U.S. Department of State
FY 2001 Country Commercial Guide: Malaysia

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CHAPTER I: EXECUTIVE SUMMARY

The Country Commercial Guide is compiled and prepared by the U.S. Embassy's Economic Section and the Embassy's Foreign Commercial Service staff. Reported here are recent past and current conditions of the Malaysian economy with particular emphasis on business opportunities for U.S. companies. Given the changing state of Southeast Asian economies, the information is considered accurate at press time but is subject to change as market conditions change.

Malaysia's economy rebounded strongly from a 7.5 percent contraction in 1998 to grow by 5.6 percent in 1999. The Government of Malaysia predicts 5.8 percent real GDP growth in the year 2000, but most analysts believe growth will exceed six percent for the year as the region continues to recover from the 1997-98 financial and economic crisis. Inflationary pressures remain benign and interest rates are kept low as a result. The economic recovery has been led by strong growth in exports, particularly of electronics and electrical products to the United States, Malaysia's principal trade and investment partner. Continued economic recovery in Asia, growing domestic demand, and rising equity prices should boost growth and induce increased domestic investment. Since September 1998, the Malaysian ringgit has been pegged at an exchange rate of RM3.8/U.S.$1.0.

In 1999, bilateral trade between the U.S. and Malaysia totaled U.S.$30.5 billion. U.S. exports to Malaysia were U.S.$9.1 billion and U.S. imports from Malaysia were U.S.$21.4 billion in that year. Malaysia was the United States' 12th-largest trading partner and its 17th-largest export market. During the first quarter of 2000, Malaysian exports to the U.S. totaled U.S.$5.5 billion and imports from the U.S. were U.S.$2.3 billion.

Malaysia is an attractive foreign investment destination for the petrochemical industry, for electronics and semiconductor manufacturing, and also for R&D-based investment in the Multimedia Super Corridor (MSC). The MSC is Malaysia's blueprint for developing a high-technology information-based research and manufacturing region. Investments approved for MSC status are exempt from currency exchange and expatriate employment restrictions. U.S. direct investment in Malaysia is concentrated in oil and gas and in manufacturing, primarily in companies making semiconductors and other electronic products. According to U.S. Department of Commerce statistics, U.S. investment in Malaysia on a historical cost basis was U.S.$6.2 billion in 1998**.** According to Malaysian statistics**,** the U.S. in 1999 continued to rank first in foreign direct investment (FDI) approved in Malaysia's manufacturing sector, with approved new manufacturing investment totaling RM5**.**2 billion (U.S.$1.37 billion). Principal U.S. investment approved by the Malaysian Investment Development Authority (MIDA) was concentrated in the chemicals, electronics, and electrical sectors**.**

There are no major barriers to export-oriented manufacturing investment in Malaysia. Significant curbs historically hindered manufacturing investment aimed at the domestic market. The government relaxed this policy in July 1998, dropping all equity and export restrictions for new manufacturing projects approved through December 2000. The government also eased foreign equity restrictions in the telecommunications, insurance, shipping, and freight forwarding sectors. Most sectors of the economy are open to trade. U.S. electronics, infrastructure, and consumer products companies have been particularly successful in doing business with Malaysia.

Impact on U.S. Exports

The recent recession and an undervalued local currency have hurt U.S. sales to Malaysia, particularly for agricultural and defense-related products. However, the return to strong economic growth, recovery of domestic consumption, and government spending on previously postponed infrastructure projects provide fresh opportunities for U.S. exporters. The Malaysian government remains particularly focused on developing the MSC, which will continue to generate export and investment opportunities for U.S. high-technology firms.

CHAPTER II: ECONOMIC TRENDS AND OUTLOOK

Until 1997, Malaysia experienced over a decade of uninterrupted economic growth. The country entered a recession in 1998 as the regional financial and economic crisis intensified. Real GDP contracted by 7.5 percent in 1998 to U.S.$72.6 billion in current prices. The economy rebounded in 1999, growing 5.6 percent that year. The economy has performed well during the first half of 2000. Growth, which was initially led by exports and by the government's deficit spending, has expanded into all sectors of the economy, including mining and construction, sectors which had been badly hit during the recession.

