



ASEAN Business Guide

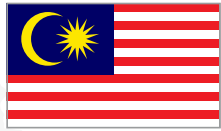
Malaysia

2018 edition



ASEAN Business Guide

This country report is extracted from *ASEAN Business Guide: The economies of ASEAN and the opportunities they present.*



MALAYSIA

KPMG's history in Malaysia can be traced back to 1928 when our first office opened in Ipoh, Malaysia (then known as Malaya). Since then, we've had the privilege of contributing towards the country's economic progress and are proud to witness the realization of the ASEAN influence today.

As one of the five founding members of ASEAN, the Malaysian government had the foresight to see the Southeast Asian region as a contending power that is able to compete with larger economies. The region is prized for its massive economic potential, attributed with a growing consumer market as well as a production base for a variety of manufacturers, including components for high technology and defense equipment. For this and many more reasons, Southeast Asia has become a region the world's major powers feel they must have a stake in.

Malaysia's exports to ASEAN account for almost 30 percent of the country's total exports, making ASEAN Malaysia's single largest regional export destination. Malaysia's total trade with ASEAN was valued at approximately USD112 billion in the period of January to November 2017, an expansion of 22.9 percent compared to the same period in 2016. The region's potential has translated to business opportunities that many companies in Malaysia have been able to seize.

For many decades, KPMG in Malaysia has been working shoulder-to-shoulder with our clients to address their biggest challenges, deliver deep expertise, timely insights and transformative strategies and execution that help to drive clarity and success in their business.

We are honored to have our clients' confidence and trust, and we remain committed to support businesses in their pursuit of growth, enhanced performance, sound governance and compliance objectives. Ultimately, we seek to ensure our clients continue to see us as their trusted business adviser.

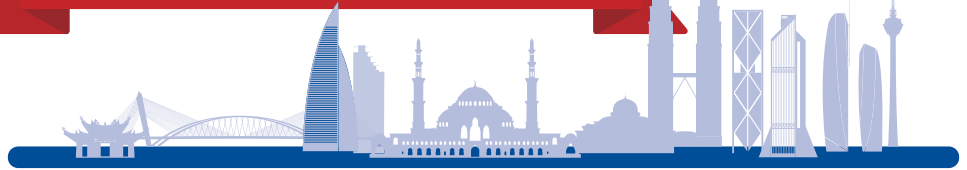


**Datuk Johan
Idris**

**Managing Partner
KPMG in Malaysia**

MALAYSIA

KEY COUNTRY FACTS



Malaysia is a multi-ethnic and multi-cultural federation of 13 states and three federal territories strategically located in the centre of Southeast Asia. Geographically, it comprises two regions separated by the South China Sea and is home to lush rainforests and futuristic city skylines. Malaysia has a conducive and pro-business environment, bolstered by its political stability, a robust legal system, well-developed infrastructure and dynamic workforce.



GOVERNMENT

Federal constitutional monarchy



POPULATION

32
MILLION (2017)



CURRENCY

Ringgit Malaysia (RM) /
Malaysian Ringgit (MYR)



LANGUAGES

Bahasa Malaysia (Official), English,
Chinese, Tamil

RELIGIONS

Islam, Christianity, Buddhism, Hinduism

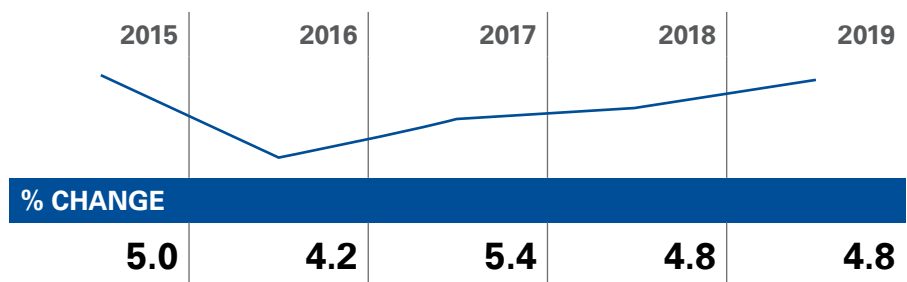
Source: Department of Statistics, Malaysia, Malaysian Administrative Modernization and Management Planning Unit

OPEN AND WELL-DIVERSIFIED ECONOMY

The Malaysian economy has transformed from its historical commodities-focus into one which is open and well-diversified. Malaysia's multi-sector economy boasts liberal, market-orientated policies targeted at promoting trade, foreign investment and economic development. Malaysia aims to become a high-income, developed nation by 2020, fuelled by an increased focus on innovation and knowledge-based activities. Malaysia's progression is evidenced by its improved rankings across various international indices measuring socio-economic development.

