

Investment Climate Statement **Malaysia**

March 2023

Mizuho Bank, Ltd.
Global Strategic Advisory Department

Mizuho Research & Technologies, Ltd.
Research Division

MIZUHO

The Mizuho logo consists of the word "MIZUHO" in a bold, white, sans-serif font, positioned above a white horizontal line that curves slightly upwards at both ends.

I. Country Profile

II. Investment-related Information

III. Establishing a Local Subsidiary

IV. Regulations, Incentives, Reference Information

V. Other

I. Country Profile

I-1. Key Economic Indicators for Asia

Country/Region	Japan	China	South Korea	Singapore	Indonesia	Vietnam
Population (millions)	125.2	1,412.6	51.6	5.3	274.9	99.4
Nominal GDP (US\$100 million)	43,006	183,212	17,342	4,236	12,894	4,138
Real GDP growth rate (y-o-y, %)	1.7	3.2	2.6	3.0	5.3	7.0
GDP per capita	34,358	12,970	33,592	79,426	4,691	4,163
Estimated GDP growth rate (2023, %)	1.6	4.4	2.0	2.3	5.0	6.2
Credit rating (S&P) as of Oct. 2022	A+	A+	AA	AAA	BBB	BB+
Country/Region	The Philippines	Thailand	Malaysia	Myanmar	Cambodia	India
Population (millions)	111.7	70.1	33.1	53.9	16.0	1,406.6
Nominal GDP (US\$100 million)	4,017	5,348	4,341	595	283	34,686
Real GDP growth rate (y-o-y, %)	6.5	2.8	5.4	2.0	5.1	6.8
GDP per capita	3,597	7,631	13,108	1,105	1,771	2,466
Estimated GDP growth rate (2023, %)	5.0	3.7	4.4	3.3	6.2	6.1
Credit rating (S&P) as of Oct. 2022	BBB+	BBB+	A-	n.a.	NR	BBB-

Note 1: Data are for 2022; estimated GDP growth rates are for 2023, and italicized data are IMF estimates.

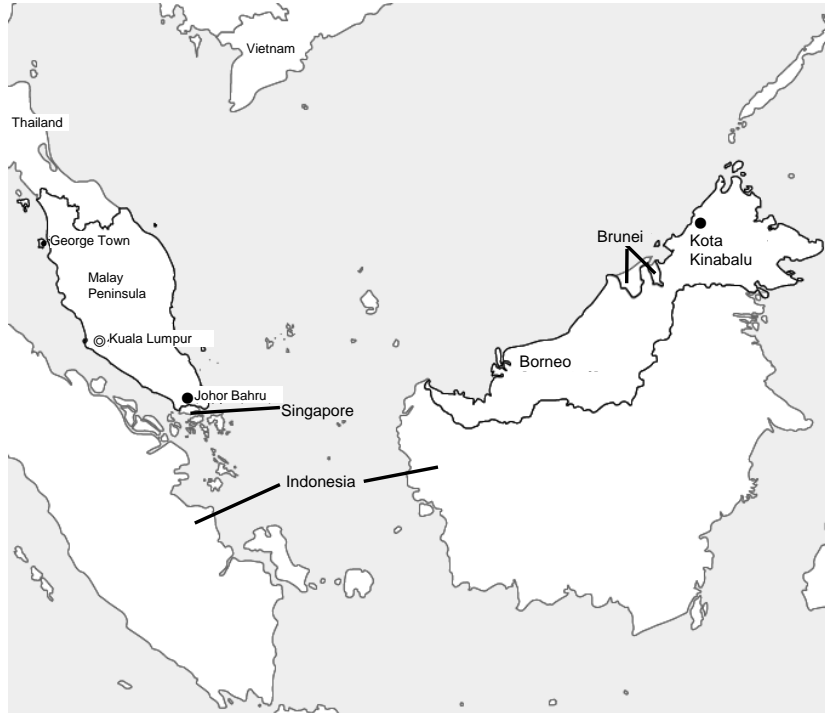
S&P rating criteria:

- A : An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
- BBB : An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
- BB : An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitments.

Note 2: As of October 2022, for the S&P credit rating

Source: Prepared by Mizuho Research & Technologies (MHRT) based on the IMF' World Economic Outlook Database October 2022 Edition and Bloomberg

I-2. Basic Data and Overview



Basic Data

Population	33.1 million (FY2022, IMF estimate)
Square area	330,000 km ² approx. (0.9 times Japan's size)
Capital	Kuala Lumpur (Population: 1.77 million, 2021, Department of Statistics Malaysia)
Language	Malay, English, Chinese, Tamil
Ethnicities	Malay approx. 70% (including indigenous 15%), Chinese 22%, Indian 7%, Other 1% (2021, Department of Statistics Malaysia)
Religions	Muslim 61%, Buddhist 20%, Christian 9%, Hindu 6%, Confucianist, Taoist, etc. 1%, Other 4%
Currency	Malaysian ringgit (MYR)
Politics	Constitutional monarchy (parliamentary democracy)
Head of state	Abdullah of Pahang, 16 th Supreme Head of the Federation (took oath of office in January 2019, 5-year term)
Major industries	Services
Nominal GDP	US\$434.1 billion; Per capita: US\$13,108 (FY2022, IMF estimate)
Real GDP growth rate	5.4% (FY2022, IMF estimate)

Overview

- Malaysia is a federal state consisting of the southern half of the Malay Peninsula and the northwestern coastal areas of Borneo (Sabah, Sarawak). It is divided into three federal territories (Kuala Lumpur, Labuan, and Putrajaya) and 13 states. About 80% of the total population is concentrated on the Malay Peninsula. The eastern region of Malaysia is rich in mineral resources and has a small population.
- Major natural resources include crude oil, natural gas, natural rubber, palm oil, timber, tin ore, copper ore, bauxite ore, etc.
- On November 24, 2022, King Abdullah appointed as the new Prime Minister the former Deputy Prime Minister Anwar Ibrahim. He belongs to a political coalition known as the Alliance of Hope (Pakatan Harapan [PH]), which won the largest number of votes in the general election held on November 19. This is a change of government from the previous government of Ismail Sabri, which consisted of the National Front (Barisan Nasional [BN]), the National Alliance (Perikatan Nasional [PN]), and others. Malaysia's political scene has been characterized by turmoil involving multiple political parties and short-lived governments, so it is necessary to pay close attention to how the new government will operate going forward.

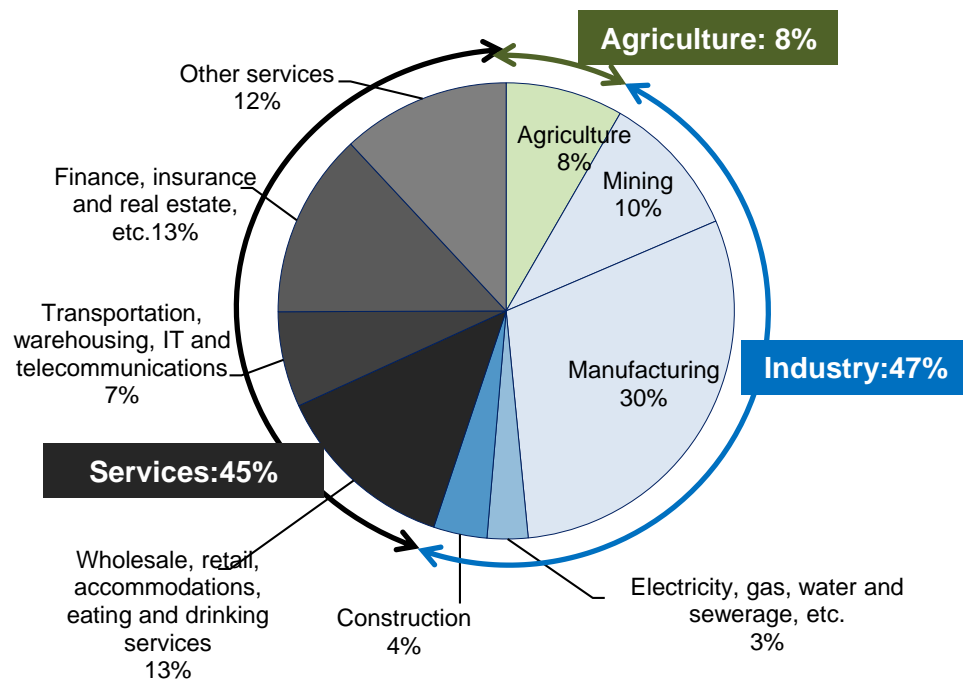
Source: Prepared by MHRT and the Global Strategic Advisory Department of Mizuho Bank, Ltd., (MHBK) based on materials from IMF, Japan's Ministry of Foreign Affairs, JETRO, and the U.S. Central Intelligence Agency, etc.

