



# Cost of doing business index

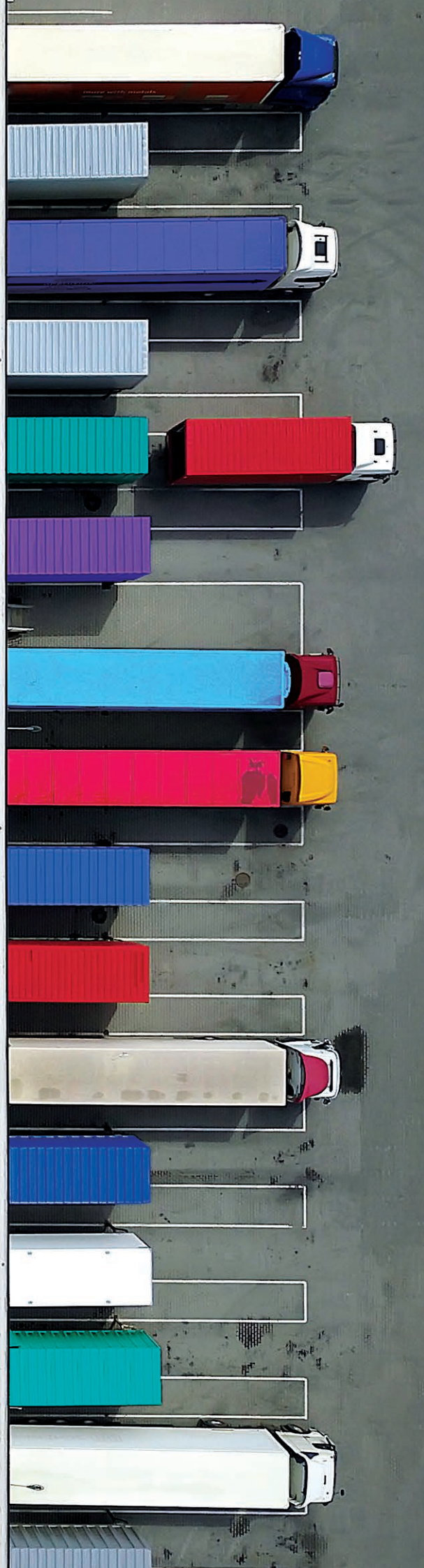
## Malaysia highlights

Joint study by KPMG LLP and  
The Manufacturing Institute

October 2020

[www.kpmg.com.my/CoDBIndex](http://www.kpmg.com.my/CoDBIndex)

KPMG in Malaysia





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# Foreword

In the global market in which we operate a common question is, which jurisdictions are cost-effective? The latest joint study between KPMG and The Manufacturing Institute in the U.S. shows Malaysia is among the most cost-effective locations for manufacturing.

The study considered a total of 23 cost factors with Malaysia scoring highly in real estate, labor costs, corporate taxes and ease of doing business. Out of 17 heavy-weight economies involved in this study and at equal weightage of Primary and Secondary Costs, Malaysia ranks fourth in the Cost of Doing Business Index – outperforming China, Japan, Vietnam and India in the Asian region. A further analysis reveals Malaysia is propelled to the top of the CoDB Index if Primary Costs are given greater weightage. This is a significant recognition for our country!

The scores only substantiate what Malaysian businesses already know and are proud of. Our multi-lingual workforce records high competent labor productivity and investors will have access to more than 15 million skilled and literate talents. Industrial real estate costs in Malaysia are expected to remain stable, despite the COVID-19 pandemic. Our corporate tax rate remains comparable at 24%, which may be considerably less given the availability of tax incentives together with the tax free repatriation of dividends. Furthermore, investors will benefit from only a limited scope of capital gains tax regime focused on Malaysian real property.

Peninsular Malaysia serves as one of the most important shipping lanes linking major Asian economies such as China, Indonesia, Thailand, India and Japan. Malaysia's strategic location has led the country to become one of the largest importers and exporters in the world.

Our government continues to invest in massive infrastructure initiatives to boost connectivity, communication networks, and quality of life in Malaysia. We are also guided by a National Policy on technological transformation, which is aimed at driving the country towards becoming the Industry 4.0 hub in Asia Pacific.

