Why Malaysia?

Summary
Area: 330,803 km²

Population: 31.7 million

Population growth rate: 1.7% change

Population density: 92.3 people per km²

Urban population: 74.7%

Capital city: Kuala Lumpur (KL), pop 1.76 million

Official languages: Malay (plus English in Sarawak)

Currency: Malaysian Ringgit (RM)

Nominal GDP: US $296.4 billion

Real annual GDP Growth: 4.2%

GDP per capita: US $9,360.5

Annual inflation rate: 2.1%

Unemployment rate: 3.5%

General government gross debt: 56.3% of GDP

Fiscal balance: -3.0% of GDP

Current account balance: 2.0% of GDP / US $6.1 billion

Exports of goods to UK: £1,895 million

Imports of goods from UK: £1,408 million

Inward direct investment flow: US $11.1 billion

Exports + imports as share of GDP: 134.4%

[Source: mostly FCO Economics Unit (April 2017)]

Geography

Malaysia is a tropical country in Southeast Asia, split over two main land masses separated by the South China Sea. The 740 km long western landmass, Peninsular Malaysia, is located south of Thailand, north of the island of Singapore and north-east of the Indonesian island of Sumatra. The coastal plains of the peninsula's western side bordering the Straits of Malacca are the most fertile and densely-populated area of the country, and include Malaysia's capital city, Kuala Lumpur. Malaysia's eastern landmass, East Malaysia, borders Indonesia and Brunei and covers most of the northern part of the island of Borneo. Both landmasses are mountainous, and have a monsoon (equatorial) climate with much tropical rainforest, although considerable logging has taken place, particularly in East Malaysia.

Malaysia – general overview

Malaysia is a multi-ethnic, multicultural and multilingual society. It is a relatively open, newly industrialised market economy and is ranked highly in the World Bank's "2017 Ease of Doing Business" survey (23rd out of 190 countries). See: www.doingbusiness.org/rankings

Contact a Department for International Trade (DIT) Malaysia export adviser for a free consultation if you are interested in exporting to Malaysia. See: www.contactus.trade.gov.uk/enquiry/topic

Malaysia is a member of the Association of Southeast Asian Nations (ASEAN). It is predicted that the ASEAN economy will become the fourth largest single market by 2030.

It is one of the world's top locations for offshore manufacturing and service based operations. Multinational corporations from more than 40 countries have invested in over 5,000 Malaysian companies.

[Source: FCO Overseas Business Risk/gov.uk]

Government overview

Political situation

Malaysia is a federation made up of 13 states and three federal territories. Its government system closely mirrors the Westminster model – bicameral parliament, prime minister and cabinet executive, constitutional monarchy with the Agong as head of state, common-law legal system. Although it has a written federal constitution and also practices separation of powers, the executive holds most of the power.

Ethnic politics

Since independence, Malays and other indigenous peoples (together called Bumiputera) have formed the majority of the population (current racial breakdown: Bumiputera including Malays and indigenous peoples 62.3%, Chinese 22%, Indians 6.7%, other races [citizens] 0.9%, [non-citizens] 8.1%), but much of the wealth has historically been held by the Chinese.

A combination of constitutional guarantees (Article 153) and affirmative action in successive national economic policies sought to raise the economic wealth of the Bumiputera. This has happened to a degree, but many Malays, particularly in rural areas, remain relatively poor. Political parties in Malaysia are almost universally ethnically based.

The current government, Barisan Nasional (BN), is a coalition of 13 ethnic-based parties led by the country's dominant party, the United Malays National Organization (UMNO). The President of UMNO has always become Prime Minister. The BN has governed Malaysia since independence in 1957, and has historically been able to rely on ethnic vote banks, marshalled by the respective ethnic parties, to deliver election victories. Opposition to BN has consisted largely of mirror image ethnic parties. Before 2008 they had little success in elections, but the general election held in March 2008 was unprecedented. Opposition leader Anwar Ibrahim and his coalition of Pakatan Rakyat (PR) component parties won control of five state governments and denied BN its traditional two-thirds parliamentary majority needed for major legislative amendments including to the federal constitution. Peninsular Malaysia was split almost 50/50 between BN and PR.