I-3. Economic Structure (Industry/Trade) (1): Industrial Structure

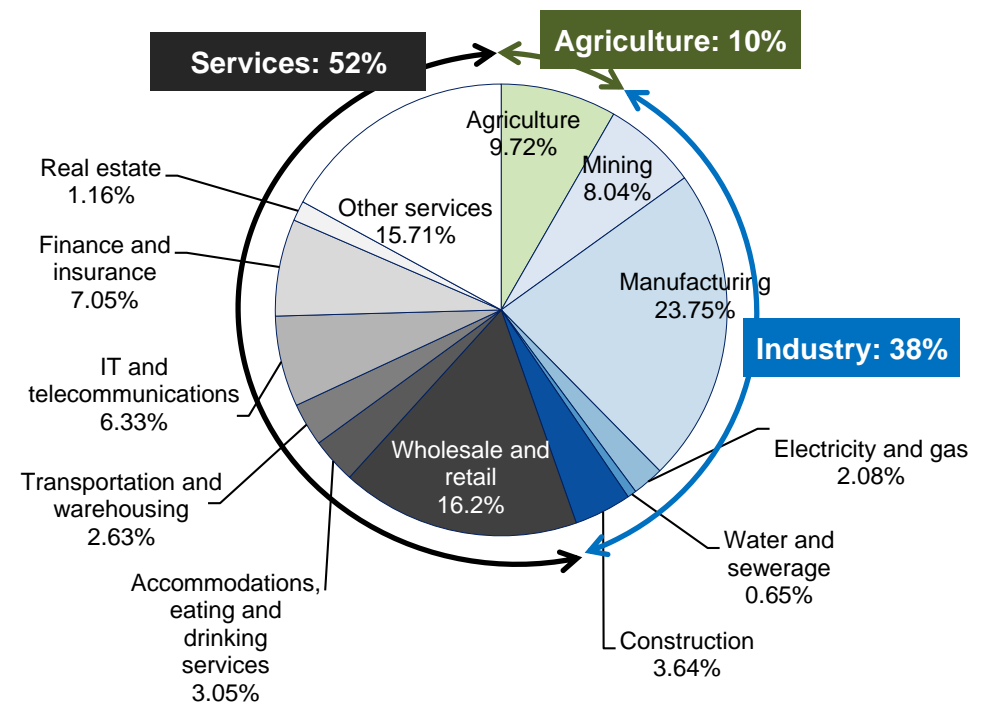
- Malaysia is one of the most industrialized of the major ASEAN countries. Industry currently accounts for just under 40% of GDP, but this percentage is declining.
- The agricultural sector, including palm oil production on plantations, continues to compose a certain share of GDP.
- The service sector has developed and become a major industry.

GDP Composition by Industry (comparison of 2000 and 2021)

2000



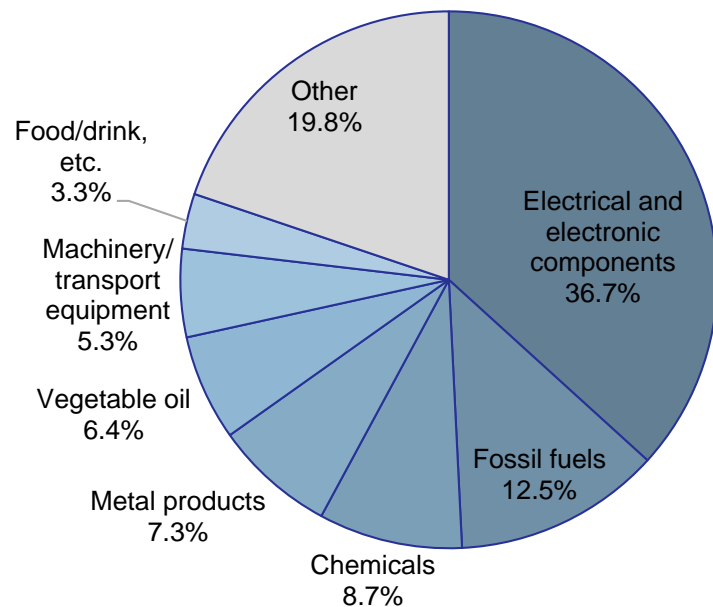
2021



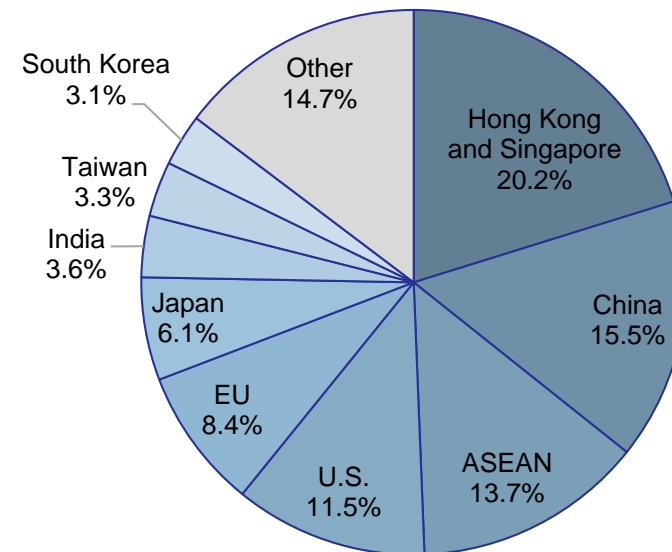
I-3. Economic Structure (Industry/Trade) (2): Export Structure

- Electrical and electronic components accounts for over one-third of total exports. Within this, the semiconductor industry is the driving force.
- Excluding exports to Hong Kong and Singapore, which are characterized as re-export transit ports, the largest number of exports go to China, ASEAN, and the U.S., in that order.

Breakdown of Exports by Goods (2021)



Breakdown of Exports by Country/Region (2021)

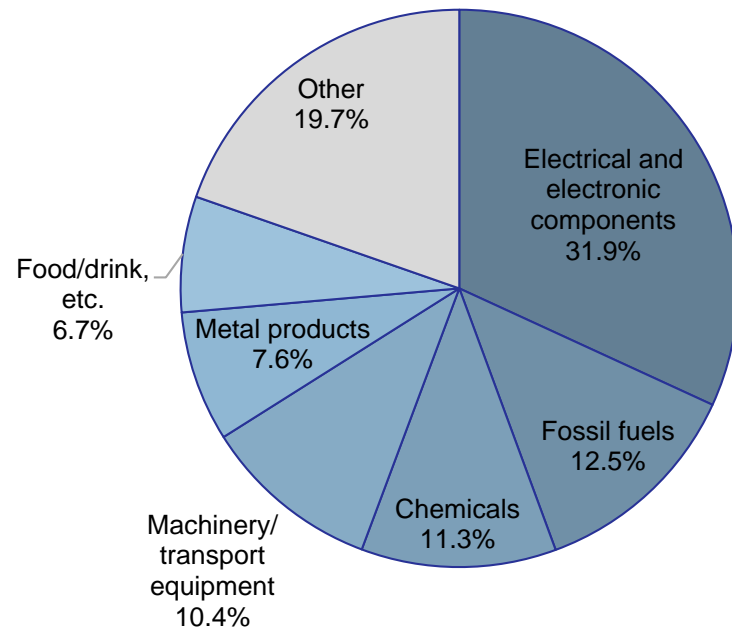


Source: Prepared by MHRT and the Global Strategic Advisory Department of MHBK based on materials from the Department of Statistics Malaysia

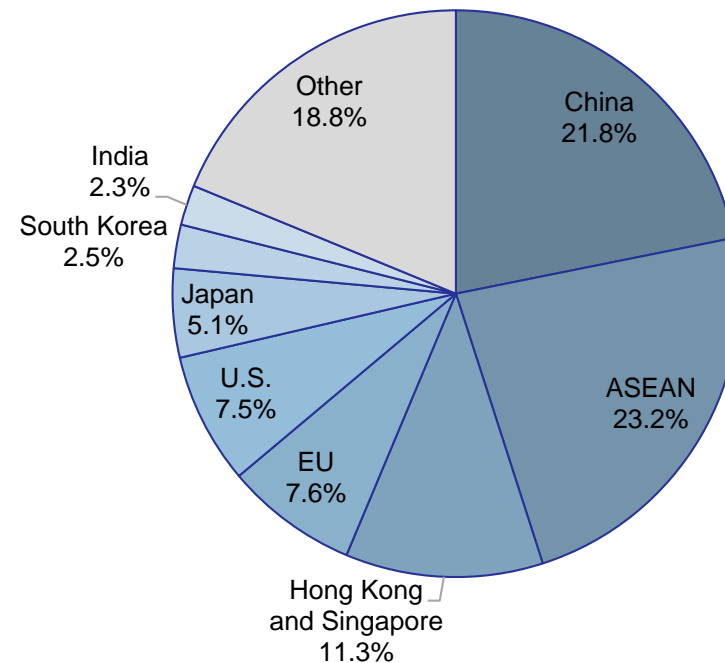
I-3. Economic Structure (Industry/Trade) (3): Import Structure

- Malaysia occupies an area of the global supply chain for electronic products. As with exports, it imports a high ratio of electrical and electronic components, followed by fossil fuels and chemicals.
- ASEAN and China are leading sources of imports.