The ongoing geopolitical environment and global recession are likely to lead to greater protectionism and risk aversion. An immediate effect out of the COVID-19 pandemic has seen companies around the world relooking to rebalance, de-risk and futureproof their supply chains. A study by McKinsey estimates that 16-26% of global goods exports, worth USD2.9 to 4.6 trillion, could move to new countries over the next five years if companies reshuffle their supplier networks.<sup>1</sup> Meanwhile, the World Economic Forum expects companies will be increasingly considering a China +1 strategy.<sup>2</sup>

KPMG's study proves that we have the factors in place to position Malaysia as the most attractive location in the region for investments and as a base of operations. This is especially significant in this new reality where operational stability and cost containment are central in every company's long-term business survival.

I hope this study will give you the assurance that it is right for you to place your trust in Malaysia. If you are considering expanding or relocating your operations to Malaysia, talk to us. Our experienced professionals are ready to guide and assist you.



**Datuk Johan Idris**

Managing Partner  
KPMG in Malaysia

1. McKinsey, August 2020: "Risk, resilience, and rebalancing in global value chains"

2. World Economic Forum, 22 June 2020: "The ongoing impact of COVID-19 on global supply chains"



# About the study

This joint study by KPMG and The Manufacturing Institute (“TMI”) in the U.S. provides a current assessment of how the manufacturing sector in the U.S. compares in competitiveness to its main trading partners.

Specifically, this study compares the primary and secondary factors that impact the cost of operations (“Cost of Doing Business” or “CoDB”) of a business conducting manufacturing operations in the United States relative to sixteen other countries that are leading manufacturing exporters to the US.



Scan the QR code to download the full report entitled ‘Cost of Manufacturing Operations Around the Globe’.