It was BN's dominance in Sabah and Sarawak which delivered its overall parliamentary majority, and which makes Sabah and Sarawak significant in the balance of power. In the 2013 election, BN saw a further loss of support, with its parliamentary majority falling to an all-time low of 44, and opposition Pakatan Rakyat securing just over 50% of the popular vote. UMNO itself gained a number of seats, but Chinese support for BN collapsed and the Chinese constituent parties fared particularly badly. The result has been an increasing polarisation of Malaysian politics, mainly along racial and religious lines.

Many Chinese and Indian Malaysians are disenchanted with BN and want a signification reduction, if not abolition, of the preferential economic treatment of Bumiputera, and a meritocracy. Conversely, there has also been a rise in Malay lobby groups demanding more protection/privileges.

The next general election is due in 2018.

State assemblies

Political power operates at two levels: federal and state. State assembly elections are traditionally held simultaneously with general elections (with the exception of Sarawak). State assemblies are subordinate to the federal parliament, but some powers, including authority to decide land use, are devolved to state assemblies.

For information on political risk, including political demonstrations, see the FCO travel advice pages at: www.gov.uk/foreign-travel-advice/malaysia

[Source: FCO Overseas Business Risk/gov.uk]

Business and human rights

Human rights are enshrined in Malaysia's constitution; however, certain laws limit civil rights such as the freedom of speech and assembly. Restrictions also exist on the rights of migrants, including migrant workers and refugees, and freedom of religion.

There are restrictions on freedom of expression as most media groups are government controlled or government friendly and exercise a large degree of self-censorship. Newspapers require a printing permit from the Home Affairs Minister. Malaysia does, however, have a vibrant online media and political blogging culture, and the government does not attempt to censor the internet.

Citizens have the right to assemble peaceably, but are subject to restrictions deemed necessary by the government in the interest of public order and security. Since the Peaceful Assembly Act came into force in April 2012, police permits are no longer required for assemblies, though police must still be notified prior to the assembly and may impose conditions on organisers.

The government has ratified six out of eight of the International Labour Organization's Fundamental Conventions but not the Abolition of Forced Labour Convention. Although the constitution prohibits slavery and all forms of forced labour, occurrences of forced labour, particularly among migrant workers, continue to be reported in various sectors, including commercial agriculture, the fishing industry, garment production, restaurants, and domestic households.

Malaysia is not party to the 1951 Refugee Convention and does not have an asylum system in place regulating status and rights of refugees in Malaysia. Refugees are unable to work legally.

[Source: FCO Overseas Business Risk/gov.uk]

Economic overview

Malaysia is one of Southeast Asia's most successful economies and one of DIT's high growth markets. Recent growth has raised GDP per capita income to US $9,360.5

(source: FCO Economics Unit April 2017) , transforming a commodities-based economy into one with a large, export-orientated manufacturing sector.

Following the world financial crisis of 1997-1998 the economy has continued to grow robustly. The services sector is increasingly important; while both commodities (palm oil and rubber) and oil and gas remain substantial sectors.

Malaysia ranks 25th out of 138 countries in the 2016-17 World Economic Forum's Global Competitiveness Index. See: www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

Malaysia ranks 23rd out of 190 countries in the 2017 World Bank's 'Ease of Doing Business Report'. See: www.doingbusiness.org/rankings

Read the World Bank's in-depth 2017 'Ease of Doing Business in Malaysia' profile, at: www.doingbusiness.org/data/exploreeconomies/malaysia

Malaysia ranks 55th out of 176 countries in Transparency International's Corruption Perception Index 2016. See: www.transparency.org/news/feature/corruption_perceptions_index_2016#results-table

Since the Asian financial crisis, Malaysia has made good progress in reforming its banking and financial system. Local banks have been consolidated and there is phased liberalisation to allow greater competition. Malaysia has developed its Islamic finance capability and is now a major hub in the Asia Pacific region. The government has also progressively dismantled the exchange and other controls imposed during the Asian financial crisis – including abandoning the Ringgit peg to the dollar in July 2005 in favour of a managed float.