Breakdown of Imports by Goods (2021)



Breakdown of Imports by Country/Region (2021)



Source: Prepared by MHRT based on materials from the Department of Statistics Malaysia

I-4. Economic and Industrial Characteristics: Economy and Society

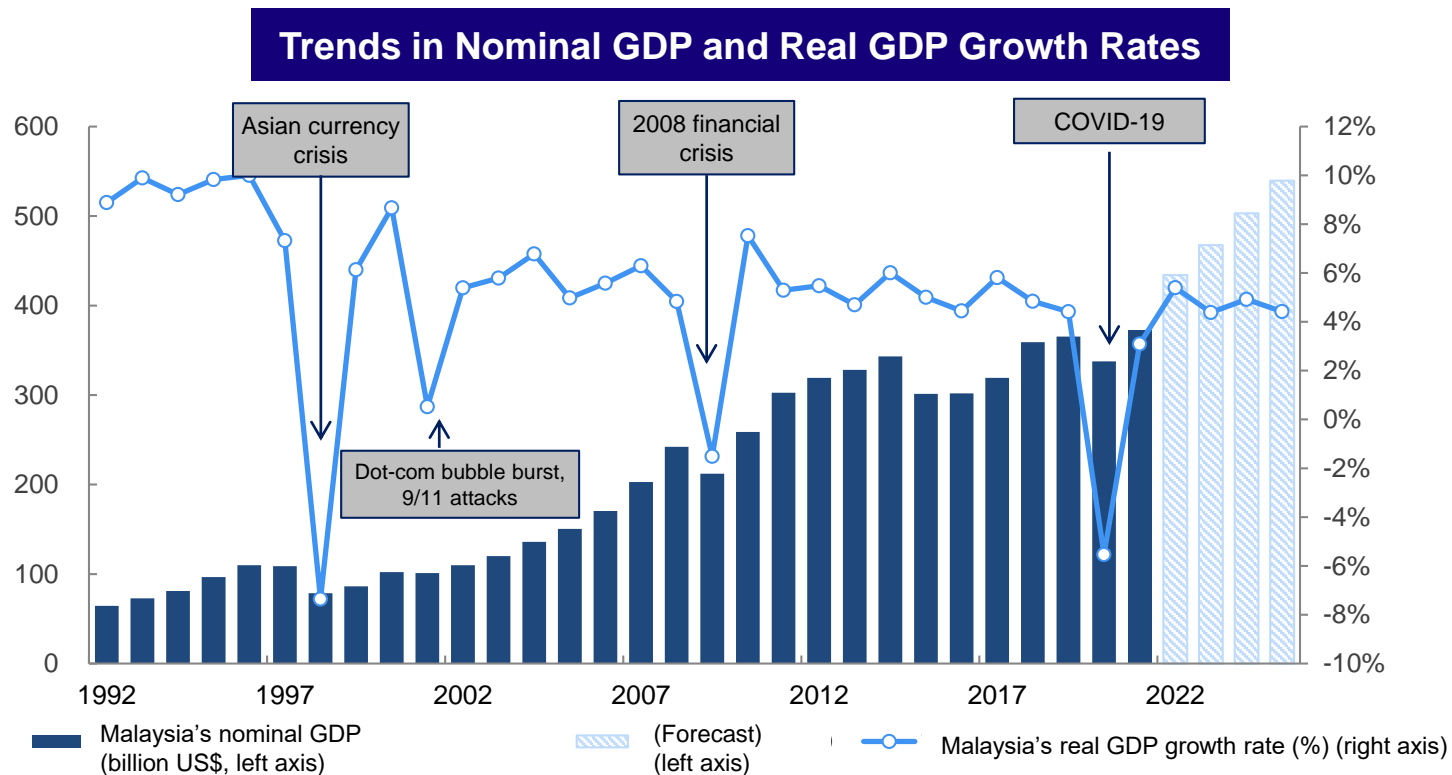
- Malaysia is a multi-ethnic nation composed of a wide variety of ethnic groups, including Malays, Chinese, and Indians.
- A large economic disparity has historically existed between the Malays and the Chinese, who were powerful in the country since before independence. The Bumiputra policy was implemented for many years to reduce the disparity, but in 2009, relaxation of the policy was announced.
- The country has abundant natural resources such as natural gas, crude oil, and palm oil.

Economic and Social Characteristics

Society	<ul style="list-style-type: none"> ✓ In Malaysia, the Chinese held strong economic clout even before independence. The economic gap between the Malays and the Chinese caused riots to break out. The government adopted the Bumiputra policy to narrow the gap by fostering Malay entrepreneurs. As a result, ethnic tensions are not as great as they used to be. The presence of Malay companies is increasing year by year, but Chinese entrepreneurs still retain significant influence.
Economy	<ul style="list-style-type: none"> ✓ An export-oriented country with a strong export industry as a base. Exports include electronics, mineral resources and their processed products, and agricultural products such as natural rubber and palm oil. These industries have been actively welcoming foreign-owned companies since long ago. ✓ Fiscal and monetary policy management is basically conservative, and the economy is stable. The current account balance remains in the black. However, foreign exchange reserves are often described as somewhat low.
Politics	<ul style="list-style-type: none"> ✓ Since independence in 1957, the National Front (BN) was consistently in power. However, in the general election of May 2018, the Alliance of Hope (PH), represented by former Prime Minister Mahathir, won a majority, resulting in a historic change of government. ✓ However, in February 2020, Prime Minister Mahathir resigned due to conflicts within the coalition government. On March 1 of the same year, Muhyiddin Yassin of the National Alliance (PN) became the new prime minister (resulting in a change of government without elections). However, he resigned after less than six months due to conflicts within the coalition government. In August 2021, Ismail Sabri of the National Front (BN) was appointed as the new prime minister and remained in power until the general election in November 2022. ✓ In November 2022, Anwar Ibrahim of the Alliance of Hope (PH), which won the largest number of votes in the general election, became the new prime minister. This is a change of government from the previous government of Ismail Sabri, which consisted of the National Front (BN) and other parties. The political scene is still in a state of turmoil involving multiple political parties, so it is necessary to pay close attention to how the new government will operate in the future.
Diplomacy	<ul style="list-style-type: none"> ✓ Malaysia's foreign policy is based on the five principles of (1) freedom and independence, (2) good neighborly relations, (3) promotion of cooperation within the ASEAN region, (4) promotion of world peace and prosperity, and (5) compliance with the UN Charter. ✓ Based on its policy of non-alignment and neutrality, Malaysia conducts multifaceted diplomacy. This includes cooperation with ASEAN countries and Islamic countries, equidistant diplomacy with both the United States and China as well as other major powers, and active participation in UN activities.

I-5. Economic Environment (1): Mid- to Long-term Growth Trends

- Immediately after independence in 1957, Malaysia's economy depended on natural rubber and tin, which are primary products.
- After 1986, Malaysia pursued an export-oriented industrialization policy and achieved high growth through aggressive introduction of foreign capital.
- In 1997, the country faced the Asian currency crisis, which it overcame with its own measures without IMF support.
- Since 2011, GDP growth has generally been around 5%.
- In 2020, the growth rate was significantly negative due to the impact of the spread of COVID-19. However, in 2021, the growth rate recovered to 3.1%. In 2022, the growth rate is expected to recover further to around 5.4%.



Source: Prepared by MHRT and the Global Strategic Advisory Department of MHBK based on materials from IMF

I-5. Economic Environment (2): Mid- to Long-term Outlook

- Malaysia's economic systems, infrastructure, and educational standards have all attained a certain level. The country is rich in resources such as energy and has strong export industries such as electronics. It has a solid foundation for supporting economic growth.
- Although economic growth in 2020 was negative due to the impact of COVID-19, the economy is expected to grow 7.8% in 2022. Thereafter, it is expected to grow at 3% to 4% as it receives investment for restructuring its supply chain.

Asian Economic Outlook Summary (long term)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(Outlook)										
Asia	6.1	6.2	5.0	- 0.9	7.1	4.2	4.5	4.8	4.7	4.6	4.6
China	6.9	6.7	6.0	2.2	8.1	3.1	4.8	4.9	4.9	4.4	4.4
NIEs	3.5	3.0	1.9	- 0.6	5.5	2.3	1.7	2.0	1.7	1.8	1.8
South Korea	3.2	2.9	2.2	- 0.7	4.1	2.6	1.5	1.9	1.7	1.8	1.8
Taiwan	3.3	2.8	3.1	3.4	6.5	3.2	1.6	2.1	1.7	1.8	1.8
Hong Kong	3.8	2.8	- 1.7	- 6.5	6.3	- 3.2	2.6	2.3	1.6	1.5	1.4
Singapore	4.7	3.7	1.1	- 4.1	7.6	3.3	1.9	2.0	1.8	2.0	1.9
ASEAN5	5.5	5.4	4.9	- 3.5	3.3	5.5	4.2	4.5	4.6	4.7	4.5
Indonesia	5.1	5.2	5.0	- 2.1	3.7	4.9	3.9	4.2	4.6	4.7	4.5
Thailand	4.2	4.2	2.1	- 6.1	1.5	3.2	3.0	3.0	2.7	2.7	2.6
Malaysia	5.8	4.8	4.4	- 5.5	3.1	7.8	3.9	3.6	4.0	4.0	3.9
The Philippines	6.9	6.3	6.1	- 9.5	5.7	6.7	5.3	5.5	5.3	5.6	5.4
Vietnam	6.9	7.5	7.4	2.9	2.6	7.1	5.7	6.8	6.5	6.5	6.3
India	6.1	7.3	4.5	- 6.6	8.3	7.1	5.5	6.3	5.9	6.1	6.2
Australia	2.4	2.8	1.9	- 1.8	5.2	3.5	1.8	2.0	1.7	1.8	1.7

Note 1: Real GDP growth rate (YoY); shaded areas are forecasts.