Economic Performance

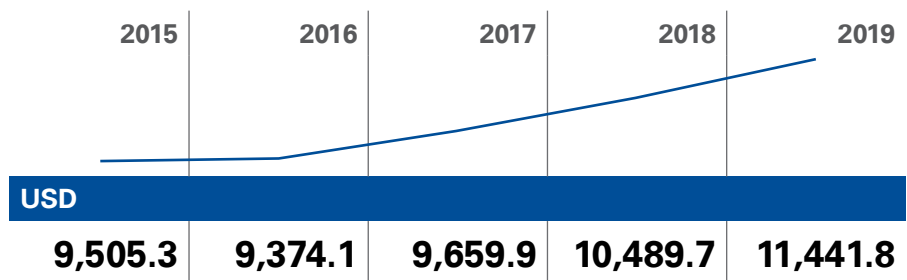
GDP constant prices*



* 2010 market price; percentage change after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

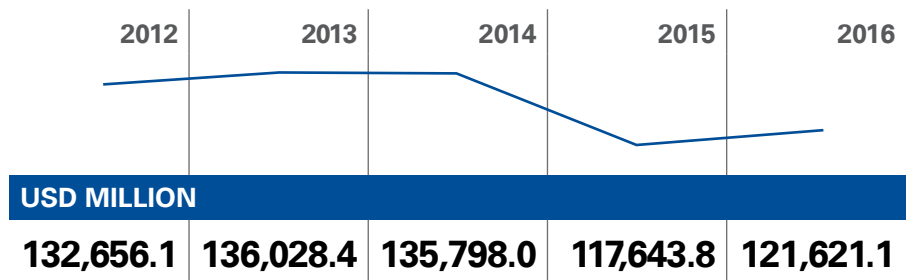
GDP per capita, current prices (CAGR 3.78%)



Figures after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

Foreign direct investment inflows



Source: UNCTAD & BMI


Main FDI investors

 Singapore
USD 25.8 bil

 Japan
USD 15.7 bil

 The Netherlands
USD 10.7 bil

 Hong Kong
USD 9.8 bil

 United States of America
USD 8.1 bil

Source: Malaysian Investment Development Authority (MIDA), 2016

CENTRAL LOCATION WITH GLOBAL CONNECTIVITY

Strategically located in the heart of Southeast Asia, Malaysia is an ideal springboard into the Asia Pacific region and provides global connectivity to investors. It is internationally regarded as a cost-competitive and investment-friendly destination, supported by its well-developed infrastructure, significant natural resources, pro-business policies, dynamic workforce and robust legal and regulatory systems. Malaysia is one of the most technologically-advanced countries in the Southeast Asian region and offers investors a wide spectrum of investment opportunities including attractive tax rates and other incentives.

Political stability



- Malaysia is a democratic federal constitutional monarchy modelled on the Westminster system
- It is regarded as a politically stable country with an independent judiciary and strong international relations

Robust regulatory framework



- Comprehensive and robust regulatory system
- With an overall global ranking of 23 in the World Bank's "Doing Business Report 2017", Malaysia is hailed as one of the top performing economies in the Asia Pacific region in terms of the efficiency and quality of business regulations¹

Talented workforce



- Multilingual, educated and productive workforce with a high literacy rate of 95%
- Harmonious industrial relations with minimal trade disputes
- Attractive incentives to encourage Malaysian talent to return from overseas, and to draw foreign talent to Malaysia

