KPMG
cutting through complexity

Malaysia

High Growth Markets country profile

Since the 1970s, this middle-income country has transformed itself from a producer of raw materials into an emerging multi-sector economy. Malaysia aims to achieve high-income status by 2020 and to move farther up the value-added production chain by attracting investments in Islamic finance, high technology industries, biotechnology and services. A mountain range runs the length of the peninsula, and most of the country is covered by forests that provide ebony, sandalwood, teak and other wood. Real gross domestic product (GDP) is expected to increase by 5.1 percent in 2014, with an average annual growth rate of 5.5 percent from 2015–2018, up from 4.3 percent a year between 2009–2013.

Country overview

Geography and climate

- **Location:** southeastern Asia, a peninsula bordering Thailand and the northern third of the island of Borneo, bordering Indonesia, Brunei and the South China Sea, south of Vietnam
- **Climate:** tropical; annual monsoons in the southwest (April to October) and northeast (October to February)
- **Regions:** 13 states and one federal territory with three components
- **Major cities:** Kuala Lumpur (1.49 million); Klang (1.07 million); Johor Bahru (0.95 million) (2009)

Political system

- **Type of government:** constitutional monarchy
- **Capital:** Kuala Lumpur

Population, language and religion

- **Population:** 29.7 million (2013)
- **Urban population:** 72.8%
- **Demographics:** 0–14 years: 28.8%; 15–64 years: 63.6%; 65 years and over: 5.3%
- **Median annual household income:** 14,114 US dollars (US$)
- **Official language:** Bahasa Malaysia
- **Prominant religions:** Muslim, Buddhist, Christian, Hindu, Confucian, Taoist

Currency and central banking

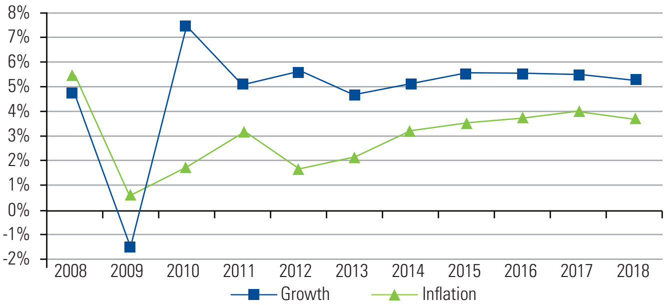
- **Local currency:** Malaysian Ringgit (MYR)
- **Exchange rate:** 1 MYR = US$0.3066 (1 April 2014)
- **Interest rate (average annual rate):** 3.2% (2013); 3.2% (2012); 3.2% (2011); 2.7% (2010); 2.2% (2009)
- **Foreign exchange reserves:** US$139.4 billion
- **Total debt (2013):** external: US$100.1 billion; internal public debt: 54.6% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$525.6 billion.** Real GDP growth of 5.1% is expected in 2014, with an average GDP growth rate of 5.5% per year forecast for 2015–2018, compared with an annual average of 4.3% in 2009–2013. The median household income is predicted to increase to US$18,411 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$7.6 (2008); US$11.0 (2013); US$14.0 (2018 forecast) outbound: US$15.4 (2008); US$13.1 (2013); US$14.5 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$227.7 (2012); US$224.0 (2013); US$303.7 (2018 forecast)
- **Imports FOB (billions):** US$186.9 (2012); US$190.3 (2013); US$259.6 (2018 forecast)
- **Sector breakdown:** service: 48%; industrial: 40.4%; agriculture: 11.5%
- **Trade balance (billions):** surplus of US$40.7 (2012); US$33.7 (2013); US$44.1 (2018 forecast)
- **Stock exchanges:** Bursa Malaysia, Labuan International Financial Exchange (LFX)