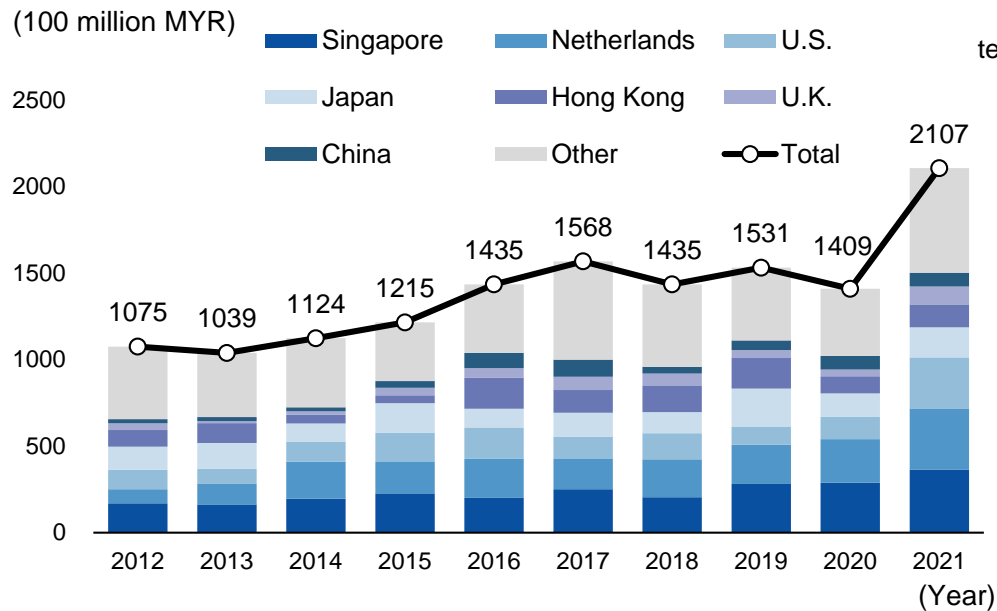
Note 2: Averages are calculated by the IMF using GDP share (purchasing power parity basis).

Source: Prepared by the Global Strategic Advisory Department of MHBK based on materials from IMF (data as of April 2022)

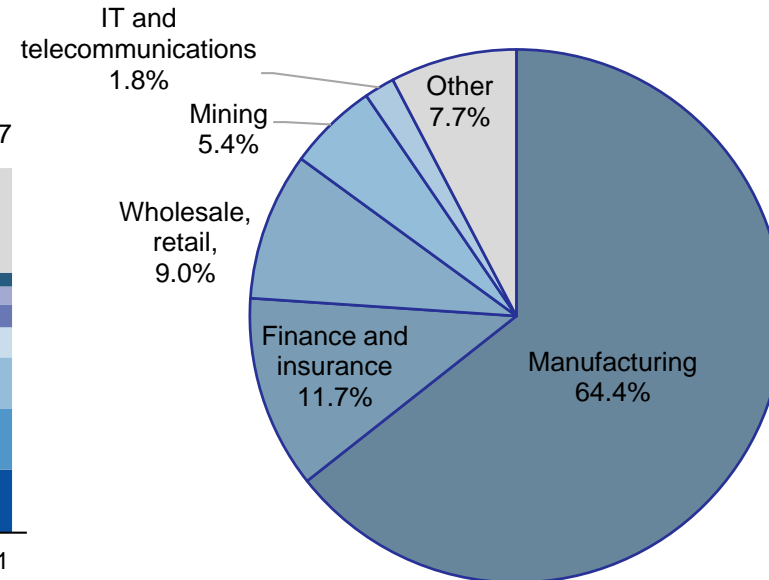
I-6. Direct Investment Trends: Inward Investment

- Inward direct investment (denominated in ringgit, balance of payments basis) in 2021 increased significantly, partly in reaction to the decrease in investment in the previous year due to the spread of COVID-19.
- The manufacturing sector will account for the largest amount of inward FDI in 2021, followed by finance/insurance in second place.

Direct Investment Flow (trends by country/region)



Breakdown of Direct Investment Flow by Industry (2021)



Source: Prepared by MHRT and the Global Strategic Advisory Department of MHBK based on materials from the Central Bank of Malaysia

I-7. Potential as an Investment Destination

- Malaysia boasts the most advanced infrastructure services among ASEAN countries.
- Strong language skills, halal certification by a government agency, and geographical advantage are some of the factors that can be advantageous for companies that wish to use Malaysia as a base for expanding their business to third countries.

Attractiveness of Investment		Investment Considerations (issues)	
Advanced infrastructure	Stable electricity supply Developed transportation and port infrastructure	Tight labor supply	The labor force is chronically tight, and there is a tendency to depend on foreign labor; skilled labor is in short supply in particular
Strong language skills	Many speakers of English, Malay, Chinese, and Tamil, which assists with business development in third countries	Labor cost	Labor cost is high even among ASEAN countries, and the number of foreign firms entering Malaysia is declining due to cost cutting
Gateway for the Muslim market	Trusted by other countries because it offers one of the few halal certifications by a government agency in the world	Market scale	With a population of 33 million, Malaysia's domestic market is not large
Active conclusion of FTAs	Concludes FTAs inside and outside the region based on the ASEAN framework and actively concludes bilateral FTAs outside the framework	Government trends	<ul style="list-style-type: none"> ✓ After independence in 1957, the National Front (BN) was consistently in power. However, after the May 2018 change of government, Mahathir Muhamad (Alliance of Hope [PH]) assumed the position of prime minister, followed by a succession of changes in a short period: March 2020: Muhyiddin Yassin (National Alliance [PN]) August 2021: Ismail Sabri (National Front [BN]) November 2022: Anwar Ibrahim (Alliance of Hope [PH]) ✓ Since the November 2022 general election, multiple parties with different support bases continue to form a ruling coalition, and there are concerns about the stability of the government.
Measures to attract investment	Various tax incentives and support from government agencies		
Geographical advantage	Adjacent to Singapore, an Asian economic hub, and Thailand, a manufacturing hub		
Legal development	A well-developed legal system based on British law and high transparency		

Source: Prepared by the Global Strategic Advisory Department of MHBK based on various materials

II. Investment-related Information

II-1. Labor-related Information (1): Visas and Employment Regulations

- A work visa is required to stay in Malaysia for employment purposes, even for a short period of time. The main types of work visas available are the employment pass, the professional visit pass, and the work permit for foreign workers (FW).
- When getting an employment pass, it is necessary to pay attention to the minimum monthly salary and the minimum paid-in capital of the company.
- In addition, work permits are limited to workers from countries that are allowed to send workers and to sectors where foreign workers are allowed, from the perspective of securing employment and maintaining public safety.

Requirements and Considerations for Visas, Etc.		Local Employment and Dismissal Regulations
Employment pass	<ul style="list-style-type: none"> ✓ Required when signing an employment contract with a Malaysian company, including foreign-owned companies, and usually issued to foreigners in managerial and professional positions (categorized based on minimum monthly salary) ✓ The application process is done online. First, register your company with the Expatriate Services Division of the Immigration Department, and then apply for an employment pass for the relevant person(s). ✓ The minimum paid-in capital is (1) RM250,000 for 100% local capital, (2) RM350,000 for a joint venture between local and foreign capital, and (3) RM500,000 for 100% foreign capital. In addition, there are cases where a separate license is required, such as in the distributive trade business. 	<ul style="list-style-type: none"> ✓ Malaysians First This government policy is aimed at securing employment for Malaysians. Employers must try to hire Malaysians first, and if they cannot find Malaysian workers, then they can consider hiring foreign workers. In addition, the Employment Act stipulates that when reducing the number of employees, an equivalent number of foreign workers should be dismissed first before dismissing Malaysian employees. (Section 60 of the Employment Act: Principle of FWFO) ✓ Retirement age in the private sector is 60 years old. Demanding that a worker retire before the mandatory retirement age is prohibited and violations are subject to a fine up to RM10,000. ✓ Starting January 2018, an unemployment insurance system was introduced that provides a monthly benefit of RM600 for up to 3 months to those laid off, and private companies will be required to contribute to the system. ✓ Effective May 1, 2022, the minimum wage was raised uniformly to RM1,500 nationwide.
Professional visit pass	<ul style="list-style-type: none"> ✓ Obtained when working in Malaysia for a short period of time while employed with a company outside of Malaysia. ✓ As with the employment pass, the application is done online, and a schedule of planned activities, etc., is submitted. 	
Work permit	<ul style="list-style-type: none"> ✓ The government has a “Malaysians First” policy with detailed rules for hiring semi-skilled and unskilled foreign workers. ✓ Six sectors are open to foreign workers (manufacturing, construction, agriculture, plantations, mining and extraction, and specific services such as cleaning). ✓ A total of 15 countries can send workers. Workers from twelve countries, including Thailand, Cambodia, Myanmar, and Vietnam, are allowed to work in all sectors. In some cases, the rules specify sex and sectors; for example, Indonesian men are not allowed to work in the manufacturing sector in Malaysia. ✓ In addition, depending on the sector and type of business, a per-capita tax of RM410 to RM1,850 per person per year is imposed. ✓ Since April 2011, work permits may be extended for up to a maximum of 10 years. 	