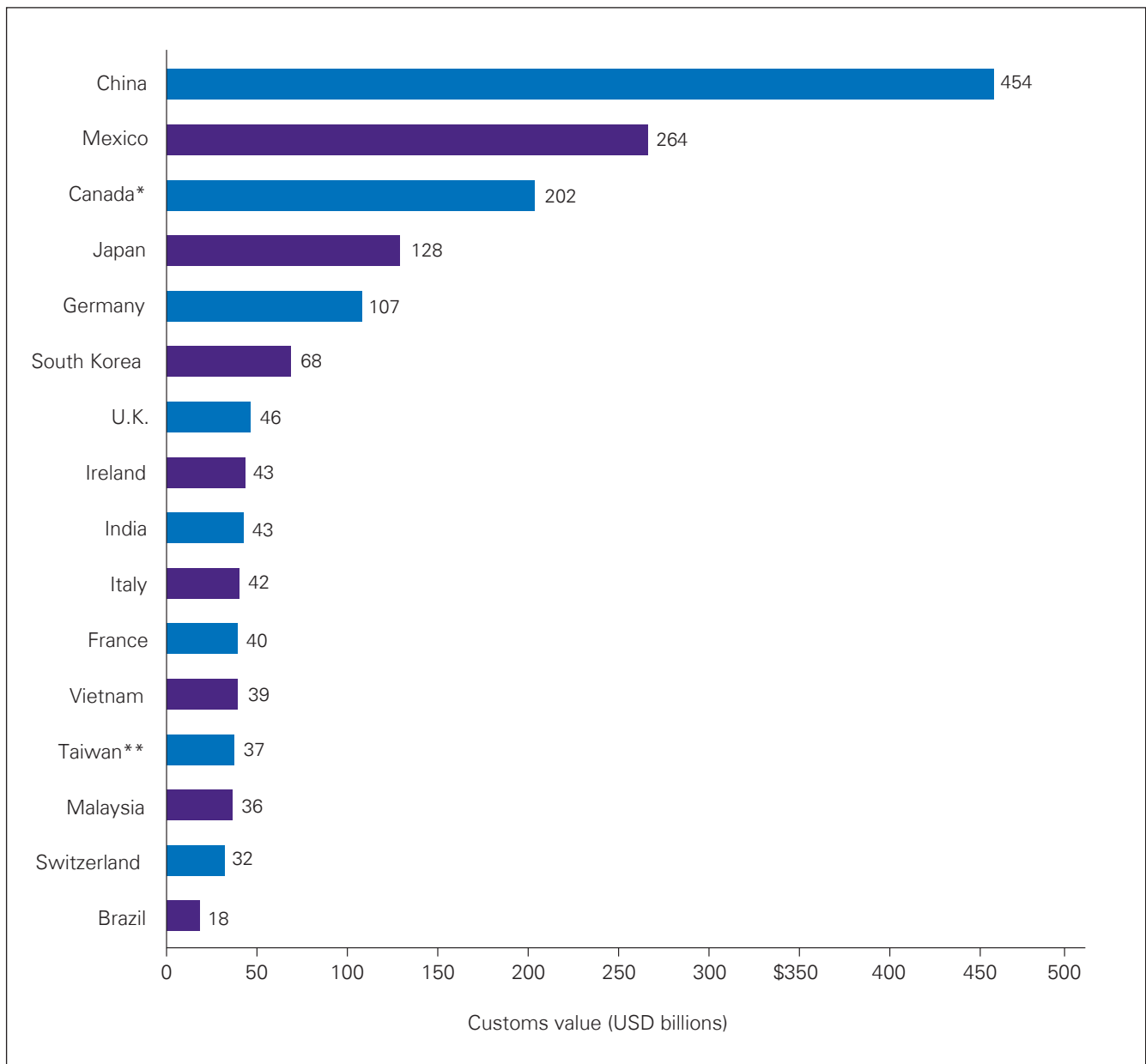


# About the study (cont.)

## Total Manufacturing Exports to the U.S. in 2016

The study covers the U.S. and 16 of its main trading partners, selected based on the customs value of manufacturing exports to the U.S in 2016.

These seventeen economies together account for about four-fifths of global value added in manufacturing.



Source: U.S. Census Bureau

\* Note that Canada data is as of 2015 and Taiwan does not contain World Bank data for any year.

\*\* The global manufacturing output ranking from the World Bank source is also included for reference.

# What are the “Costs of Doing Business” (CoDB)?

This study covers 23 factors.

Primary Costs are costs that directly affect a firm's bottom line and can be easily expressed in dollars.

Secondary costs are factors that impact overhead costs and the firm’s ability to operate efficiently. The secondary factors are typically related to the business environment or the ease of doing business.

	Measure	Cost Type	Sub-Category
1	Hourly Compensation Costs	Primary	-
2	Real Estate Costs	Primary	-
3	Utility Costs	Primary	-
4	Corporate Tax Rates	Primary	-
5	Interest Rates	Primary	-
6	Learning-Adjusted Years of Schooling	Secondary	Quality of Labor
7	Skill set of Graduates	Secondary	Quality of Labor
8	Real Value Added per Employee	Secondary	Quality of Labor
9	Days to Start Business	Secondary	Ease of Doing Business
10	Burden of Government Regulation	Secondary	Ease of Doing Business
11	Registering Property	Secondary	Ease of Doing Business
12	Road Quality Index	Secondary	Infrastructure
13	Railroad Quality	Secondary	Infrastructure
14	Airport Connectivity	Secondary	Infrastructure
15	Linear Shipping Connectivity Index	Secondary	Infrastructure
16	Electric power losses (% of output)	Secondary	Infrastructure
17	Exposure to unsafe drinking water	Secondary	Infrastructure
18	Reliability of water supply	Secondary	Infrastructure
19	Access to Internet/Wi-Fi	Secondary	Infrastructure
20	Political Risk	Secondary	Risk and Protections
21	Enforcing Contracts	Secondary	Risk and Protections
22	Protecting Minority Investors	Secondary	Risk and Protections
23	Corruption Perception Index	Secondary	Risk and Protections

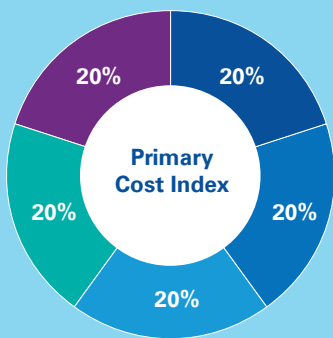


# Developing the Index

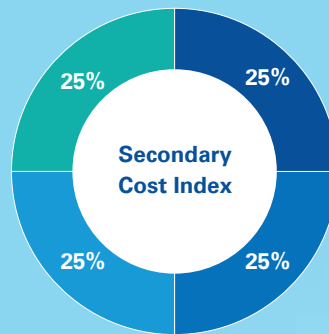
To provide transparency and to allow further exploration to identify the set of factors driving a country's index level (and rank), we developed two indices – one for the Primary Cost factors and another for the Secondary Cost factors.

Subsequently, we combined them to generate an overall index (CoDB Index) to benchmark country performance.