Rankings

+ All rankings are global unless otherwise indicated

Source: *Doing Business 2018*, World Bank; *Corruption Perceptions Index 2016*, Transparency International; *Global Competitiveness Index 2017-2018*, World Economic Forum; *Corporate Governance Watch 2016* CLSA, *Asian Corporate Governance Association (ACGA)*; *Global Innovation Index 2017*, Cornell University, *INSEAD* and *WIPO*

Index	Ranking ⁺
Ease of Doing Business	24
Corporate Governance Watch (Asia)	6
Intellectual Property Protection	26
Transparency of Government Policymaking	23
Corruption Perceptions Index	55
Global Competitiveness Index	23
Global Innovation Index	37

Sophisticated infrastructure and technology



- Network of well-maintained highways and railways and well-equipped seaports and airports
- Technologically-advanced telecommunications network and digital infrastructure including the Multimedia Super Corridor and the world's first Digital Free Trade Zone
- Major mega-infrastructure plans such as the High-Speed Rail, East Coast Rail Link and China's Belt and Road Initiative
- Over 500 industrial parks and 18 Free Industrial Zones

Government policies



- Wide range of attractive tax and other incentives to promote investment in selected industries or geographical areas
- Standard corporate tax rates for resident companies range from 20-24%, depending on the percentage increase in chargeable income compared to the immediate preceding Year of Assessment
- Resident individual income tax rates are progressive with 28% being the highest rate²
- Non-resident individuals are taxed at 28%³ on income from business, employment and property rental
- Withholding taxes are applicable on various payments to non-residents including, amongst others, interest (15%), royalties (10%), rental of moveable property (10%), technical or management service fees (10%) and contract payments (10% + 3%)⁴
- Goods and services tax standard rate is 6%⁵
- Corporate tax and incentives⁶
 - Tax incentives available for various industries including:
 - Manufacturing
 - Education and Healthcare
 - High Technology and Multimedia
 - Agriculture
 - Principal Hub
 - Research and Development
 - Approved Service Projects
 - Islamic Finance
 - Hotels and Tourism
 - Shipping
 - Major tax incentives include:
 - Pioneer Status (a form of tax exemption for companies involved in promoted activities or producing promoted products for a period of five to ten years)
 - Investment Tax Allowance (based on qualifying capital expenditure for a period of five to ten years)

- Other incentives and factors include:
 - Tax incentives for employees
 - Double/special tax deductions on qualifying expenses
 - Preferential tax treatment within various Economic Corridors
 - Additional/accelerated capital allowances
 - Exemption of import duty and excise duty
 - 60 comprehensive Avoidance of Double Taxation Agreements (DTA) and seven limited DTAs⁷
 - Other factors:
 - Liberal equity policy
 - Labuan’s preferential tax regime
 - No withholding tax on dividends paid by Malaysian companies
 - Free Zones
-

Trade agreements



- Malaysia has implemented seven bilateral and six regional free trade agreements (FTA).⁸

Bilateral FTAs⁹

Agreements signed between Malaysia and a single trading partner



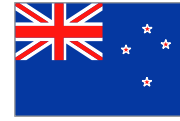
Malaysia-Turkey Free Trade Agreement

- Progressive reduction or elimination of tariffs on substantial number of products traded between both countries



Malaysia-Chile Free Trade Agreement

- Progressive reduction or elimination of tariffs on industrial and agricultural products



Malaysia-New Zealand Free Trade Agreement

- 0% duty on all goods entering New Zealand
- Liberalization of trade in services covers market access and movement of natural persons



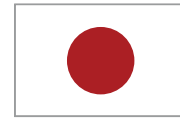
Malaysia-Australia Free Trade Agreement

- 0% duty on all goods entering Australia if they fulfil Rules of Origin criteria under this agreement
- Liberalization of trade in services covering market access, movement of natural persons, mutual recognition arrangement, telecommunications, financial services



Malaysia-India Comprehensive Economic Cooperation Agreement

- Progressive reduction or elimination of tariffs on industrial and agricultural products
- Foreign equity shareholding from 49-100% in 84 services sub-sectors, including professional services, healthcare, telecommunications, retail and environmental services
- Temporary entry of installers and servicers, contractual service suppliers, independent professionals, and business visitors (including potential investors)