Source: Prepared by the Global Strategic Advisory Department of MHBK based on materials from JETRO, etc.

II-1. Labor-related Information (2): Labor Cost

										(US\$)
Country/region	Japan	China		Hong Kong	South Korea	Taiwan	Singapore	Malaysia	Thailand	
City	Tokyo	Shanghai	Shenzhen	Hong Kong	Seoul	Taipei	Singapore	Kuala Lumpur	Bangkok	
Manufacturing	Workers' wages (general worker)	2,763	1,124	595	2,199	2,416	1,368	1,907	431	447
	Engineers	3,760	1,304	1,122	—	2,979	1,725	2,813	867	798
	Managers	5,030	2,509	1,601	4,027	3,768	2,419	4,306	1,650	1,629
Non-manufacturing	Staffs' wages (general level)	2,774	1,441	1,499	2,506	2,383	1,658	2,589	922	883
	Managers' wages	5,306	2,979	2,968	4,366	3,586	2,802	4,650	1,978	1,629
	Shop staffs' wages (apparel)	3,795	—	1,088	1,668	2,962	1,125	1,041	493	372.6
	Shop staffs' wages (food)	2,569	—	713	1,932	1,986	880	1,072	409	372.6
	Legal minimum wage	9.83/hour	400/month	340/month	4.82/hour	1,651/month	867/month	—	288/month (13.31/day;1.39/hour)	10.1 to 10.8/day
	Bonus payments (fixed bonus + variable bonus)	4.55 months' base salary	2.33 months' base salary	1.58 months' base salary	1.87 months' base salary	2.93 months' base salary	3.13 months' base salary	2.10 months' base salary	1.94 months' base salary	2.64 months' base salary
	Social security burden ratio (employer's burden)	15.045% to 15.245%	33.16% to 36.52%	20.74% to 34.49%	(1) 5% Less than HKD 30,000 monthly salary (2) HKD 1,500 HKD 30,000 and more monthly salary	9.98% to 28.48%	12.95%	17%	13.45% to 14.95%	5%
	Nominal wage increase rate	-4.7% (2020)	7.9% (2020)	9.1% (2020)	1.1% (2020)	0.27% (2020)	2.75% (Jan. to Jul. 2021)	3.9% (2019)	5.15% (manager) 4.96% (non-manager) (2019)	2.26% (2019)
Country/region	Indonesia	The Philippines	Vietnam		Cambodia	Laos	Myanmar	India		
City	Jakarta	Manila	Hanoi	Ho Chi Minh	Phnom Penh	Vientiane	Yangon	New Delhi	Mumbai	
Manufacturing	Workers' wages (general worker)	421	272	241	266	222	210	181	261	328
	Engineers	582	409	471	508	408	360	329	510	944
	Managers	1,260	1,092	1,025	1,064	1,003	771	836	1,573	1,852
Non-manufacturing	Staffs' wages (general level)	507	594	595	647	501	530	477	628	712
	Managers' wages	1,216	1,481	1,249	1,412	1,343	1,253	1,118	1,727	1,971
	Shop staffs' wages (apparel)	272 to 374	323 to 347	—	237 to 259	200 to 400	140	156 to 195	459 to 479	—
	Shop staffs' wages (food)	204 to 408	323 to 347	—	278 to 302	190 to 400	130	140 to 156	483 to 597	242 to 269
	Legal minimum wage	300/month	10.42 to 11.19/day	191/month	191/month	192/month	119/month	3.74/day	188/month (unskilled) 207/month (semi-skilled) 228/month (skilled)	146/month (unskilled) 161/month (semi-skilled) 177/month (skilled)
	Bonus payments (fixed bonus + variable bonus)	2.02 months' base salary	1.66 months' base salary	1.64 months' base salary	1.41 months' base salary	1.00 months' base salary	1.33 months' base salary	1.22 months' base salary	1.15 months' base salary	1.37 months' base salary
	Social security burden ratio (employer's burden)	7.7254% to 7.7404%	10.0%+100PHP	21.5% (public insurance premium) 17.5% (foreign workers)	21.5% (public insurance premium) 17.5% (foreign workers)	3.4%	6% (monthly salary LAK 4.5 million or less) LAK 270,000 (monthly salary over LAK 4.5 million)	7% (age 60 or under) 7.5% (over age 60)	13%	13%
	Nominal wage increase rate	3.27% (2021)	0% (2019)	—	—	—	—	—	6.5% (2019)	6.4% (2019)