The chief economic reform challenges facing Malaysia now are to improve the performance of government linked companies (which still account for a large part of the economy); to achieve further progress in corporate governance and transparency, and to move up the value chain in response to the economic challenge posed by China and other low-cost manufacturing economies. The administration has made some changes to improve financial and political accountability, and is seeking to improve Malaysian competitiveness in sectors such as biotechnology.

[Source: FCO Overseas Business Risk/gov.uk]

Free Trade Agreements (FTA) and partnerships

Malaysia has a number of bilateral free trade agreements. See: fta.miti.gov.my for more information.

Malaysia and its ASEAN partners have established the ASEAN FTA – a single regional common market of ASEAN countries created in 2015 under the ASEAN Economic Community (AEC), and including:

- a competitive market of over 600 million people

- freer movement of goods, services, investment, skilled labour and capital flow

A Malaysia-EU Free Trade Agreement (MEUFTA) is currently under negotiation. However, although not yet ratified by the 12 member states, the Trans-Pacific Partnership (TPP) may not survive if the US pulls out of the partnership as has been suggested.

Growth potential

Malaysia's annual growth rate averaged 5% from 2000 until 2014. However, Malaysia's economy is characterised by a reliance on finite oil revenues and a narrow tax base.

In 2015, Bank Negara forecast GDP growth of between 4.5 and 5.5% resulting from strong domestic demand and resilient exports. See: www.bnm.gov.my for further details. Growth is currently 4.2% (April 2017)

Malaysia's Economic Transformation Programme (ETP) focuses on the implementation of 12 national key economic areas (NKEAs) which will contribute to sustainable economic growth. See: etp.pemandu.gov.my for further information.

Trade between the UK and Malaysia

Malaysia is the UK's second-largest trading partner in ASEAN. The UK and Malaysia aimed to double bilateral trade from £4 billion to £8 billion by the end of 2016.

The top five sectors for trade between the UK and Malaysia are:

- machinery and transport equipment

- manufactured goods

- chemical and related products

- crude oil and fuel

- food, beverages and tobacco

Several large UK companies have a presence in Malaysia including Aberdeen Asset Management, Allied Pickfords, BAE Systems, BP, BAT, Debenhams, Dyson, Pinewood Studios, Shell, Tesco and Weir Group.

Benefits for UK businesses

There are clearly many historical, political and emotional reasons why there are such strong ties between Malaysia and the UK – but there are many economic reasons why investing in Malaysia makes sense too.

Benefits for UK businesses exporting to Malaysia include:

- English speaking, educated workforce
- current exchange rate makes UK products and services attractive
- strong historical and cultural ties
- similar business and legal practices
- similar technical standards
- close to major Asia Pacific economies

Strengths of the Malaysian market include:

- excellent infrastructure and transport connectivity
- well-developed financial sector
- cost-effective gateway into Asian markets

Contact a DIT export adviser at: www.contactus.trade.gov.uk/office-finder for a free consultation if you are interested in exporting to Malaysia.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies. You can also check the current UKEF cover position for Malaysia. See: www.gov.uk/guidance/country-cover-policy-and-indicators#malaysia

[Source: FCO Overseas Business Risk/DIT/UKEF/gov.uk]

Sponsored By:

Insurance

Relocation Services

Trade Finance Solutions

Hotel / Corporate Lodging

Education / School Services

Accountants / Professional Business Services

Regional Development Agency

Banking

Law / Legal Services

Logistics

Office Solutions

Relocation

;

Contact IMA
International Market Advisor
IMA House
41A Spring Gardens
Buxton
Derbyshire
SK17 6BJ

United Kingdom
Email: info@ima.uk.com
General enquiries switchboard:+44 (0) 1298 79562
Website: www.DoingBusinessGuide.co.uk