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** The government's main objective is to raise income levels and transform Malaysia into a high-income country by 2020. One of the two plans to meet this goal is the Government Transformation Programme, which outlines seven initiatives, including moves to tackle corruption, improve education and upgrade rural infrastructure. The other plan is the Economic Transformation Programme that identifies 12 sectors believed to have the greatest potential to boost economic growth. The Tenth Malaysia Plan, a public-spending agenda for 2011–2015, focuses on structural economic change and will support the implementation of the two aforementioned programs. The administration is also expected to place a higher priority on fiscal consolidation.
- **Competition policy:** A new law prohibits two areas of anti-competitive behavior: anticompetitive agreements between enterprises that operate in the same sector (through price fixing, limiting production or bid rigging); and abuse of a dominant position by an enterprise in any market for goods or services. This law empowers the newly established Malaysia Competition Commission to conduct market reviews and investigations and enforce its duties. The law also prohibits the purchase, sale or barter of any 'controlled' article without written permission from the Ministry of Domestic Trade, Co-operatives and Consumerism. During 2014–2015, the government should start to reduce its intervention in economic activity. Various government schemes aim to shift reliance on public investment and promote more private sector financing, with stakes in some state-owned enterprises be sold off. In the period 2016–2018, southeast Asian economic integration is expected to increase, which should limit the protection offered to local industries and businesses operated by bumiputera (ethnic Malays and other indigenous peoples). The government's divestment program is likely to continue.
- **FDI policy:** The government forecasts FDI in 2013 at a similar level to 2011. To encourage higher inward investment, in 2012 the authorities opened up and lifted equity restrictions in 15 services subsectors, and are also trying to encourage financing from emerging economies, mainly India, China and the Middle East. Malaysia generally welcomes foreign investment projects involving transfers of technology, creation of skilled jobs and contribution of capital. There has been considerable progress in liberalizing capital markets, and the country is rapidly establishing itself as a global center for Islamic finance. During 2014–2015, liberalization and deregulation should be used more aggressively to attract investment. The need to compete with China is likely to guide investment incentives, with Malaysia emphasizing its advantages in labor skills, natural resources and infrastructure. Malaysia should expand foreign investment incentives in 2016–2018, to establish itself as a regional services center for high value-added manufacturing and services.
- **Foreign trade and exchange controls:** Malaysia has relaxed or abolished several foreign exchange policies in line with its various capital markets and financial sector development plans. Resident corporations are allowed to: make and receive payments in foreign currency to and from residents; borrow any amount of foreign currency from licensed onshore banks and non-residents; invest any amount in foreign currency assets onshore and offshore; and retain export proceeds offshore. Travelers may import or export up to MYR1,000 (US$300) per person and any amount of foreign exchange. Export duties are generally imposed on Malaysia's main commodities, such as crude petroleum, palm oil and agricultural and fisheries products. There are restrictions on three categories of exports. In the period 2014–2015, regional trade links are due to intensify as Malaysia maintains an increasingly open trading system. It will also continue with an exchange rate regime characterized by a managed float against a trade-weighted basket of currencies. From 2016–2018, regional economic integration, free trade agreements and the internationalization of the Malaysian banking system should prompt Bank Negara Malaysia (the central bank) to allow offshore trading of the ringgit.
- **Financing policy:** Reforms aimed at restructuring and strengthening the financial services sector are expected to continue in 2016–2018. In the same period, Malaysia should play a leading role in the development of Islamic banking and finance, by expanding the scope of services offered. The liberalization of financial markets is set to continue, with a broadening access to corporate finance.
- **Taxes:** The current rate of corporation tax is 25 percent. Small and medium-sized enterprises with a paid-up capital of up to MYR2.5 million (US$750,000) are subject to corporate income tax of 20 percent on taxable income up to MYR500,000 (US$150,000), with the excess taxed at 25 percent. Malaysia operates a progressive income tax system: the first MYR2,500 (US$750) of earnings is untaxed, and income above this level is subject to tax rates ranging from 1 percent to 25 percent, with the top rate applying to earnings in excess of MYR750,000 (US$230,000). Following an earlier postponement, the long-awaited single consumption tax (goods and services tax (GST)) is to replace the sales and service taxes in 2015, to broaden the tax base. To narrow the fiscal deficit to 3 percent of GDP by 2015, measures to rationalize subsidies will be initiated, although the target will almost certainly be missed due to political resistance. During 2016–2018, the government should maintain subsidies on essential goods.

KPMG in Malaysia

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For more information, please visit the KPMG in Malaysia website: kpmg.com/my/en

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014

Designed by Evalueserve. Publication name: Malaysia: High Growth Markets country profile
Publication number: 130913r. Publication date: June 2014