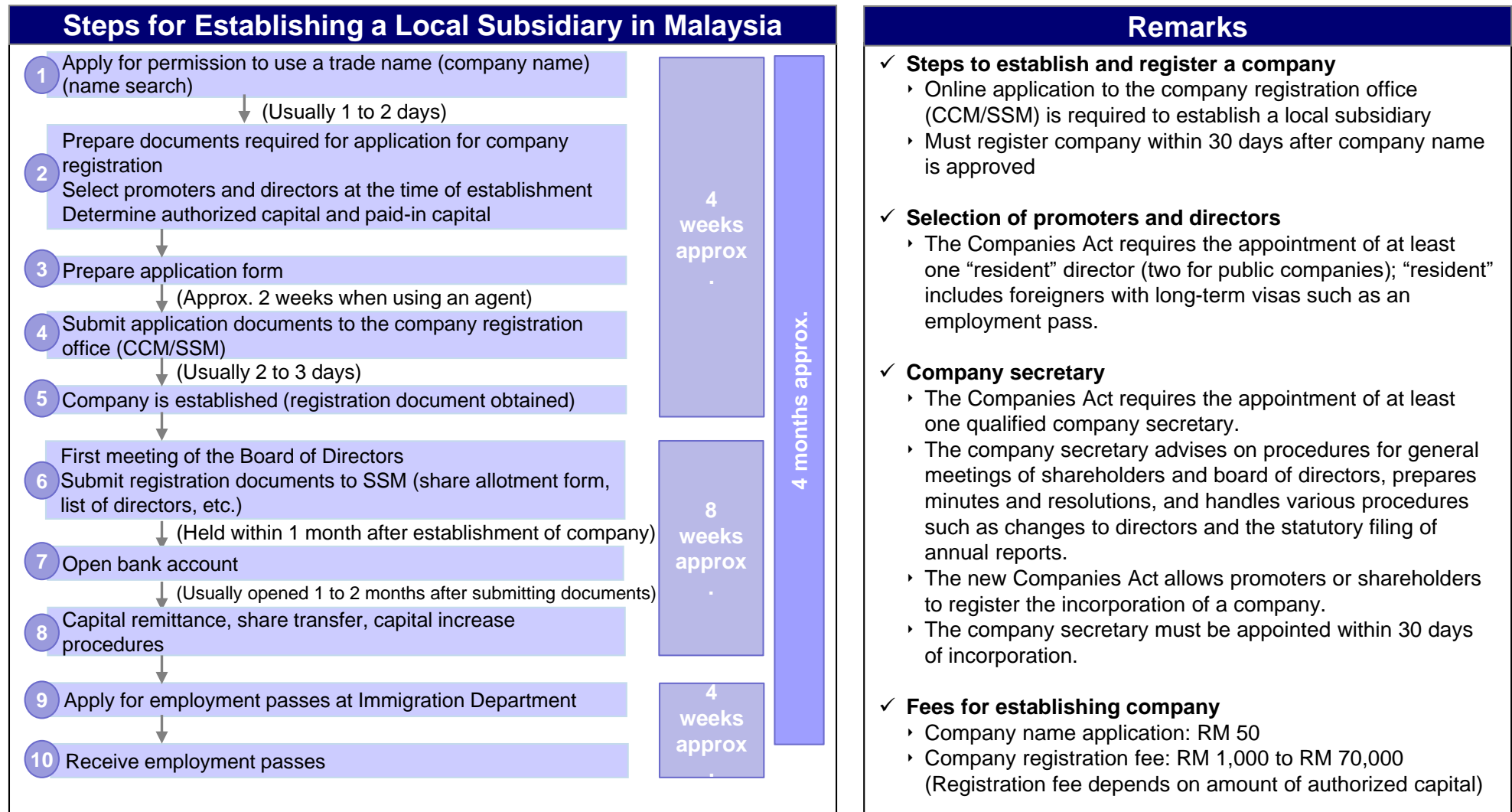
III. Establishing a Local Subsidiary

III-1. Business Models

	Local subsidiary	Labuan company	Branch	Representative office/regional office
Summary	When a foreign company establishes a company in Malaysia, it generally chooses a "company limited by shares." A company limited by shares uses the letters "SDN. BHD." after the name of the company.	A Labuan company is a legal entity that can be established on Labuan Island, a special financial zone located off the east coast of Malaysia.	Approval is granted for the establishment of some Malaysian branches in the name of foreign corporations (wholesale, retail, restaurants, etc., are not allowed).	The normal approval period is 2 to 3 years. Activities are limited to research and information gathering, etc., as a preliminary step toward full-fledged entry into Malaysia in the future. Commercial transactions and business activities are not allowed.
Minimum capital	RM 1 (but check employment pass and licensing requirements)	USD 1 (the smallest unit of other currencies is also acceptable)	N.A.	N.A.
Foreign investment ratio	Manufacturing: 100% possible in principle Others: 70% or less (100% in some industries)	100% foreign capital is allowed.	N.A.	N.A.
Registration fee	Depends on the amount of authorized capital (RM 1,000 to RM 70,000)	N.A.	Depends on the headquarters' amount of authorized capital	N.A.
Limitations on activities	None in particular; However, depending on the type of business, it may be necessary to obtain a license.	No limitations; Malaysian ringgit-denominated transactions are prohibited.	Limitations exist; Many types of businesses are not allowed to obtain permits or business licenses (e.g., in the wholesale/retail industry, opening a branch is not allowed).	Limited to market research, R&D, and free after-sales service, etc. Businesses that generate sales are not allowed.
Time required for establishment	3 months approx.	4 to 6 business days	—	1 month approx.
Directors	At least one Malaysian resident (including employment pass holders) is required.	1 person acceptable; Non-resident acceptable; Company director acceptable	—	—
Corporate tax	24% (with a 17% reduction for taxable income up to RM 500,000 for capital of RM 2.5 million or less)	Business partners 3% Non-business trading companies (holding companies, etc.) 0%	24%	None
Application of tax treaties	Subject to tax treaties concluded between Malaysia and other countries	Concluded with mainland Malaysia (indirect application to approx. 80 countries) Excluded from tax treaties with Australia, Chile, Germany, India, Indonesia, Japan, U.K., etc.	Since they are not regarded as Malaysian residents, they are subject to the tax treaties between Japan and the subject country.	N.A.
Difficulty of closing	Difficult (liquidation by liquidators)	Easy (liquidation procedure or deregistration as in Japan)	Medium (deregistration, corporate tax clearance required)	Easy (deregistration)

III-2. Procedure to Establish a Local Subsidiary: Local Subsidiaries

■ The process of establishing a local subsidiary in Malaysia is as follows.

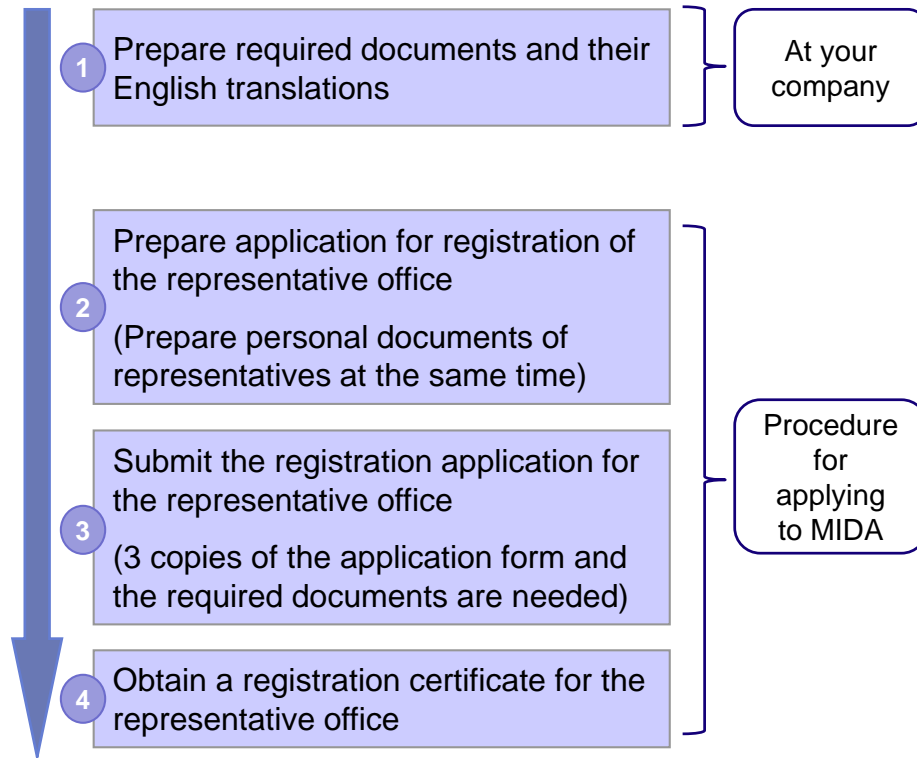


Source: Prepared by the Global Strategic Advisory Department of MHBK based on materials from JETRO

III-2. Procedure to Establish a Local Subsidiary: Representative Offices

- Representative offices are normally open for 2 years. The term may be extended by applying for an extension. Approval is decided on a case-by-case basis.
- The contact point for visa applications, including those for representatives, is the Malaysian Investment Development Authority (MIDA).

Steps for Establishing a Representative Office in Malaysia



Remarks

Required documents

- The parent company's most recent annual report and English-language audited financial statements
- A certified copy of the commercial register
- A brochure describing the business and products (optional)
Note: All the above documents must be prepared in English.
- If you are sending a representative, a passport copy, resume, and career-related documents are also required.

Required time

- Approximately 2 months is required from the submission of the registration application to MIDA until approval and a certificate of registration as a representative office is obtained.

Conditions for opening

- Annual fee (planned basis): Minimum RM 300,000
- All expenses are to be paid from outside Malaysia.

Source: Prepared by the Global Strategic Advisory Department of MHBK based on various materials and results of MIDA interviews

III-3. Local Expenses

■ Typical local expenses in Malaysia (Kuala Lumpur) are as follow.

		Type of expense	Amount (USD)	Remarks
Land price, office rent, etc.		Industrial park (land) purchase price (per m ²)	141.34	Telok Panlima Galang (about 9 km from Klang Port); excluding tax and other expenses
		Industrial park rent (per m ² , monthly)	4.9	Hicom Glenmarie (approx. 23 km from the Port of Klang); excluding tax and other expenses
		Office rent (per m ² , monthly)	20.05	Kuala Lumpur city center, average 344 m ² ; excluding tax and other expenses
		Rent for retail space/showroom in city center (per m ² , monthly)	20.10	Kuala Lumpur city center, KLCC area; excluding tax and other expenses
		Housing rent for representative (monthly)	1,308	Kuala Lumpur city center, KLCC area Average price of 93–111 m ² , 2 bedrooms, fully-furnished serviced apartments and condominiums, excluding tax and other expenses
Utilities	Electricity	Business (per kWh)	Monthly base rate: 14.23 Rate per kWh: a.0.09 b.0.05	Industrial (E2 category) a. Peak hours (8 am to 10 pm) b. Off-peak hours (10 pm to 8 am)
		Residential (per kWh)	Monthly base rate: 0.72 Rate per kWh: 0.05–0.14	Rate per kWh varies depending on the amount used.
	Water/ Sewer	Business (per m ³)	Monthly base rate: 8.65 Rate per m ³ : 0.50–0.55	The survey was conducted in Selangor Province; the rate per m ³ varies depending on the amount used.
		Residential (per m ³)	Monthly base rate: 1.44 Rate per m ³ : 0.14–0.49	The survey was conducted in Selangor Province; the rate per m ³ varies depending on the amount used.
	Gas	Business (per unit)	7.62–8.17/MMBtu (Rate per m ³ : 0.26–0.29)	Fixed rate (categories B, C, D, E, F, L); natural gas Other costs such as connection fees to pipelines are not included.
		Residential (per unit)	6.03/MMBtu (Rate per m ³ : 0.20)	Fixed rate (category A); natural gas Other costs such as connection fees to pipelines are not included

Survey dates: November 2020–January 2021

Source: Prepared by the Global Strategic Advisory Department of MHBK based on materials from JETRO

III-3. Opening a Bank Account

- The general procedure for opening an account in Malaysia is as follows.
- In principle, Japanese banks do not provide personal accounts in Malaysia, and so personal accounts are usually opened at local banks or other foreign banks.
 - Long-term visa holders can open bank accounts in Malaysia.