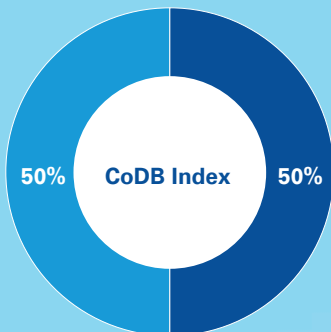
## Index weights



- Hourly Compensation Costs
- Real Estate Costs
- Utility Costs
- Corporate Tax Rates
- Interest Rates



- Quality of Labor
- Ease of Doing Business
- Infrastructure
- Risk and Protections



- Primary Costs
- Secondary Costs

# CoDB Index: Country ranking – Primary Cost

## Malaysia ranked

**No.1** on the **Primary Cost Index**.

Comparative to countries in Asia, this ranking is at the same level as China and Vietnam, and ahead of India, Taiwan, South Korea and Japan.

Countries	Ranking	Score (1=best, 5=worst)
<b>Malaysia</b>	<b>1</b>	<b>2.40</b>
China	1	2.40
Mexico	1	2.40
Vietnam	1	2.40
India	5	2.60
Canada	6	2.80
Taiwan	6	2.80
Italy	6	2.80
South Korea	9	3.00
Ireland	9	3.00
France	9	3.00
Germany	12	3.20
United Kingdom	13	3.20
United States	14	3.40
Switzerland	14	3.40
Brazil	16	3.60
Japan	17	4.00



## Selected country percentile rankings

(Sorted by Primary Cost Index)

Country	Primary Cost Index ranking	Hourly comp costs	Real estate costs	Utility costs	Corporate tax rates	Interest rates
Malaysia	#1	2	1	3	2	4
China	#1	2	2	1	3	4
Vietnam	#1	1	4	1	2	4
India	#5	1	1	2	4	5
Taiwan	#6	3	4	2	2	3
South Korea	#9	3	3	3	3	3
Japan	#17	3	5	5	5	2
United States	#14	5	3	3	3	3

Rating from 1 to 5, where:

1 = best performing in the category

5 = worst performing in the category

### Malaysia outperforms in the **Primary Cost Index**, due to three main factors:



Real estate costs



Corporate tax rates



Hourly compensation costs

# CoDB Index: Country ranking – Secondary Cost

Countries	Ranking	Score
United States	1	1.97
Switzerland	2	2.13
United Kingdom	3	2.19
Canada	4	2.27
Germany	5	2.28
South Korea	6	2.29
Taiwan	7	2.47
Japan	8	2.52
Ireland	9	2.54
France	10	2.65
<b>Malaysia</b>	<b>11</b>	<b>2.93</b>
Italy	12	3.21
China	13	3.28
Mexico	14	4.26
India	15	4.38
Vietnam	16	4.51
Brazil	17	4.81

While Malaysia ranked #11 on the Secondary Cost Index, even at equal weightage with the Primary Cost Index, Malaysia secured a Top 4 ranking in the overall CoDB Index.





## CoDB Index: Country ranking – Secondary Cost (cont.)

### Selected country percentile rankings

(Sorted by Secondary Cost Index)

Countries	Secondary Cost Index ranking	Quality of Labor Score	Ease of Doing Business Score	Infrastructure Score *	Infrastructure - Transport Score	Infrastructure - Utility Score	Risk and Protections Score
United States	#1	1.67	2.00	2.22	2.00	2.67	2.00
South Korea	#6	2.33	3.33	1.50	1.50	2.00	2.00
Taiwan	#7	3.00	2.33	2.78	3.00	2.33	1.75
Japan	#8	2.33	3.00	2.25	1.75	2.00	2.50
<b>Malaysia</b>	<b>#11</b>	<b>3.33</b>	<b>2.33</b>	<b>3.06</b>	<b>2.50</b>	<b>3.67</b>	<b>3.00</b>
China	#13	3.67	2.33	3.64	2.25	3.67	3.50
India	#15	5.00	4.33	4.42	3.25	5.00	3.75
Vietnam	#16	4.67	4.33	4.31	4.25	4.67	4.75

Rating from 1 to 5, where:

1 = best performing in the category      5 = worst performing in the category

\* Infrastructure score is a combined score across transportation, utility and internet. Details are shown for transportation and utility subcomponents while internet access is not shown in the table, but is included the combined score. Each of these three factors (transport, utility and internet) get an equal weight.





