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taking you further

Malaysia's investment landscape

Malaysia's economic fundamentals create investment appeal

Despite the challenges of Covid-19, Malaysia's increasingly diversified economy exceeded 3% growth in 2021 and is forecast to surpass 5% growth from 2022. The country remains open to trade and investment, with a robust manufacturing and services offering, some 40% of jobs linked to export activities and a trade-to-GDP ratio above 130% over the last 12 years.

Malaysia was ranked ASEAN's top economy for foreign investment opportunity in the 2022 Milken Institute Opportunity Index. A strategic location, foreign investment incentives and numerous bilateral agreements contribute to Malaysia's draw for regional trade and investment – with RCEP comprising another important advantage.

Starting with economic fundamentals, this report examines prime investment opportunities in Malaysia – with a particular focus on the country's appeal within the region, foreign investment flows to manufacturing and opportunities to support sustainable development.

Research partner



Russell Bedford is a global network of independent firms of accountants, auditors, tax advisers and business consultants with some 8000 team members globally.



Vision

To be the global network of choice for independent professional services firms committed to sharing values and enabling clients to do better business globally



Mission

To equip and empower people and clients to go further towards a better future



Looking ahead

To do better business globally by having a clear vision and mission

Russell Bedford Malaysia



Talent

Aims to nurture a team of talented individuals with uncompromising standards



Professionalism

A firm proud of its professionalism, individuality and ability to assist clients in achieving business goals



Unordinary

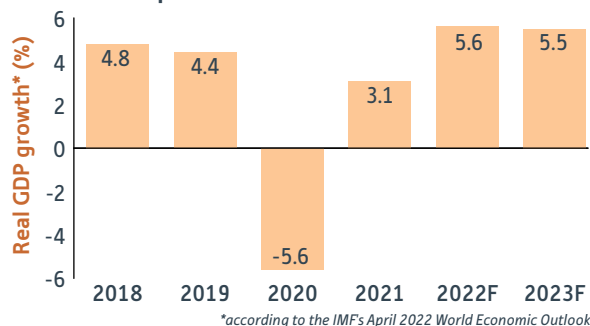
Aligned with the belief that a successful team needs to share the ethos of being lively and friendly when dealing with clients, and masterful and assured when disposing talents and services

ECONOMIC

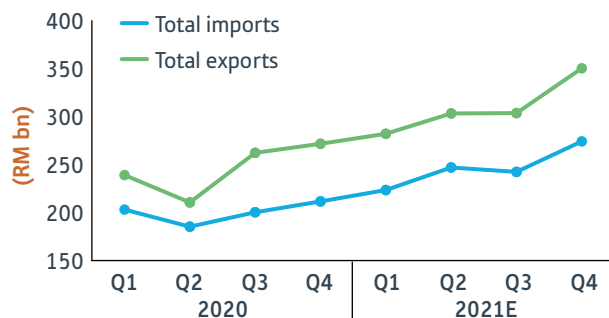


Malaysia is on track for services- and manufacturing-driven growth

Malaysia is on a trajectory for growth in the wake of the Covid-19 pandemic

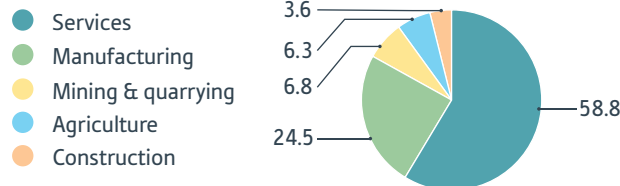


Exports & imports have increased since Q3 of the first year of the pandemic



Services & manufacturing are key contributors to GDP, Q1 2022

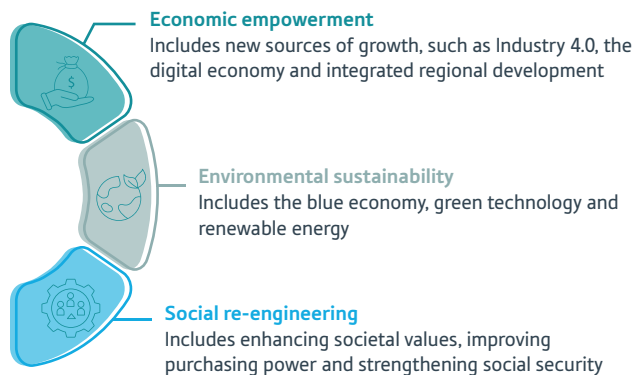
Contribution to GDP (% of total)



The 12th Malaysia Plan (12MP), 2021-25

Designed to ensure inclusive and meaningful socio-economic development for a more prosperous society

THREE DIMENSIONS



Growth trajectory

Malaysia's increasingly diversified economy has strengthened its manufacturing and services offering over the last 55 years, with some 40% of jobs linked to export activities as of 2022, according to the World Bank. Meanwhile, a trade-to-GDP ratio above 130% during 2010-22 underlines the country's openness to trade and investment. Despite the global headwinds presented by the Covid-19 pandemic, Malaysia returned to positive growth in 2021 – with economic expansion in 2022 and 2023 expected to surpass 2019 levels, according to IMF forecasts from April 2022. The 12th Malaysia Plan, which is designed to promote inclusive socio-economic development, is slated to present wide-ranging investment opportunities over the coming years.

