SUMMARY

1. With a GDP per capita of USD 11,422 in 2021, Malaysia is a middle-income country, aspiring to become a high-income country between 2024 and 2028. The Twelfth Malaysia Plan, 2021-2025 (Twelfth Plan) is considered transformational and designed to inject fundamental reforms to alter the development trajectory of Malaysia. The Twelfth Plan is organized around three key themes (resetting the economy; strengthening security, wellbeing, and inclusivity; and advancing sustainability), four catalytic policy enablers (developing talent, accelerating innovation and technology adoption, enhancing connectivity and transport infrastructure, and improving public service), and 14 "game changers".

2. Real GDP expanded by 5.8% in 2017, and although the growth rate declined subsequently, it remained above 4% in 2018 and 2019. The COVID-19 pandemic prompted a 5.5% contraction in real GDP in 2020, but growth resumed in 2021. The authorities introduced strict movement control orders to contain the spread of the pandemic and dealt with the economic fallout by introducing sizeable fiscal stimulus packages, including tax relief, cash transfer programmes, and wage subsidies, and monetary policy was eased. The strong fiscal response widened the Government's budget deficit and increased the level of debt, and the debt ceiling was raised twice by a total of 10 percentage points. Federal government debt equalled 63.4% of GDP at the end of 2021, up from 52.4% of GDP two years earlier. Although most of this debt remains domestically financed, Malaysia's external debt has also increased since 2019.

3. Monetary policy is geared towards maintaining price stability, but the central bank (Bank Negara Malaysia) does not set a specific inflation target. Inflation remained subdued in 2018 and 2019, and Malaysia experienced deflation in 2020. However, in line with global trends, inflationary pressures have re-emerged in 2021 and 2022. Although mitigated by job-retention schemes, the unemployment rate jumped from just over 3% before the pandemic to 4.5% in 2020 and 4.6% in 2021, but the labour market has subsequently improved.

4. Malaysia's current account remains in surplus due to significant net exports of goods. The surplus peaked in 2020 (at 4.2% of GDP) even with a widening of the deficit in services trade. Gross official reserves stood at USD 108.2 billion at end-August 2022, equivalent to 5.4 months of imports of goods and services, and 1.1 times the total short-term external debt.

5. International trade and foreign direct investment (FDI) trends reflect the continued importance of Asia as Malaysia's main regional market and origin of FDI. The Asian region accounts for more than 70% of Malaysia's merchandise trade. China, Singapore, the EU-27, and the United States continue to be Malaysia's main individual trading partners, while, as a group, the other member States of the Association of Southeast Asian Nations (ASEAN) represented one quarter of Malaysia's merchandise trade in 2021, slightly less than in 2017. Taken together, Singapore; Hong Kong, China; Japan; the United States; and the Netherlands account for just over 60% of the FDI stock in Malaysia. About one fifth of Malaysia's direct investment abroad goes to Singapore, followed by Indonesia and the United Kingdom.

6. The trade policy framework has remained stable during the period under review. The Ministry of International Trade and Industry (MITI) is the lead agency for international trade, including strategic trade, as well as matters pertaining to investment, productivity, development finance, and small and medium-sized enterprises (SMEs), in general, and the specific development of the halal, automotive, and steel subsectors.

7. Malaysia is an active Member of the WTO. It has not been involved in WTO dispute settlement cases as a respondent since 2018, while a dispute panel was established in July 2021, at Malaysia's request, to examine EU measures affecting palm oil and oil-palm crop-based biofuels. Malaysia has reserved its third-party rights in 17 recent cases. Although Malaysia provides notifications on many subjects covered by the WTO framework, their scope and timeliness could be improved. For example, the most recent notifications of domestic support to agriculture provide information until 2015.

8. Malaysia's regional integration efforts are anchored in ASEAN. The member States established the ASEAN Economic Community (AEC) in 2003, and the AEC Blueprint 2025 provides a framework for ongoing strategic measures. Trade facilitation is embedded in the Blueprint, and the ASEAN Trade in Goods Agreement (ATIGA) was amended in 2019 to simplify rules of origin requirements through

self-certification by the operators. Negotiations to upgrade ATIGA may include new elements such as digital trade. The ASEAN Trade in Services Agreement, in force since April 2021, has become the new legal instrument for further integration of services sectors, and the ASEAN Comprehensive Investment Agreement aims at the creation of a free and open investment environment through progressive liberalization. The ASEAN Agreement on Electronic Commerce, in force since December 2021, is intended to facilitate e-commerce transactions within ASEAN.

