is heading when it comes to the digital economy and infrastructure. The setting up of a Digital Free Trade Zone underpins this.
- ◆ Malaysia has high-tech public transportation systems that include an integrated rail network and one of the longest automated driverless metro systems in the world.
- ◆ A whole new infrastructure investment programme to create new rail links and upgrade ports will fuel transport connectivity in the years ahead.

Railway Network 1,851 km ¹	Quality of Overall Infrastructure (Rank) 19 ²	Quality of Port Infrastructure (Rank) 17 ²
Inland Waterways 7,200 km ¹	Quality of Roads (Rank) 20 ²	Quality of Air Transport Infrastructure (Rank) 20 ²
Motorway Network 1,821 km ¹	Quality of Railroad Infrastructure (Rank) 15 ²	ICT Infrastructure – Network Readiness Index (Rank) 43 ²

Malaysia has been very busy over the past few decades, putting in the building blocks for a modern economy. There has been a persistent drive here to develop and upgrade the country’s infrastructure.

Today, Malaysia has some of the most well-developed rail networks, ports, roads and air-links among the newly industrialising countries of Asia. It’s also got grand plans to further boost its infrastructure both physically and digitally. This Southeast Asian nation is not afraid to build for the future. A strong, stable government with a plan helps.

It’s interesting to note that more than 90% of the country's trade is via Malaysia's seven international ports. This shows how important its maritime infrastructure is. Two of its ports, Port Klang and the Port of Tanjung Pelepas, are ranked among the top 20 container ports in the world.

Sources:
¹Central Intelligence Agency, 2017
²World Economic Forum, 2018

Transport infrastructure

There are five international airports in Malaysia, with air cargo facilities and well-maintained highways. It's also home to seven international seaports, while Kuala Lumpur International Airport (KLIA) is hailed as one of Asia's major aviation hubs. Malaysia also boasts AirAsia, Asia's largest low-cost carrier, which has plans to become a pan-regional low-cost airline.

The first phase of the Mass Rapid Transit project has been completed and the second phase of the Sungai Buloh-Kajang MRT Line has also been launched. Three lines are planned for completion in a few years-time. The country now has 51 kms of lines and 31 stations.

There's a high degree of sophistication in terms of urban infrastructure, however beyond the major towns and cities there is still more work to be done. This is the reason why RM6.5 billion was allocated to rural infrastructure development in the 2018 Budget.

Digital infrastructure

The telecommunications network in Malaysia is well served by digital and fibre optic technology. The country has risen to become one of the leading e-commerce markets in the region, generating revenues of USD2.3 billion a year. Globally, Malaysia is ranked fourth when it comes to the procurement of advanced technology products by the World Economic Forum.

Malaysia is keen to develop further in the digital economy with a focus on Industry 4.0 - the current trend of automation and data exchange in manufacturing technologies. There's also the Malaysia Digital Policy, which is aimed at pushing this sector of the economy so that it contributes to 20% of GDP by 2020. A specific government body focuses on this area - the Malaysia Digital Economy Corp (MDEC).

Infrastructure investment

Many significant transport infrastructure projects have been planned over recent years, in an effort to boost Malaysia's economic prominence. This investment will now be subject to review by the new government.

Cost of living

In this section

Relocation

Quality of life

Commercial real estate



Highlights

- ◆ People are warm and friendly in Malaysia, as is the tropical climate. With temperatures of 27C, high humidity and regular downpours are common during the rainy season.
- ◆ The quality of life is high in Malaysia, but the costs of living are low. Kuala Lumpur is a lot more expensive than other spots in the country and rent will be a big driver of costs.
- ◆ Kuala Lumpur is ranked the second-best city in Southeast Asia in Mercer's 2017 Quality of Living rankings, with Johor Bahru in third place.

Cost of Living Country Index (Rank)

72¹

Quality of Living City Index - Kuala Lumpur (Rank)

85²

International Property Rights Index (Rank)

32³

Sources:

¹Numbeo, 2018

²Mercer, 2018

³Property Rights Alliance, 2017

A steady influx of multinational corporations have chosen to base themselves in Malaysia over recent years, to take advantage of the good quality of life the country has to offer.

The multi-ethnic, multi-lingual population of Malays, Chinese and Indians are also both warm and friendly. It's English speaking and foreigners are very much welcomed. Malaysia is also ranked second in ASEAN according to the World Bank's Doing Business Report 2017. There's a good mix of lifestyle options. This is also a very liveable kind of place.