130%
trade-to-GDP ratio
(2010-22)

16.3m
labour force
(2021)

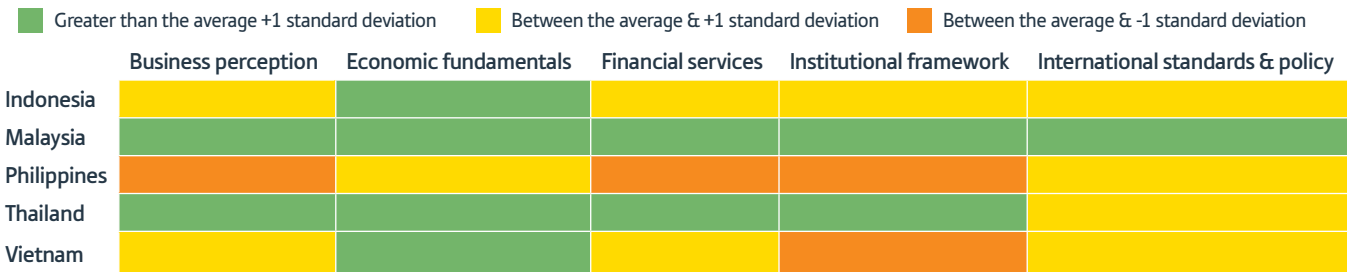
40%
of jobs linked to
export activities

5.4%
average growth
(2010-22)

2024-28
expected transition from upper-middle-
income to high-income economy

Malaysia's trade and investment ecosystem offers standout appeal among ASEAN economies

Malaysia outperforms mean for emerging & developing economies for foreign investment opportunity, 2022**



*according to 2022 Milken Institute Global Opportunity Index, which evaluates 126 countries across seven geographic regions. Values compared to mean for 84 economies categorised as emerging and developing by IMF.

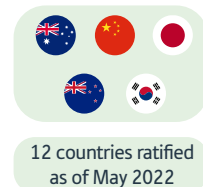
Investment appeal

Malaysia's appeal for foreign capital allocation spans business, economic and financial considerations, as well as regulatory and policy standards. These saw Malaysia ranked ASEAN's top economy for foreign investment opportunity in the 2022 Milken Institute Opportunity Index, outperforming the mean for emerging and developing global economies on every metric. A strategic location, foreign investment incentives and numerous bilateral agreements also contribute to Malaysia's success as a regional trade and investment hub – with the RCEP offering another advantage from 2022. Malaysia's commitment to stimulating digital investment looks set to offer an emerging growth opportunity for investors in the years to come.

Regional Comprehensive Economic Partnership (RCEP) ratification offers a cooperative advantage



- 2.3bn population
- 30.6% of world's GDP
- \$10.1trn of global merchandise value



Benefits for Malaysia include

- Market access
- Economic and technical cooperation
- Trade facilitation
- Integration of supply chains
- Protection of intellectual property

MyDIGITAL 2021-30 & the Digital Economy Blueprint are expected to stimulate digital investment

National initiatives, and corresponding implementation plans, to transform Malaysia into a high-income nation with a leading role in the regional digital economy

Key strategies include:

- Drive digital transformation in the public sector
- Boost economic competitiveness
- Develop enabling digital infrastructure
- Nurture agile & competent digital talent
- Create an inclusive digital society
- Build a trusted, secure & ethical digital environment

There were minimal restrictions on foreign investment participation in the country as of mid-2022

- No central regulatory authority, legislation or guidelines for foreign investment; foreign investment participation regulated by sector-specific authorities
- Malaysian Investment Development Authority (MIDA) promotes manufacturing and services sectors, and provides tax incentives by granting pioneer status or investment tax allowances
- Foreign investment is broadly regulated by local participation requirements