Account Opening Procedure

- ✓ Required documents
 - 1) Certificate of Incorporation (Section 17 Certificate of Registration of a Company): A certified true copy (CTC) certified by the company secretary is required.
 - 2) Application for Registration of a Company (Section 14 Corporate Registration Information): A CTC certified by the company secretary is required.
 - 3) Identification documents for the direct and indirect holders of 25% or more of the company's shares
 - 4) Certified Extract of Resolution of the Company's Board of Directors (Extract of the minutes of the board of directors meeting of the Malaysian subsidiary for opening the account)
 - 5) Copy of passport (for foreigners) or identity card (for Malaysians) of the signer: CTC certified by the company secretary is required.

Points to Note, Deposit Types, Etc.

- ✓ "CTC" stands for Certified True Copy; a CTC is treated as equivalent to the original; a CTC is created when the company secretary makes a copy of the original, enters the date on the copy, stamps it (with the words "Certified True Copy" and the company secretary's name and license number), and signs it
- ✓ Savings accounts are not available for general business corporations (only non-interest-bearing checking accounts).
- ✓ Japanese banks do not provide personal accounts in Malaysia.
- ✓ Once all documents are submitted, the account opening is completed in one to two months.

Source: Prepared by the Global Strategic Advisory Department of MHBK based on various materials

IV. Regulations, Incentives, Reference Information

IV-1. Regulations for Foreign Investors (1): Overview

- Companies in the manufacturing industry can be 100% foreign-owned, with the exception of some business types.
- For companies in the non-manufacturing industry, partial ownership by Bumiputra capital is required.
 - Since April 2009, the government has announced the easing and elimination of capital controls.
 - The number of industries and sectors that allow 100% foreign capital investment has expanded.

Restrictions on Foreign Investment

Regulated industries	<ul style="list-style-type: none"> ✓ Foreign investment is limited to 30% or 49% in businesses related to national interests (water, energy, power supply, broadcasting, defense, security, etc.). ✓ For industries such as transportation, education, and the sale of petroleum-related products which require licenses in accordance with relevant laws and regulations, capital requirements are set by the competent authorities.
Capital adequacy restrictions	<ul style="list-style-type: none"> ✓ Manufacturing: None (restrictions exist on finished vehicle manufacturing) ✓ Non-manufacturing: So far, 70% (30% Bumiputra capital required); Companies that acquired the status of Principal Hub or Multimedia Super Corridor can be established with 100% foreign capital. <p>—Changes since April 2009—</p> <ul style="list-style-type: none"> ✓ The requirement for 30% of Bumiputra capital was abolished in some service industries (27 sectors including computer-related services, tourism services, etc.). ✓ In the financial and insurance industry, foreign investment restrictions were abolished (however, prior approval from the Central Bank of Malaysia is required for acquisition of 5% or more of shares, regardless of foreign or domestic investment). (Financial Services Act 2013) ✓ The requirement for 30% of Bumiputra capital was abolished for distributive trade services (part of sales company and service industry). ✓ In the revised guidelines of February 2020, the prohibition of foreign capital participation in convenience stores was relaxed. In addition to that, the foreign capital participation in the distributive trade services industry was divided into three types of industries: a. Industries where no capital restrictions are established (i.e., 100% foreign capital participation is possible), b. Industries where foreign capital participation is possible but capital restrictions are imposed, c. Industries in which foreign capital cannot participate.

IV-1. Regulations for Foreign Investors (2): Restrictions on Foreign Investment in the Distributive Trade

- When entering the market, companies in the distributive trade services industry (retailers, wholesalers, trading companies, franchisors, etc.) must obtain approval from the Ministry of Domestic Trade, Co-operatives & Consumerism (MDTCC).
- An MDTCC approval letter is required when applying for an employment pass to the Immigration Department.
- The minimum paid-in capital is usually RM 1 million.
- According to MDTCC guidelines with respect to personnel matters, foreign-owned distributive trade companies are to “appoint a Bumiputra director.”
 - In practice, this does not apply to businesses other than those subject to Bumiputra capital requirements such as hypermarkets.

Foreign Investment Restrictions as Stated in MDTCC Guidelines

Specialty shops

Specialty shops*

- Minimum capital of RM 1 million (RM 1 million per store)
- If the shop is street level, or if floor area is over 5,000 m², the impact on the local retail industry shall be considered before approval is granted.

Hypermarkets/department stores

Hypermarkets

- (Sales floor area of 5,000 m² or more)
- Minimum capital of RM 50 million
 - Minimum of 30% Bumiputra capital required
 - At least 30% of products on display must be manufactured by local SMEs or Bumiputra companies.

Department stores

- Minimum capital of RM 20 million
- At least 30% of products on display must be manufactured by local SMEs or Bumiputra companies.

Industries where foreign investment is restricted

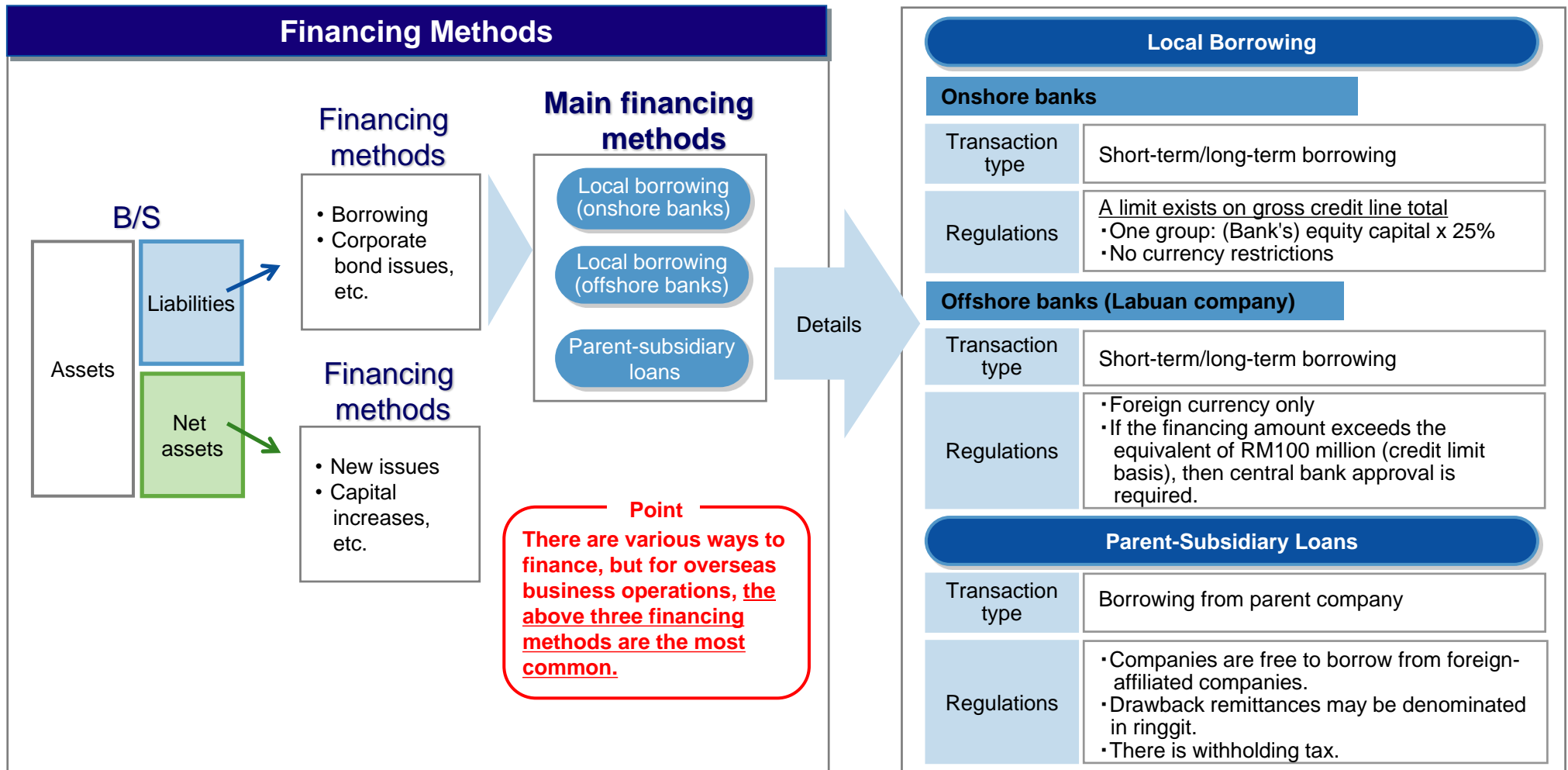
Industries where foreign investment is restricted

- Supermarkets (sales floor area less than 3,000 m²)
- Grocery stores/general sales stores
- Newspaper and general merchandise stores
- Gas stations
- Jewelry stores
- Restaurants (not high-end)
etc.

*Definition of a specialty shop: A store that carries one major brand name/product/product line in connection with one product.

IV-2. Financing (1): Financing Options

- Most financing for Japanese companies is (1) local bank loans and (2) parent-subsidary loans.
- Malaysian ringgit can be procured from onshore banks (or parent-subsidary loans by utilizing drawback remittances).