Malaysia-Japan Economic Partnership Agreement

- Progressive reduction or elimination of tariffs on their respective industrial and agricultural products
- Expansion of trade through commitments in: national treatment, most-favored nation treatment and enhanced protection of investors and investment; excludes investment in services
- Economic cooperation in development of the automotive industry, agriculture, information and communications technology, education and human resource development, science and technology, SMEs, tourism, and environment

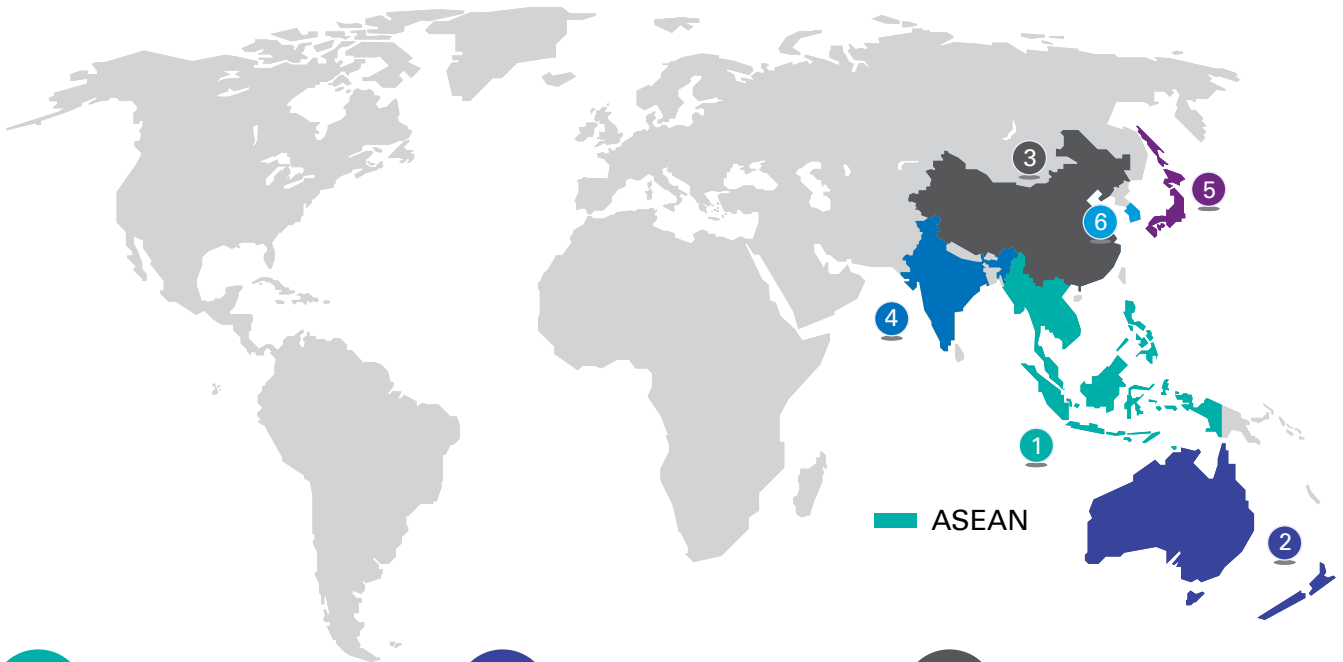


Malaysia-Pakistan Closer Economic Partnership Agreement

- Progressive reduction or elimination of tariffs on their respective industrial and agricultural products
- Maximum foreign equity participation of 60% in all sectors
- No limitations on the number of Malaysian employees

Regional FTAs¹⁰

Agreements signed between Malaysia and a group of trading partners



1 ASEAN Free Trade Area

- Malaysia has eliminated duties on 98.74% of its tariff lines
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Progressive elimination of tariff and non-tariff barriers
- Malaysia has eliminated duties for 93.57% of products in the normal track
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation



Concluded / signed FTAs¹¹

- Trans-Pacific Partnership
- Trade preferential system of the organization of the Islamic conference
- ASEAN-Hong Kong, China Free Trade Agreement



FTAs under negotiation¹²

- Malaysia-European Free Trade Association Free Trade Agreement
- Malaysia-European Union Free Trade Agreement
- United States-Malaysia Free Trade Agreement
- Regional Comprehensive Economic Partnership

AMBITIOUS GROWTH

Malaysia's transformation story is a case study for adversity, ambition and tenacity. In just 60 years, the country has transformed itself from an economy dominated by the production of raw natural resources to a diversified economy. Malaysia is hailed by the World Bank as one of the top performing economies in the Asia Pacific region especially in the areas of efficiency and quality of business regulations.