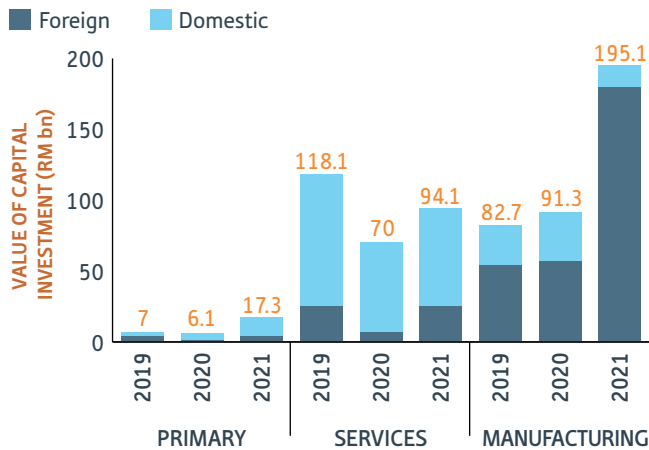


INVESTMENT OPPORTUNITY

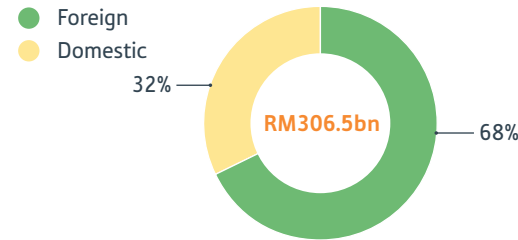


Foreign investment flows continue to rise for manufacturing and primary segments

Investment more than doubled in manufacturing & primary sectors, 2019-21

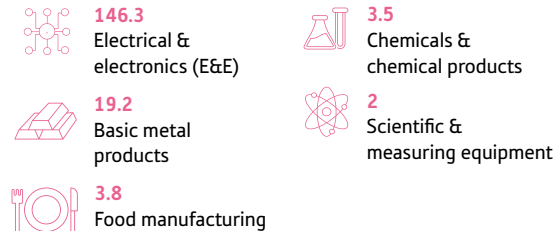


Foreign investment accounted for 68% of total capital investment, 2021



Top-five segments attracted 97.3% of foreign manufacturing investment in 2021

Foreign investment (RM bn)



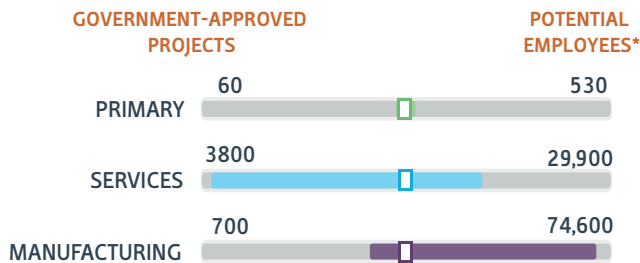
Top-five source markets for Malaysia's foreign direct investment (FDI), 2021



Investment recovery

Malaysia's post-pandemic investment recovery was already well under way by 2021: annual investments doubled for manufacturing and tripled for primary sectors, with foreign investment accounting for some two-thirds of capital inflows despite Covid-19-related headwinds. Investments for the year financed some 3800 projects in the services sector – or 80% of total projects – according to MIDA. Manufacturing investments, meanwhile, are expected to create almost 74,600 jobs. E&E accounted for 81.5% of total foreign investments in manufacturing, and 47.7% of total capital investments – offering a prime opportunity, particularly in light of digital development priorities within Malaysia and ASEAN.

Manufacturing offers the highest potential employment, 2021



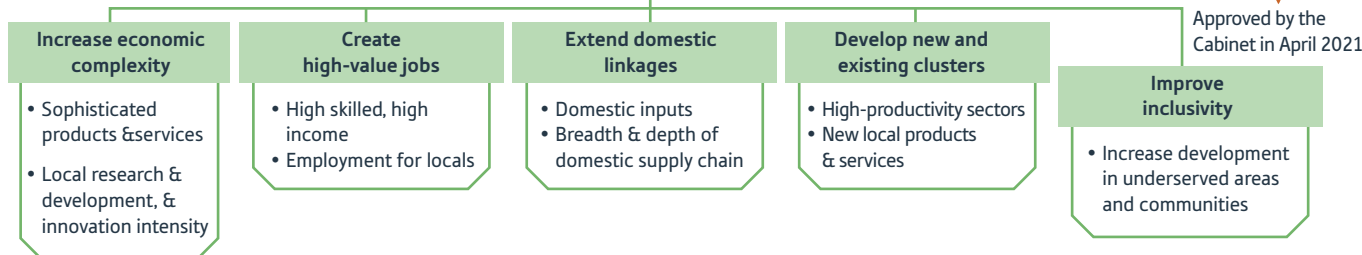
*job opportunities expected to be generated by approved projects, according to MIDA

Sustainable segments offer investment and growth opportunities aligned with Malaysia's priorities

National framework prioritises sustainable investment compliant with environmental, social and governance (ESG) standards

Ministry of International Trade and Industry (MITI) identified five core parameters under National Investment Aspirations (NIA)

Approved by the Cabinet in April 2021



Four strategic sectors have been identified by MIDA for national ESG transformation, 2021