Malaysia staged a second year of strong current account surpluses in 1999 with a surplus of RM47.4 billion (U.S.$12.5 billion), principally due to booming electronics exports. Recently, imports have risen, though most of the increase is reportedly in intermediate and capital goods. Inflation remains low at 2.8 percent year-on-year. The government predicts that inflation during 2000 will be 3.2 percent. Foreign reserves reached U.S.$34.1 billion by the end of May, equivalent to 6.1 months of retained imports.

The Kuala Lumpur Stock Exchange Composite Index (KLCI) was trading in the 800 range in early July 2000, up significantly from its record low of 262.7 in September 1998 during the depths of the recession, but down from its February 2000 peak of 1013.27. During February 2000, authorities from Malaysia and Singapore settled a dispute that affected the rights of shareholders who purchased Malaysian equities through Singapore's Central Limit Order Book International (CLOB) over-the-counter exchange to allow for the staggered release of the shares for trading. Trading in CLOB-purchased shares had been blocked since the imposition of limited capital controls in Malaysia in September 1998. Effective May 31, 2000, the Kuala Lumpur Stock Exchange (KLSE) was reinstated into the "Emerging Market and Far East Indices" of the Morgan Stanley Capital International Index.

Economic Policy During the Financial Crisis

In July 1998, the government announced a comprehensive series of objectives for promoting economic recovery, termed the National Economic Recovery Plan. On September 1, 1998, Malaysia enacted selective currency controls and fixed the value of the ringgit at RM3.8/U.S.$1.0. The measures were implemented to eliminate offshore trading in the ringgit and to insulate the domestic economy from the effects of short-term speculative capital flows. Foreign direct investment flows, wages, dividends, interest, and rental income earned in Malaysia are exempt from the controls.

In early 1998, the government established the National Economic Action Council (NEAC). The NEAC announced the National Economic Recovery Plan (NERP) in July. The Plan consisted of six objectives for revitalizing the economy:

- Stabilizing the ringgit
- Restoring market confidence
- Maintaining market stability
- Strengthening economic fundamentals
- Furthering the socio-economic agenda
- Reviving badly affected sectors.

The government has formulated policy actions in line with these objectives.

In mid-1998, the government accelerated a relaxation of monetary and fiscal policies that had been intended to stabilize the ringgit and impose macroeconomic discipline. Bank Negara successively reduced the statutory reserve requirement (SRR), the percentage of reserves that banking institutions are required to deposit with the Central Bank, from ten percent to four percent. The base lending rate (BLR) declined from a peak of 12.27 percent in June 1998 to 6.79 percent by June 2000. Additional measures included reducing consumer credit card finance charges, lowering rates on automobile and mortgage loans, and increasing funding for small and medium-sized enterprises.

The government undertook a number of significant measures to restructure and strengthen the financial system. In June 1998, it established Danaharta, also known as the National Asset Management Company, to acquire, manage, and dispose of non-performing loans (NPL's). By May 2000, Danaharta had acquired some U.S.$9.63 billion in non-performing loans, equal to 42 percent of NPL's in the banking system. System-wide, NPL's in April 2000 had declined to 10.8 percent of loans (measured on a three-month basis) or 6.6 percent (six-month basis), down from a peak of 14.9 percent (three-month basis) in November 1998.

Danamodal, a special purpose vehicle, was set up in August 1998 to recapitalize ailing financial institutions and has injected RM7.1 billion (U.S.$1.9 billion) into ten banking institutions. By May 2000, the amount of injected capital was reduced to RM4.9 billion (U.S.$1.3 billion) after six banks made partial or full repayments. System-wide, the risk-weighted capital adequacy ratio of banks was 13 percent as of May 2000, up from 10.5 percent in December 1997.

The government also established the Corporate Debt Restructuring Committee (CDRC) to facilitate voluntary corporate debt restructuring between creditors and viable debtors. As of May 2000, the CDRC had received 69 applications for debt restructuring involving debts of RM36.9 billion (U.S.$9.7 billion). Of which, 21 cases involving RM16 billion (U.S.$4.2 billion) were resolved.