9. ASEAN member States have pursued trade liberalization with partners in the region through a network of FTAs. The most recent FTA, with Hong Kong, China, was signed in March 2018. Malaysia has also concluded bilateral FTAs that are either stand-alone FTAs (Chile, Pakistan, and Türkiye) or complement the ASEAN FTAs with the same partners (Australia, New Zealand, India, and Japan). No new bilateral FTAs have been concluded since 2018.

10. The Regional Comprehensive Economic Partnership (RCEP) Agreement broadens and deepens the engagement between ASEAN member States and five of its FTA partners. The RCEP entered into force for most of the participants on 1 January 2022. Malaysia was among the 11 countries that signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2018, and as Malaysia became the ninth signatory to ratify the CPTPP, it took effect for Malaysia on 29 November 2022.

11. Regarding the business environment, entrepreneurs are required to register with the Companies Commission of Malaysia for starting a business, but other federal and state agencies are also involved in the process of issuing licences, tax registration, and social security arrangements. The MalaysiaBiz Portal was launched in 2020 as a one-stop centre for business registration and licensing. The Malaysian Investment Development Authority is the principal agency overseeing and driving investment into manufacturing and selected industries in the services sector. The National Investment Aspirations, approved by the Cabinet in April 2021, provides a programme for comprehensive reform of the investment agenda to attract high-quality investments creating high-income jobs.

12. Limitations on foreign investment, to the extent that these persist, are sector-specific and upheld by the supervisory authorities for the sectors in question. Some regulatory agencies may have absolute discretion in rejecting or approving transactions. Restrictions on foreign ownership remain in education, communication and multimedia, freight forwarding and shipping, financial services, and oil and gas.

13. Customs procedures have largely remained unchanged since the last Review, although the Customs Act 1967 has been amended, primarily in respect of provisions that affect customs rulings, duty payments and refunds, duty drawback, enhanced powers of customs officers, the regulation of transit and transhipment, penalties for customs offences related to non-compliance, and origin of goods. Malaysia ratified the WTO Agreement on Trade Facilitation (TFA) on 26 May 2015 and has implemented all categories under the TFA since 1 June 2021. Moreover, at the regional level, Malaysia has been participating actively in several initiatives to facilitate trade between ASEAN member States. These initiatives include the ASEAN Single Window (ASW), the ASEAN-wide Self-Certification Scheme (AWSC), the ASEAN Customs Transit System, and the ASEAN Customs Declaration Document (ACDD). Notably, the ASW currently supports the exchange of intra-ASEAN certificates of origin for preferential tariff treatment and the ACDD, which is an electronic document for the exchange of export declaration information between ASEAN member States. The AWSC allows for certified exporters to self-declare the country of origin for their goods in certain commercial documents for ATIGA tariff preferential claims, instead of applying for a Certificate of Origin.

14. Overall, the tariff structure remains unchanged. About 99% of all tariff lines carry *ad valorem* rates. Non-*ad valorem* duties mainly affect agricultural products such as edible fruit, alcoholic beverages, and tobacco. Malaysia's applied rates (excluding AVEs) decreased slightly from 2017 to 2022, mainly due to tariff cuts on products covered by the expansion of the Information Technology Agreement. However, the inclusion of AVEs in the 2022 tariff analysis raises the simple average applied MFN rate from 7.1% to 7.6%, mainly due to high AVEs on certain alcoholic beverages and tobacco. Malaysia continues to apply TRQs (about 0.2% of total tariff lines), for the most part covering live swine and poultry, poultry meat, liquid milk and cream, eggs, and round cabbage. Almost all applied MFN rates are lower than their bound rates. In the case of 11 tariff lines, where applied rates appear to be exceeding their bound levels, the authorities acknowledged that these were due to transposition errors that should be corrected.

15. Malaysia applies Sales and Service Tax (SST) and excise duties on selected products, having reverted to the SST instead of a Goods and Services Tax (introduced on 1 April 2015) since 1 September 2018. SST rates are generally 5% or 10% on goods, while the service tax rate is 6%. Certain petroleum products are subject to specific rates. Excise duty is charged on certain goods considered non-essential or harmful to health or the environment, including sugar-sweetened beverages, motor vehicles, liquor, cigarettes and tobacco, playing cards, and mahjong tiles. The shares of the SST (about 15%) and excise duties (5%) in total government tax revenue were far higher than the contributions from import duties (1.5%) in 2021.

16. There has been no major change to regulations concerning import and export prohibitions, restrictions, and licensing since the previous Review, although there have been several amendments to the list of items for import/export licensing requirements. Malaysia had 25 anti-dumping measures in force on 30 June 2022, mainly duties affecting iron and steel products. In 2020, Malaysia notified to the WTO Committee on Safeguards that it had initiated a safeguard investigation on imports of ceramic floor and wall tiles. However, the investigation was terminated on 11 January 2021 as no causal link had been found between the increase in imports and any serious injury to the domestic industry.