Manufacturing

Services

High Tech

Energy & Power

Circular economy and sustainable performance are increasingly important on the global stage; automation and advanced Industry 4.0 technologies help enhance productivity in manufacturing and related industries

Within manufacturing, a range of segments look set to present opportunities across the ESG space

Automotive: Focusing on energy-efficient vehicles since 2014. With rising demand for green transport in ASEAN, the industry looks set to present ESG-related investment opportunities



E&E: Global demand increased in 2021 – particularly for products that include semiconductor chips and integrated circuits related to smartphones and smart devices



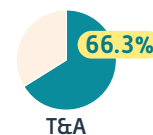
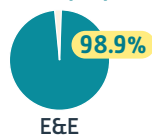
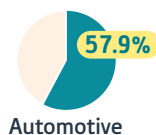
Food processing: Rising in tandem with demand for sustainable products – including plant-based – since 2019. Expected annual growth of 10% from 2022, according to MIDA



Textiles & Apparel (T&A): Growing populations are raising T&A demand, with preference for sustainable products expected to drive investment in ESG-aligned manufacturing



Foreign investments as a proportion of total investment, by industry segment, 2021



Sustainable opportunities

Malaysian frameworks increasingly prioritise sustainable investment to promote equitable development aligned with long-term goals. Among these, MITI has identified five parameters for sustainable investment that stimulates economic development and add value in-country. To take one example of a strategic sector, manufacturing offers diverse opportunities, from energy-efficient automotives to the advanced technologies enabled by E&E, and the sustainable consumption and production facilitated by ESG-aligned food processing and T&A segments. With a growing impetus for ESG-aligned development globally, demand for sustainable investment in Malaysia looks set to grow in 2022 and beyond.

FINAL WORD



Cecil Chin, Partner, Russell Bedford Malaysia



“
It has become imperative for Malaysia to find its niche in the digital economy, as well as facilitate investment by positioning the country as a digitally driven, high-income nation and a regional leader in the digital economy
”

Which sectors are best positioned to support Malaysia's investment ecosystem, and what actions could unlock the country's investment potential?

CHIN: Manufacturing plays a vital role in Malaysia's economic transformation. The sector's contribution to export revenue and job creation has enabled growth, despite global economic uncertainties. The production of value-added, diverse and complex products looks set to remain a priority in the coming years.

Talent pool development and the Fourth Industrial Revolution (4IR) – that is to say, the implementation of Industry 4.0 technologies – are key focus areas for attracting investment in Malaysia's manufacturing sector. Such developments can revitalise mature industries and open up new opportunities for other sectors. Companies are encouraged to increase their productivity by accelerating automation and innovation; undertaking research, development and commercialisation; implementing green and sustainable production practices; and leveraging industry associations to share international best practices.

To support the transition, the Malaysian Investment Development Authority has introduced incentives for investment in 4IR-enabling technologies such as artificial intelligence, robotics, virtual reality, big data analytics, the internet of things and other emerging technologies.

To what extent do you expect Malaysia's digital economy to attract investment and boost economic competitiveness in the coming years?

CHIN: Against the backdrop of a global shift towards digitalisation accelerated by the Covid-19 pandemic, in February 2021 the government launched MyDIGITAL, a new strategic initiative to attract companies, talent and investment, as well as enable Malaysian businesses to play a leading role in the global digital economy.

The digital economy is an investment catalyst: digitalisation delivers numerous benefits to the wider economy, including the creation of high-value digital jobs, the development of new and existing economic clusters, and the extension of domestic linkages.

Investment in the digital economy is expected to enhance Malaysia's competitiveness by empowering all industries to participate in complex activities with higher value added. Digital transformation and connectivity will allow businesses to unlock greater global opportunities, and empower them to build and expand locally, regionally and globally through digital streams and channels.

It has become imperative for Malaysia to find its niche in the digital economy, as well as facilitate investment by positioning the country as a digitally driven, high-income nation and a regional leader in the digital economy.

4 Key Takeaways

1

Economy

Malaysia's increasingly diversified economy is expected to offer wide-ranging investment opportunities from 2022 onwards, with robust manufacturing and services segments, an openness to international trade and investment, and a focus on promoting inclusive socio-economic development.

2

Appeal

Its strategic location, welcoming business environment and international-calibre standards and policies contribute to Malaysia's success as a regional destination for trade and investment. Its commitment to stimulating digital investment presents an emerging growth avenue.

3

Investment

Foreign investment, which comprised two-thirds of Malaysia's capital inflows in 2021, continues to rise in the manufacturing and primary segments. Accounting for almost half of total 2021 investment, E&E comprises a standout destination – particularly in light of digital development priorities.

4

Sustainability

Sustainable investment presents an opportunity to stimulate economic development and add value in-country. Examples from across Malaysia's ESG space include automotives, E&E, food processing and T&A – with demand for sustainable investment set to grow over the coming years.



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