In February 2000, Bank Negara Malaysia, the Central Bank, gave approval to consolidate the country's 54 domestic financial institutions under ten "anchor" banks. Financial institutions are required to complete their merger plans by January 2001. The government had originally announced plans to merge financial institutions under six pre-selected "anchor" banks. It relented and allowed financial institutions to select their own merger partners following allegations of favoritism and a lack of transparency in the process. Consolidation of Malaysia's financial sector has been a long-running policy objective to prepare Malaysia's financial sector for increased competition and globalization. The government has also announced plans to consolidate domestic brokerage houses into 15 "universal brokers" as part of a larger government effort to improve the strength and efficiency of Malaysia's capital markets. The Securities Commission is working on a Capital Market Master Plan, which should be released this year.

Capital Controls

In September 1998, Malaysia imposed selective capital controls and pegged the ringgit at RM3.8/U.S.$1.0. The measures were intended to eliminate offshore trading in the ringgit and to insulate the domestic economy and monetary policy from currency speculators. The ringgit can no longer be sent or received from abroad and trade transactions must be made in foreign currency. Foreign direct investment inflows and outflows, wages, dividends, interest, and rental income earned in Malaysia are exempted from the controls. In September 1999, Malaysia further relaxed controls it had implemented in September 1998 on foreign investments in Malaysian securities. It replaced a multi-tiered exit tax with a simplified flat ten percent tax applied to profits taken out of Malaysia, regardless of when the investment was made. While recognizing that the exchange rate must adjust in line with economic performance over the long term, the government has indicated repeatedly that it will lift controls only after the international financial community imposes stricter curbs on currency trading to prevent speculative attacks on currencies.

Driven by low domestic interest rates and greatly improved liquidity, the Kuala Lumpur Stock Exchange Composite Index (KLCI) had almost quadrupled by February 2000 to 1013.27 from its low-point (262.7), reached in early September 1998. The KLCI retreated in line with declines in U.S. and Asian bourses to 833.37 by mid-year 2000. Since the imposition of capital controls on September 1, 1998, market capitalization has increased over one and a half times to RM553 billion (U.S.$145.5 billion) as of end-1999. With the return of stability and growing business and consumer confidence, the hard-hit real sector of Malaysia's highly trade-oriented economy has reversed course. By the fourth quarter of 1999, all sectors of the economy had returned to positive growth, including the hard-hit construction sector.

Meanwhile, loan growth for the entire banking sector rose just 0.3 percent by year-end 1999, far below Bank Negara's targeted growth of eight percent. Although loan growth had remained below expectations in the early months of 2000, the Central Bank expects increasing loan growth as the economy improves. In particular, mortgage lending has increased for low and medium-priced residential property purchases, in strong demand, and for consumer credit.

Inflation, as measured by the consumer price index (CPI), has moderated significantly. CPI declined to 2.8 percent in 1999, following an increase of 5.3 percent in 1998. The government predicts inflation will remain moderate at 3.2 percent this year. With significant slack in the economy, and strengthening but still-cautious investor sentiments, the outlook for inflation remains favorable. As long as inflationary pressures remain subdued, and loan demand remains weak, the Central Bank is unlikely to change its policy of low interest rates.

Balance of Payments

Malaysia's current account turned around dramatically from a deficit of 5.4 percent of GNP in 1997, to a surplus of U.S.$11 billion, or 13.7 percent of GNP, in 1998, the first surplus since 1989. The current account surplus widened marginally in 1999 to U.S.$11.2 billion. The turnaround was due primarily to a large surplus in the merchandise trade account that more than offset the deficits in services and transfers. The large trade surplus resulted from an undervalued ringgit combined with a recession-induced drop in domestic consumption, with resultant import compression. In May 2000, Malaysia recorded its 31st consecutive monthly trade surplus. Exports, particularly of electronics, which account for over 50 percent of total exports, will likely continue to grow. With economic recovery, imports, particularly of intermediate goods, have been rising at a faster rate than exports in 2000.