17. Malaysia levies export taxes on 123 tariff line items (at the 10-digit level). Most duties are *ad valorem* rates ranging from 5% to 20%. Exports of crude palm oil were fully exempted from export duty from 1 July 2020 to 31 December 2020 to alleviate the impact of the COVID-19 pandemic.

18. Exporters are accorded reductions in their statutory income tax depending on the value of increased exports, and successful exporters may qualify for Export Excellence Awards. Regarding investment promotion, "Pioneer Status" and the "Investment Tax Allowance" are the principal tax incentive schemes utilized to encourage investment. Eligibility is determined according to priorities such as the level of value added, choice of technology, and industrial linkages. Enhanced incentives are available to enterprises engaging in specific projects or activities, e.g. manufacturing in selected mechanical and electrical industries or high technology projects. Manufacturing businesses may also qualify for the Automation Capital Allowance or the Reinvestment Allowance. Matching grants may be available for technology upgrading, automation, and other investments that make production processes more competitive under facilities such as the Domestic Investment Strategic Fund, the Industry 4WRD Readiness Assessment, and Smart Automation Grants. To sustain business operations during the COVID-19 pandemic, Bank Negara Malaysia administered various financing facilities (credits and guarantees) with an emphasis on SMEs, including microenterprises.

19. The Department of Standards Malaysia (JSM) is Malaysia's national standardization and accreditation body. Malaysian standards are in principle voluntary unless they have been made mandatory by the relevant domestic regulators. As the standards development policy has evolved from a numbers-based to a needs-based model, there has been a downward trend in the overall number of Malaysian standards. Obsolete standards have been withdrawn and direct use of international standards is promoted. Malaysia submitted 38 TBT notifications and 13 SPS notifications to the WTO during the period under review.

20. Competition policy is based on the Competition Act 2010 and the Competition Commission Act 2010. The Competition Act does not apply to certain sectors (aviation, telecommunications, and energy) as these are regulated under other laws or certain acts, e.g. those involving the exercise of governmental authority. Work is underway to introduce a merger control regime expected to come into force in 2023. Wheat flour and cooking oil are subsidized and subject to ceiling prices. Some goods are subject to price control pursuant to the Price Control and Anti-Profiteering Act, and the Act's Regulations were revised in 2018 to broaden the scope to any goods or services sold. The Regulations provide a specific formula to determine unreasonably high margins.

21. Malaysia has a large number of government-linked companies (GLCs) owned through seven government-linked investment companies. GLCs are present in utilities, banking and finance, and telecommunications, and partly state-owned GLCs are estimated to make up about 25% of the market capitalization of the Bursa Malaysia. Malaysia has notified Padiberas Nasional Berhad (BERNAS) as a state trading enterprise for rice importation.

22. The government procurement system is decentralized except for certain common user items. All individuals and enterprises intending to do business with the Government must register with the relevant authorities, i.e. the Ministry of Finance for goods and services and the Construction Industry Development Board for works. Since 2010, Integrity Pacts (commitments between the procuring authorities and the bidders to respect the integrity of the procurement process) have been in place at federal and state levels. While direct purchase may be used for low-value procurement, all procurement valued at MYR 500,000 or more is subject to tendering. Malaysia has been an observer to the WTO Committee on Government Procurement since 2012.

23. In the area of intellectual property, Malaysia acceded during the review period to the Madrid Protocol, the Marrakesh VIP Treaty, and the Budapest Treaty. A new Trademark Act and trademark regulations were promulgated in 2019, *inter alia*, for compatibility with accession to the Madrid Protocol; to extend the scope of protection to non-traditional marks, collective marks, and certification marks; and to provide stringent penalties for infringements. The Patents Act was amended in 2022, notably to include provisions regarding accession to the Budapest Treaty and to adopt Article 31*bis* of the TRIPS Agreement. Accession to the Marrakesh Treaty was addressed in amendments to the Copyright Act, which also covered offences relating to streaming technology and *ex officio* authority to search and seize relating to importation of infringing goods. The Geographical Indications Act 2022 and its regulations provide higher standards of protection for registered geographical indications.

24. Malaysia is a net exporter of agricultural commodities and a major global producer of crops such as palm oil, natural rubber, pepper, and coconuts. Palm oil remains the most important agricultural commodity. Over 70% of the oil palm area is owned by plantation estates that are vertically integrated enterprises with international operations. Although the pandemic reduced the production and export volume of palm oil and related products during 2020-21, the exported value reached a record MYR 108.5 billion due to higher prices. Rubber remains important for employment, export revenues, and downstream diversification in rubber products. Malaysia is a net exporter of rubber and rubber products. In 2020, strong exports of rubber products were led by rubber gloves, mainly owing to high global demand in the medical and health sectors. Rice accounts for a relatively small share of GDP, but the Government continues to support the sector through minimum prices, fertilizer subsidies, direct payment to producers, and paddy production incentives. In addition to import duties, some agricultural products are subject to tariff rate quotas, surcharges, import and export licensing requirements, and export taxes.