# CoDB Index: Country ranking

## Overall at 50-50 weightage

Countries	Ranking	Score (1=best, 5=worst)
Canada	1	2.54
Taiwan	2	2.63
South Korea	3	2.65
<b>Malaysia</b>	<b>4</b>	<b>2.67</b>
United States	5	2.69
United Kingdom	5	2.69
Germany	7	2.74
Switzerland	8	2.77
Ireland	8	2.77
France	10	2.83
China	11	2.84
Italy	12	3.00
Japan	13	3.26
Mexico	14	3.33
Vietnam	15	3.46
India	16	3.49
Brazil	17	4.20

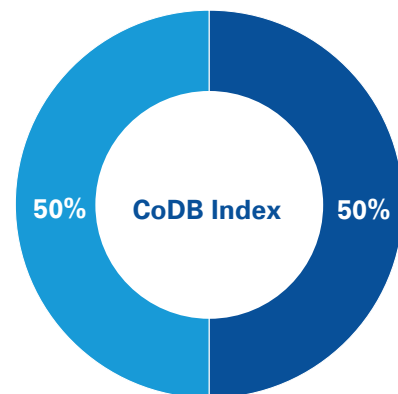
**Note:** The rankings are based on the best historical information available. Such data is mostly available only with a lag, and therefore the impact of recent trade disputes or the market disruptions from COVID-19 are not reflected in the results.

## Malaysia ranks

# No.4

on the CoDB Index, which **equally weighs** Primary Cost factors and Secondary Cost factors.

Outperforming China, Japan, Vietnam and India in the Asian region.



- Primary Costs
- Secondary Costs

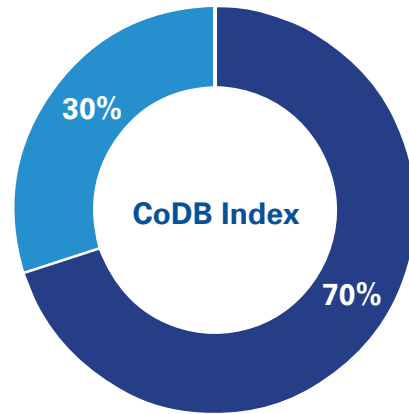
# CoDB Index: Top 6 ranking

**Overall at 70-30 weightage**

**Malaysia ranks**

# No.1

on the CoDB Index with weightage of **Primary Costs (70%)** and **Secondary Cost (30%)**.



- Primary Costs
- Secondary Costs

Countries	CoDB Index ranking	Primary Cost Index ranking	Secondary Cost Index ranking
<b>Malaysia</b>	<b>1</b>	<b>1</b>	<b>11</b>
Canada	2	6	4
China	3	1	13
Taiwan	4	6	7
South Korea	5	9	6
Ireland	6	9	9

**Note:** The rankings are based on the best historical information available. Such data is mostly available only with a lag, and therefore the impact of recent trade disputes or the market disruptions from COVID-19 are not reflected in the results.

# Investing in Malaysia





# International competitiveness rankings

Malaysia receives worldwide recognition by various reputable global institutions.

**#2** in **ASEAN** | **#25** in the **world**

Global Competitiveness 2019, World Economic Forum

**#2** in **ASEAN** | **#8** in the **Asia Pacific** | **#27** in the **world**

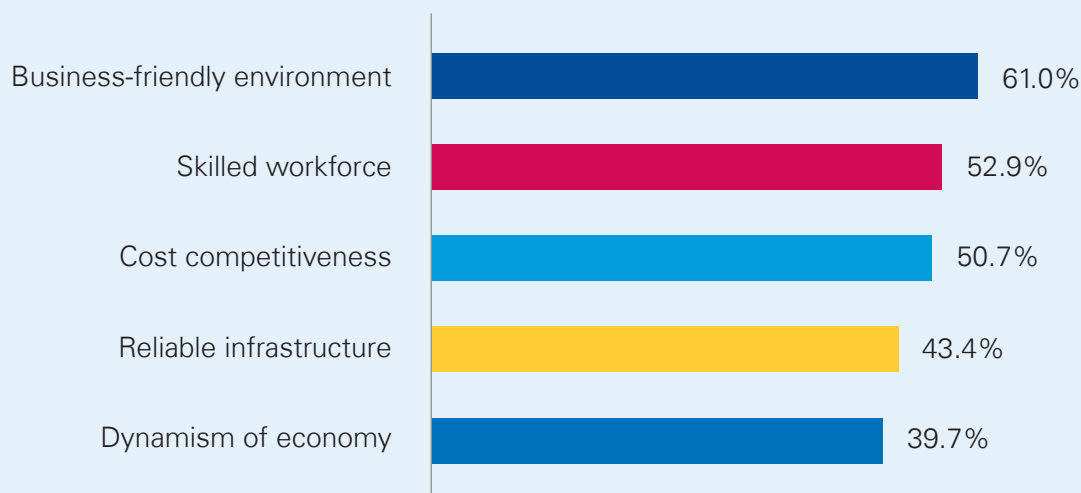
World Competitiveness Yearbook 2020, Institute of Management Development

