

**SPECIAL SUPPLEMENTS**

Malaysia Special

## Post-pandemic investment climate appears promising



Malaysia's economy remains strong despite the pandemic, thanks to a diversified economic structure, sound financial system and other factors. | Shutterstock

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How will foreign direct investment (FDI) levels for 2020 play out globally in the wake of the coronavirus pandemic? It is a question being asked by government officials, policymakers, business leaders and relevant parties worldwide, with optimistic scenarios painting declines of about 30 percent.

Yet Malaysia, according to the World Bank's Country Director for Brunei, Malaysia, the Philippines and Thailand, Ndiame Diop, is set to fare better than most. Although Malaysia is not alone in facing challenges resulting from the coronavirus, its economic foundations are strong.

"A diversified economic structure, a sound financial system, an effective public health response and proactive macroeconomic policy support have all helped soften (the virus's) blow," wrote Diop.

The Malaysian government's efforts in compiling tax incentives as part of a post-coronavirus economic stimulus package also signal hope.

Japan is one of Malaysia's most important trading partners and has been a top source of FDI to the country since the 1980s. Japan contributed 0.9 billion ringgit (\$209,474,764) in FDI to Malaysia's primary, services and manufacturing sectors during the first financial quarter of this year.

Malaysia's manufacturing sector has been the main beneficiary to date. The country hopes that Japan's decision to relocate manufacturing hubs from China will see FDI levels in Malaysia increase.

## **Long-standing ties**

Japan-Malaysia trade relations date back to the 15th century, when a Ryukyu ship was said to have first visited Melaka in 1463.

Japan was among the first countries to recognize the independence of the Federation of Malaya, a union between Malaya, North Borneo, Sarawak and Singapore that was established on Sept. 16, 1963, before the latter country was removed in 1965. Every year on Sept. 16, Japan joins Malaysia in celebrating Malaysia Day to commemorate the establishment of the Malaysian Federation.

The 1980s were a turning point in Japan-Malaysia bilateral relations. FDI gains resulted from the Look East Policy. In this initiative, Malaysians were sent to study and train at various institutions in Japan. The 1986 Promotion of Investment Act, meanwhile, saw investments in capital and skill-intensive projects in the Malaysian market.

Twenty years later, the Malaysia-Japan Economic Partnership Agreement came into force. Today, approximately 97 percent of goods traded between the two countries are tariff-free due to this agreement.

## **Competitive relocation perks**

Malaysia's incentive framework covers a broad spectrum of industries and economic activities. Specific grants and incentives are also provided to support strategic projects and promote innovation.

The Malaysian government recently introduced a slate of new tax incentives to attract FDI and boost the country's economy. These incentives form part of the post-coronavirus stimulus package.

Incentives include a full tax exemption of 10 years and 15 years on selected new investments from foreign firms ranging from 300 million to 500 million ringgit, and 500 million ringgit and above, respectively. The applying company must relocate and commence its business in Malaysia within one year from the date of approval of the incentive.

Existing companies in Malaysia that relocate their overseas facilities into Malaysia with capital investment above 300 million ringgit will be able to apply for a 100 percent investment tax allowance on qualifying capital expenditure for a period of five years.

Applications can be submitted to the Malaysian Investment Development Authority up until Dec. 31, 2021.



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Malaysia's incentive framework covers a broad spectrum of industries and economic activities. | SHUTTERSTOCK

## **Attracting companies**

Standard incentives are granted to prospective investors from targeted sectors that wish to undertake promoted activities or manufacture promoted products anywhere in Malaysia.

Government grants may be awarded to projects that can be categorized under prioritized sectors such as aerospace, medical devices, advanced electronics and pharmaceuticals.

The Principal Hub Incentive, designed to position Malaysia as a regional or global hub for firms targeting Southeast Asia or Middle East markets, received an upgrade in 2019.

Companies approved for the enhanced Principal Hub can enjoy a concessionary 10 percent tax rate for their operations in Malaysia. Companies that have yet to establish a presence in Malaysia can enjoy as little as zero tax for 10 years based on their level of commitment.

The government has tagged Malaysia's aerospace sector as a strategic industry. Until the pandemic, it was on track to implement further rollouts of the National Aerospace Industry Blueprint 2030. Smart Factory or "Industry 4.0" technologies are one way in which FDI can support the industry. Production capacity utilization, product quality, operations and maintenance costs and safety and security are areas in which new technologies can be utilized.

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During the announcement of Malaysia's first-quarter investment performance, Senior Minister and Minister of International Trade and Industry, Dato' Seri Mohamed Azmin Ali, acknowledged that the coronavirus has caused investors to reconsider their business strategies and postpone investment decisions. He is urging companies to look for opportunities in a time of apparent crises.

"Malaysia continues to attract investors and is poised to be a global supply chain hub in Asia. We have a strong presence of high-quality local suppliers and businesses in our industrial ecosystem. Coupled with the many other value propositions, we trust that Malaysia will continue to be an attractive location for global companies to incorporate diversity and flexibility into their supply chains," Mohamed Azmin Ali said.

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*For more information on investment opportunities in Malaysia, please visit:*

<https://www.mida.gov.my/home/> (<https://www.mida.gov.my/home/>).

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