25. Growth in mining and quarrying has been sluggish since 2016. The sector is primarily regulated under the Mineral Development Act, which lays out federal powers, and so-called Mineral Enactments adopted by the states. The National Mineral Industry Transformation Plan 2021-2030 seeks to raise the sector's contribution to the economy, reduce trade imbalances, and develop the entire value chain of the domestic mineral industry. Malaysia is a significant producer of oil and gas, and fossil fuels continue to dominate the energy mix. The sector accounts for 20% of GDP, and the state-owned Petroleum Nasional Berhad (PETRONAS) is a major player in Malaysia and other countries around the world. Domestic demand for electricity rose almost three-fold from 2000 to 2019. The Peninsular Malaysia Generation Development Plan (2020-2039) targets a significantly higher share of renewables in the domestic energy supply, largely to be met with major expansion of solar power. Investments are primarily to be sourced through private funds and public-private partnerships. The National Energy Policy 2022-2040 also targets significant electricity savings from a range of energy efficiency measures.

26. The manufacturing sector has been a key driver in Malaysia's development and economic transformation. The sector accounted for 23.5% of GDP in 2021 and employed about 17% of the workforce. Nearly all companies in the sector are SMEs focused on the domestic market, but many of them are thought to have significant export potential. Recognizing the need for the sector to strengthen its competitiveness, resilience, and capacity, government policy is directed towards accelerated technology adaptation and enhanced incentives to encourage investments in high value-added industries. The Industry 4WRD: National Policy on Industry 4.0 summarizes the Fourth Industrial Revolution as the application of advanced digitization, advanced manufacturing technologies, and efficient resource allocation to infuse higher value-added manufacturing processes. Focus sectors under Industry 4.0 include electrical and electronics, machinery and equipment, chemicals, medical devices, and aerospace. A number of technology development projects are being launched under the National Automotive Policy 2020, and various funding

schemes support the implementation of the policy. The propagation of electric vehicles to reduce carbon emissions is supported with tax incentives for vehicle owners as well as manufacturers.

27. The pandemic affected services unevenly, as transportation, in particular air transport, accommodation, food and beverages, administrative and support services, and real estate were hard hit. Other key sectors such as telecommunications, finance, and insurance continued to grow on a robust path. Services (excluding construction, electricity, gas, and water) contributed 51.6% to GDP in 2021.

28. The Financial Sector Blueprint 2022-2026 follows five basic thrusts: the funding of Malaysia's transformation to a high-income country; improved financial inclusion; infrastructure and regulatory practices dedicated to better digital services while managing cybersecurity risks; climate risks to be integrated into the supervisory and prudential regulatory roles of the central bank to facilitate orderly transition to a greener economy; and Malaysia as a gateway for Islamic finance. Although assets maintained in conventional banking and insurance still outweigh Islamic finance, the Islamic banking and takaful sectors continue to grow at a faster pace. Malaysia's Islamic capital market functions in parallel with the conventional capital market. Malaysia has one of the most developed capital markets in the region and is one of the world's largest sukuk issuers (Islamic financial certificates). Overall, the size of Malaysia's capital market was approximately MYR 3.5 trillion at the end of September 2022.

29. During the review period, Malaysia enhanced its telecommunications infrastructure through several projects in line with national development plans such as the Shared Prosperity Vision 2030, the Malaysia Digital Economy Blueprint, and the Twelfth Plan. The Digital Nasional Berhad (DNB), established by the Government in 2021, is responsible for the development of 5G infrastructure nationwide and the management of Malaysia's 5G spectrum, with the aim of achieving 36% and 80% coverage in populated areas by the end of 2022 and 2024, respectively. Restrictions on foreign equity participation remain in the telecommunications sector.

30. Tourism plays an important role in the economy, including as a major earner of foreign exchange. In 2019, travel services generated MYR 82.1 billion, equivalent to 48.3% of total services exports. However, the Government's movement control orders provoked by the outbreak of COVID-19 led to a sharp drop in international visitors in 2020 and 2021. The Visit Malaysia 2020 campaign was cancelled. The Government introduced various measures to alleviate the adverse impact of the COVID-19 pandemic on the tourism sector. These measures included a wage subsidy programme, exemption from the tourism tax, income tax relief for domestic tourism expenses, and financial assistance for Malaysian SMEs and micro enterprises. Foreign equity participation is restricted in certain tourism activities.