Source: Prepared by the Global Strategic Advisory Department of MHBK based on materials from JETRO

IV-2. Financing (2): Regulations

General Regulations

	Borrowing from banks		Borrowing from abroad	
Lender	On-shore bank	Off-shore bank (Labuan company)	Affiliated companies Direct shareholder (10% or more ownership)	Non-affiliated companies
Currency	Ringgit: Yes Foreign currency: Yes	Ringgit: Not handled Foreign currency: Yes	Ringgit: Yes (drawback remittance, etc.) Foreign currency: Yes	Ringgit: Yes (drawback remittance, etc.), credit limit is RM 1 million Foreign currency: Yes, credit limit is equivalent of RM 100 million
Interest rate	Ringgit: Base interest rate + SP Foreign currency: Base interest rate + SP	Ringgit: Not handled Foreign currency: Base interest rate + SP	Ringgit: Base interest rate + SP Foreign currency: Base interest rate + SP	Ringgit: Base interest rate + SP Foreign currency: Base interest rate + SP
Fund usage	No limitations	No limitations	Ringgit: Can only be used in Malaysia (and not for investment purposes or acquisition of land only) Foreign currency: No limit	Ringgit: Can only be used in Malaysia (and not for investment purposes or acquisition of land only) Foreign currency: No limit
Permission from authorities	None in particular	Central bank approval is required if the financing exceeds RM 100 million on a credit limit basis.	None in particular	Central bank approval is required if the financing exceeds RM 100 million on a credit limit basis.
Stamp duty	Ringgit: 0.5% of contract amount Foreign currency: maximum of RM 2,000	None	Ringgit: 0.5% of contract amount Foreign currency: Upper limit of RM 2,000	Ringgit, 0.5% of contract amount Foreign currency: Upper limit of RM 2,000
Withholding tax	Not required	Not required	10% (paid to Japan) 10% (paid to Singapore)	10% (paid to Japan) 10% (paid to Singapore)
Other	Group lending restriction apply (Single Counterparty Exposure Limit)* Lending limit for one group: (Bank's equity capital × 25%)	None in particular		None in particular

*Single Counterparty Exposure Limit (SCEL)

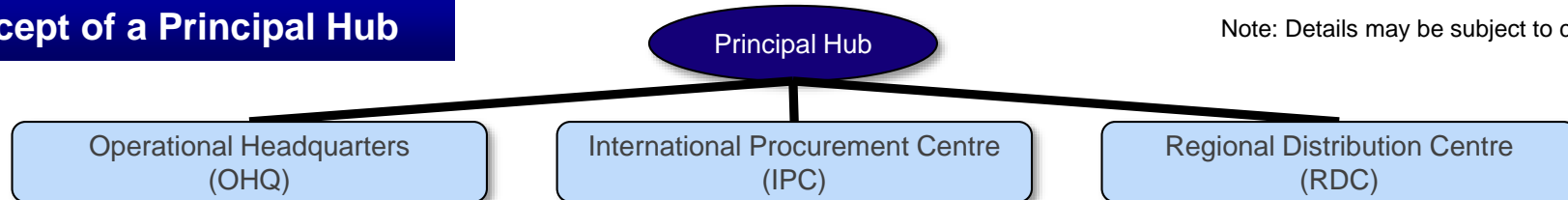
- ✓ The scope of the group is determined based on effective control criteria (confirmation required for each case).
- ✓ Credit transactions include everything except loans (all credit transactions such as guarantees, forward exchange contracts, derivatives, etc.)

IV-3. Regional Centers (1): Principal Hub 3.0

- In April 2015, Malaysia's Ministry of International Trade and Industry announced a new preferential program of Principal Hubs to replace Operational Headquarters, International Procurement Centre, and Regional Distribution Centre statuses as an incentive to promote establishment of regional headquarters in Malaysia.
 - Definition of a Principal Hub: A local subsidiary that utilizes Malaysia as a regional and global headquarters to manage, control, and support key operations such as risk management, decision-making, strategic business activities, commercial transactions, finance, management, and human resources.
- The new Principal Hub 3.0 system went into effect on January 1, 2021.
 - Regulated by the Malaysian Investment Development Authority (MIDA)

Concept of a Principal Hub

Note: Details may be subject to change.



- The following services are considered qualifying services of Principal Hubs.
- To qualify for the incentive, a Principal Hub must perform two or more of the following qualifying services, in addition to regional P&L/business unit management (A1) and strategic business planning and corporate operations (A2) at the supervised company.

A. Strategic services

1. Regional P&L/business unit management
2. Strategic business planning and corporate operations
3. Corporate finance advisory services
4. Brand management
5. Intellectual property management
6. Senior level recruitment and management

What is regional P&L management?

Regional P&L management refers to focusing on corporate growth, allocating management resources, determining the direction of regional or global operations, monitoring annual revenue and expenditure budgets, and ensuring positive ROI.

B. Business services

1. Bid management
2. Financial and fund management
3. R&D/innovation
4. Project management
5. Sales & marketing
6. Business development
7. Technical support/consulting
8. Information management/processing
9. Economic and investment research and analysis
10. Strategic procurement, purchasing & distribution
11. Logistics services

C. Shared Services

1. Training/human resources
2. Finance & accounting (business processing/internal audits)

IV-3. Regional Centers (2): Details of the Principal Hub 3.0 Incentive

- The preferential period is 5 years, but it can be extended for 5 years for each tier by achieving specified conditions in the fifth year.

Note: Details may be subject to change.

		Newly established companies (manufacturing and services)				Existing companies	
		Tier 1		Tier 2			
Preferential treatment	Incentive period	5 years	+5 years	5 years	+5 years	5 years	
	Corporate tax rate	0%		5%		10%	
	Eligible income	Service income arising from Principal Hub activities				Service income	
Application terms and conditions	Paid-in capital	RM 2.5 million					
	Number of qualifying services	Regional P&L/business unit management, strategic business planning and corporate operations					
		At least 2 other services				At least 2 other services	
	Number of network companies providing services	10 companies or more (including at least 4 affiliates, etc.)		7 companies (including at least 3 affiliates, etc.)		7 companies (including at least 5 affiliates, etc.)	
	Local ancillary services	Usage of local banking, logistics, and legal and financial services in Malaysia					
	Employment*	High value job	50 persons (of which, at least 50% are Malaysian)	Number of personnel in 5 th year +20% increase	30 persons (of which, at least 50% are Malaysian)	Number of personnel in 5 th year +20% increase	30 persons (of which, at least 50% are Malaysian)
		Of which, key positions	5 persons		4 persons		5 persons
Annual business expenditure		RM 10 million	Expenses in 5 th year +30% increase	RM 5 million	Expenses in 5 th year +30% increase	RM 10 million	
	Internship	-	-	-	-	1 or more each year	

*Definition of employment

High value job: Work requiring advanced and diverse managerial, technical and professional skills such as management, analysis, communication, problem solving, IT proficiency, etc. Minimum monthly salary RM 5,000. At least 50% Malaysian citizens.

Key position: Strategic or managerial key position. Minimum monthly salary RM25,000.

Source: Prepared by the Global Strategic Advisory Department of MHBK based on MIDA and various materials

IV-3. Regional Centers (3): Global Trading Centre (GTC)

- The GTC preferential system newly introduced in FY2021 is separate from the PH preferential system, and its conditions differ from PH3.0 for regional headquarters that conduct trade activities.
- Malaysia has long prided itself as a regional logistics hub for many foreign-owned companies in Southeast Asia, and the introduction of the GTC system aims to confirm its position as a logistics hub.

Overview of GTC Preferential System

Application period	January 1, 2021 – December 31, 2022 (scheduled for extension)
Preferential corporate tax rate	10%
Qualified income	Trade-related income only
Eligible activities	International trading activities (procurement of materials and components from overseas, sales of goods and finished products from Malaysia to overseas, etc.)
Preferential period	5 years (5-year extension possible under certain conditions)
Minimum capital	RM 1 million
Minimum annual sales	RM 300 million
Main requirements	<ul style="list-style-type: none"> - Newly established joint-stock company in Malaysia - Hires 15+ high-value-added staff, 50% of whom are Malaysian, with a minimum monthly salary of RM 5,000 - Annual operating expenses of RM 1.5 million - Use of Malaysian airports and ports - Additional terms and conditions to be discussed

Source: Prepared by the Global Strategic Advisory Department of MHBK based on MIDA and various materials

V. Other

V. About the Mizuho Bank Malaysia Offices

Mizuho Bank (Malaysia) Berhad

Address	Level 27, Menara Maxis, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia
Tel.	60-3-2058-6881
Open	Monday–Friday



Access from the airport:
Approximately 60 minutes by taxi (car)

Mizuho Bank, Labuan Branch

Address	Level 9 (B) & (C), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia
Tel.	60-87-417766
Open	Monday–Friday



Access from the airport:
Approximately 10 minutes by taxi (car)

Labuan Branch, Kuala Lumpur Marketing Office

Address	Level 27, Menara Maxis, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia
Tel.	60-3-2070-6880
Open	Monday–Friday

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