**#2** in **ASEAN** | **#12** in the **world**

Doing Business for 2020, World Bank Group

## Top 5 attractive factors of Malaysian economy,

Executive Opinion Survey, World Competitiveness Yearbook 2020



# Talent matters

#5

**in Talent  
Readiness**

#22

**in Overall Ranking**  
(for two consecutive years)

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World Talent Ranking 2019,  
Institute of Management Development

- Readily available pool of multi-lingual, skilled and technically-trained workforce; 27% of the labor force has tertiary education.
- Manpower development: The Manpower Department of the Ministry of Human Resources runs 32 Skills Training Institutes [Industrial Training Institutes (ITIs), Advanced Technology and Training Centre (ADTEC) and the Japan Malaysia Technical Institute (JMTI)].
- Human Resources Development Fund (HRDF) provides financial assistance for training by contributing employers under certain designated training schemes.
- Minimum wage (RM1,100 w.e.f. 1 January 2019) is lower than in some of the region's major manufacturing hubs, such as Taiwan, China, South Korea and the Philippines.





# Business legislation and financial system

**#15** in the World for  
**Financial System Market**

Global Competitiveness 2019, World Economic Forum



- Advanced financial markets and diversified range of institutions to serve businesses' needs.
- Development Financial Institutions (DFIs) are specialized institutions to develop and promote specific sectors (including Small Medium Enterprises, export-oriented and high-technology sectors).
- Foreign Exchange Administration (FEA) rules by Bank Negara Malaysia that aims facilitate cross-border activities by entities in Malaysia, in order to strengthen Malaysia's competitiveness in global economy and market.
- Broad range of tax incentives and exemptions, grants, soft loans and other types of incentives such as equity funding, regional establishment status, training and other facilitation programs.
- Regulations and authorities are in place to maintain an efficient and competitive business environment as well as to protect the interest of the public and various stakeholders.



# Infrastructure, connectivity and digital transformation

#2 in  
**ASEAN**

#8 in the  
**Asia Pacific**

#26 in the  
**world**

World Digital Competitiveness 2020, Institute of Management Development

#8 in the  
**Asia Pacific**

#33 in the  
**world**

Global Innovation Index 2020, World Intellectual Property Organization (WIPO)

- Infrastructure in Malaysia is well-developed, one of the best in Asia. Well-maintained highways and railways; international airports (all with air-cargo facilities) and international seaports.
- Over 500 industrial parks and 18 Free Industrial Zones (FIZs) are fully equipped with infrastructure facilities. High quality telecommunication network and services at competitive prices.
- Technology Park Malaysia is among the world's most advanced and comprehensive centers for R&D by knowledge based industries. Kulim Hi-Tech Park caters to technology-intensive industries and R&D activities.
- Industry4WRD: National Policy on Industry 4.0 aims at boosting digital transformation and intensifying the adoption of Industry 4.0 technologies in manufacturing sector. Various incentives under Industry4WRD include Domestic Investment Strategic Fund (DISF), High Impact Fund (HIF), Industry4WRD Readiness Assessment Intervention Program, high-speed broadband connectivity to potential industrial parks and reskilling programs to address the technology and skills gaps.

# Location and network for regional establishments



- Strategically located in the center of South East Asia and next to one of the world's busiest shipping lanes – Straits of Malacca, providing access to the global supply chain via two key Malaysian ports, Port Klang and Port of Tanjung Pelepas.
- Its prime location, competitive costs of operation and strong linkage of supply chains in the regional market offer firms close proximity to their customers. World-renowned multinational companies (MNCs) have established their Regional Operations here in Malaysia.
- Malaysia is one of the world's most open economies. Trade to GDP ratio averaging over 130% since 2010 with high GVC (global value chain) and RVC (regional value chain).
- Broad range of trading partners. Bilateral and regional Free Trade Agreements (FTAs) with Japan, Pakistan, New Zealand, India, Chile, Australia, Turkey and ASEAN countries.

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