The country has become a leading exporter of electronic appliances, electronic parts and components, palm oil and natural gas. Services have also contributed significantly to the country's recent economic progress and is now the largest sector of the economy.

Another aspect of Malaysia that makes it rise above the rest is its involvement in a multitude of trade agreements. To date, Malaysia has signed and implemented seven bilateral FTAs and six regional FTAs, with the Regional Comprehensive Economic Partnership (RCEP) currently in the works. RCEP is aimed at lowering trade barriers and securing improved market access for goods and services for businesses in the region.

The outlook for Malaysia remains broadly favorable, reflecting a well-diversified economy despite a number of risks. The nation has not wavered in its ambition to become a high-income, technology-based and knowledge-intensive society by the year 2020.

KPMG in Malaysia has strong confidence in the progress of the country and its ability to amplify the ASEAN economic influence. It is with this confidence that KPMG in Malaysia collaborated with member firms in Singapore, Thailand and Indonesia to establish the KPMG ASEAN Scholarship Program in 2015.

This regional scholarship program gives ASEAN scholars the opportunity to experience working in different countries when they are in universities and early in their careers. It is KPMG's way of investing in a future that promises opportunities and growth.

Taking the prospects and challenges in stride, we can expect that the path ahead for ASEAN may be bumpy as some political and financial risks could materialize. However, as demonstrated by Malaysia's transformation, these can be overcome with ambition mixed with some tenacity.

Emerging industries



Aerospace

- Develop regional aerospace centres such as Asia Aerospace City and KLIA Aeropolis
- Global aerospace supply chain activities: original equipment manufacturing, avionics and systems integration, and maintenance, repair and overhaul/operations



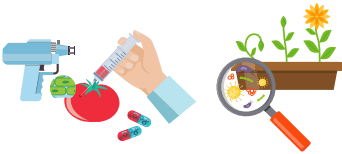
eCommerce¹³

- Develop 'Virtual Mall' project to grow the internet-based retail market
- Appointed Alibaba founder, Jack Ma, as Malaysia's digital economy advisor
- Developed world's first 'digital free trade zone'



Services

- Moving from commodities and natural resources towards a services-dominated economy
- Aim to unlock the potential of the sector and transform it to become more knowledge-intensive and innovation-led¹⁴



Biotechnology

- Focus on developing three economic sectors: agriculture biotechnology, healthcare, biotechnology and industrial biotechnology

Endnotes

- ¹ Malaysia maintains its strong regulatory framework, The World Bank. Retrieved from <http://www.worldbank.org/en/news/press-release/2016/10/26/malaysia-maintains-its-strong-regulatory-framework-says-doing-business-report>
- ² Income Tax Rates, Malaysian Inland Revenue Board. Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=1&bt_posi=2&bt_unit=5000&bt_sequ=11&bt_lgv=2
- ³ Non-Resident Tax Rate, Malaysian Inland Revenue Board. Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=1&bt_posi=2&bt_unit=1&bt_sequ=1
- ⁴ Withholding Tax, Malaysian Inland Revenue Board. Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=2&bt_skum=6&bt_posi=1&bt_unit=5&bt_sequ=1&bt_lgv=2
- ⁵ Standard Rated Supplies, Malaysian Royal Customs Department. Retrieved from http://gst.customs.gov.my/en/gst/Pages/gst_sr.aspx
- ⁶ Supportive Government Policies and Invest in Malaysia, Malaysian Investment Development Authority. Retrieved from <http://www.mida.gov.my/home/supportive-government-policies/posts/> and <http://www.mida.gov.my/home/invest-in-malaysia/posts/>
- ⁷ Double Taxation Agreement, Malaysian Inland Revenue Board. Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=5&bt_posi=4&bt_unit=1&bt_sequ=1&bt_lgv=2
- ⁸ Malaysia's Free Trade Agreements. Retrieved from <http://fta.miti.gov.my/>
- ⁹ *ibid*
- ¹⁰ ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf; Free Trade Agreements, Asia Regional Integration Center. Retrieved from <http://aric.adb.org/fta-country>
- ¹¹ Free Trade Agreements, Asia Regional Integration Center. Retrieved from <https://aric.adb.org/fta-country>
The Signing of the ASEAN–Hongkong, China Free Trade Agreement and ASEAN–Hongkong, China Investment Agreement, ASEAN. Retrieved from: <http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/>
- ¹² *ibid*
- ¹³ An introduction to e-Commerce in Malaysia, ASEAN Briefing. Retrieved from <http://www.aseanbriefing.com/news/2016/12/16/an-introduction-to-e-commerce-in-malaysia.html>
- ¹⁴ Service Sector, Malaysian Investment Development Authority. Retrieved from <http://www.mida.gov.my/home/services-sector/posts/>