The rising cost of living still remains a chief cause of concern for a sizeable segment of the Malaysian public. Transportation is also very affordable here. Taxis are readily available in Kuala Lumpur and other large cities. There's the metro line, trains and monorails, with most using a monthly pass as a way of saving money.

It's also good as a regional base. Low-cost airlines are well connected through Kuala Lumpur International Airport.

This can be an economical choice for expats with a passion for travel.

Relocation

Since 2003, foreign investors could hold 100% of the equity in all investments in new projects in Malaysia. So, it makes sense to be based here. Foreign companies are also allowed to employ expatriates where certain skills are not available in Malaysia.

Take the manufacturing sector as an example. If the company has a foreign paid-up capital of USD2 million and above, it will be allowed up to 10 expatriate posts, including five that can be permanently filled by foreigners.

The quality of primary education is good on a global scale. According to the World Economic Forum it ranks 23rd. There are over 30 international schools registered with the Ministry of Education here.

Malaysia also offers residency visas. 'Malaysia My Second Home' programme – often called MM2H – allows you to obtain a long-term visa by making a passive investment in the country.

Quality of life

The fact that Malaysia has a programme in place called 'Malaysia My Second Home' to attract people to retire or reside here from across the globe is testament to the fact that the quality of life is high, but the costs are low.

Monthly rentals for accommodation can range from as low as RM1,800 to as high as RM3,800 for a furnished 3-bedroom house in the suburbs of Kuala Lumpur. Although you can go as high as RM15,000 for a high-class bungalow in a neighbourhood closer to the city, according to a survey on expatriate living costs by the Malaysian International Chamber of Commerce & Industry.

You can certainly live well for a lot less if you are based outside of Kuala Lumpur, or in another city entirely. There are vast food options available and eating out is affordable, particularly street food. A basic lunchtime menu in Kuala Lumpur's business district will cost you RM18. Utilities will cost you on average RM240 in a flat for two people.

Commercial real estate

The relatively weak ringgit makes commercial real estate attractive on international currency terms. Office rentals are expected to grow by 2.5% over the next three years. Malaysia's International Property Rights score is on the decrease. It's placed seventh in the Asia-Pacific region and 32nd in the world.

Kuala Lumpur is a key market for mixed-use development. You can live, work and play within a specific neighbourhood involving office and apartment rental, as well as retail and shopping. Good transport infrastructure such as metro and rail lines connect you with the rest of the city and the airport. Successful mixed-use developments include Bangsar South, Mid Valley City and Sunway Resort City.

There's an increase of supply coming onto the market within Malaysia's biggest city and commercial hub. The Tun Razak Exchange is a new development and the country's upcoming financial district, a 70-acre development in the heart of the city. Demand for co-working spaces is also expected to grow across industries and professions, such as technology start-ups and SMEs.

HSBC in Malaysia

In this section

Highlights

Profile

Key products & solutions

Next steps



Highlights

HSBC is the largest foreign bank in Malaysia and it was the first in the country to be awarded an Islamic banking subsidiary license and Islamic insurance license.

In 2017, HSBC Bank Malaysia Berhad and HSBC Amanah Malaysia Berhad won 34 domestic and international awards, including Best Overall Project for BRI for the Double Tracking Rail project in Asiamoney's New Silk Road Finance Awards 2017, Best Malaysia Deal (Geely's acquisition of 49.9% of Proton and 51% of Lotus, from DRB-Hicom) in the FinanceAsia Achievement Awards 2017 and Best Corporate and Institutional Bank – Global, in The Asset Triple A Country Awards 2017.

Profile

Established in Malaysia in 1884, and now operating from a network of 68 branches, with more than 4,000 employees, HSBC services customers across the following business lines:

- ◆ Global Banking
- ◆ Commercial Banking
- ◆ Retail Banking

Key products & solutions

- ◆ Financing Solutions; Capital Markets; M&A Advisory
- ◆ Global Markets
- ◆ Transactional Banking: Global Liquidity and Cash Management (GLCM); Global Trade and Receivables Finance (GTRF); Securities Services

Next steps

If you have any questions relating to our services or would like any further information:

- ◆ Speak to your HSBC Relationship Manager
- ◆ Visit www.business.hsbc.com.my or www.hsbcamanah.com.my/commercial

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