Contact Us



Datuk Johan Idris
Managing Partner
T: +603-7721 3018
E: jidris@kpmg.com.my



Tai Lai Kok
Head of Tax
T: +603-7721 7020
E: ltai1@kpmg.com.my



Abdullah Abu Samah
Head of Markets
T: +603-7721 3019
E: munkongfoong@kpmg.com.my



Chan Siew Mei
Head of Advisory
T: +603-7721 7063
E: siewmeichan@kpmg.com.my



Foong Mun Kong
Head of Audit
T: +603-7721 3019
E: munkongfoong@kpmg.com.my

KPMG HAS A PRESENCE IN EVERY ASEAN NATION

25
Offices

over 8,000
Staff

more than 300
Partners



BRUNEI
1 office



CAMBODIA
1 office



INDONESIA
1 office



LAOS
1 office



MALAYSIA
9 offices



MYANMAR
1 office



PHILIPPINES
5 offices



SINGAPORE
1 office



THAILAND
1 office



VIETNAM
4 offices

KPMG SERVICES

Audit

- Fundamental to a risk-based audit approach is understanding the way our clients run their businesses and drive performance.
- KPMG focuses on the areas which are critical to our clients in delivering their strategies and meeting goals.
- KPMG's extensive experience and proprietary tools have enabled us to provide seamless services to clients across industry sectors and geographical boundaries.

Tax

- Against a backdrop of increasing complexity in the business and tax landscapes, clients will need to weigh its tax options against many factors, such as tax ramifications against the financials, increased information sharing between tax authorities, evolving regulations, global competitions and new economies.
- Through two main service lines: tax consulting and tax planning and compliance, KPMG's tax practice consistently provides proactive advice and quality service. Our tax consulting service lines cover mergers & acquisitions & government incentives, global transfer pricing services, global indirect tax services, financial services tax and international tax. Our multi-national clients enjoy this single point of contact in Asia Pacific for all regional tax issues.
- In addition, our tax planning & compliance services include global mobility services, global immigration services network, global compliance management services, dispute resolution & controversy, tax management consulting and property tax / stamp duty advisory. With KPMG's vast network, clients' business commitments and tax needs will be best served by KPMG member firms in the region.

Advisory

- KPMG's Advisory team works with a range of clients, helping them meet challenges associated with growth, performance and governance.
- Our professionals can cover both operational and transactional activities.
- Our Advisory practice assembles skilled and experienced professionals in multi-disciplinary groups tailored to the needs of individual clients and their unique circumstances.
- In our clients' interests, we also draw on the capabilities and knowledge resources of KPMG's global network.
- We offer our clients a single point of contact to help streamline the relationship and enhance its productivity and usefulness to them.
- We understand and respect clients' needs and aspirations. Clients can draw from a range of management and risk consulting services covering a broad spectrum of business activity.

Contributors to the research, analysis, and development of this paper:

Managing Partners, Head of Markets and teams from KPMG member firms in ASEAN, Sreetama Ray, Chris Zaharatos

NOTES

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

NOTES

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

For further information about this guide and how KPMG member firms can help your business, please contact asean@kpmg.com.sg

kpmg.com/socialmedia



kpmg.com/app



© 2018 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.