Net long-term capital inflows increased 10.3 percent to RM11.7 billion (U.S.$3.1 billion) in 1999 after a sharp decline of 44 percent to RM10.6 billion (U.S.$2.8 billion) in 1998. Short-term capital outflows expanded 74 percent to RM36 billion (U.S.$9.5 billion) in 1999 after growing 83 percent in 1998. Short-term capital flows have turned positive during 2000. Bank Negara reports that net inflows through external accounts of non-residents from mid-February to early June 2000 exceeded RM4.2 billion (U.S.$1.1 billion). Malaysia has increased borrowing from multilateral sources, including the World Bank. It returned to the international bond markets in 1999 with a U.S.$1 billion sovereign issue.

Malaysia's saving rate, at 40.8 percent of GNP in 1999, remains one of the world's highest. Total foreign debt is U.S.$40.9 billion (52 percent of GNP) as of end-March 2000 and Malaysia has more than sufficient foreign exchange reserves (U.S.$34.1 billion as of May 31, 2000) to cover maturing short-term obligations. Private domestic debt accounted for 152 percent of GNP at year-end 1999.

Infrastructure and the MSC

Malaysia boasts a well-developed transportation and communications infrastructure. The country experienced no problems with the Y2K "Millennium Bug." In June 1998, the Kuala Lumpur International Airport (KLIA), which has an initial annual capacity of 25 million passengers, began operations. In July 1999, the government officially opened a key infrastructure and residential sector of the MSC. The Multimedia University was formally launched in September 1999.

The MSC encompasses a nine-by-thirty mile zone extending south from Kuala Lumpur to the new international airport. With substantial private sector participation, the government plans to create a high-technology environment incorporating a high-capacity global telecommunications and logistics infrastructure. Liberal regulatory and tax policies, as well as an updated legal regime, are designed to encourage electronic commerce, development of information technology applications, and advanced R&D.

The government has targeted seven flagship applications to accelerate the MSC as the next engine of economic growth: electronic government; model smart schools designed to enhance information technology literacy; telemedicine, enabling remote consultation, diagnosis and treatment; R&D clusters; a national multipurpose smart card; borderless marketing centers; and worldwide manufacturing webs designed to control, monitor, and support regional networks of design, manufacturing, and distribution.

Improved telecommunications and more efficient financial services infrastructure, as well as strengthened intellectual property protection, are essential for Malaysia to achieve its goal of transforming its economy from labor-intensive assembly operations to R&D-based information technology industry. The government plans increased spending to overcome constraints in the supply of electricity and water that manifested themselves during 1998. It is working to strengthen IT education and technological proficiency.

Government Role in the Economy

The government has taken an active role in the development and industrialization of the Malaysian economy. This includes significant state sector investment, a close alliance between government and the private business sector, privatizing state enterprises and a variety of policies and programs to bolster the economic status of the Malay and indigenous communities, commonly referred to as bumiputras.

Since the initiation of the privatization program in 1986, the government has played a progressively diminished role as a producer of goods and services. However, the government continues to hold equity stakes (generally minority shares) in a wide range of domestic companies. As part of the National Economic Recovery Plan (NERP) launched in the midst of the 1997-98 economic downturn, the government has indicated it will consider assistance to troubled corporations on the basis of three criteria: national interest, strategic interest and equity considerations under the New Economic Policy (NEP) and National Development Policy (NDP). Industries that have received, or are likely to receive, government assistance include telecommunications, urban infrastructure, transportation, and steel.

The improving economic environment will increase export opportunities, particularly for agricultural products, defense-related procurement and for major government projects and infrastructure development. Opportunities will remain strong in priority areas of development, including high technology fields related to the MSC, industrial automation to enhance productivity, medical products and services, education/distance learning and environmental engineering.

Principal Growth Sectors

Manufacturing: The manufacturing sector grew rapidly in 1999-2000, showing 27.3 percent growth year-on-year in the first quarter of 2000. Manufacturing grew 13.5 percent in 1999, a remarkable turnaround from 1998’s steep decline of 13.7 percent. Manufacturing accounted for 30 percent of GDP in 1999. Principal manufactured products include semiconductors, consumer electronic and electrical products, textiles, and apparel. Malaysia is the world’s third-largest producer and one of world's largest exporters of semiconductors. The U.S. absorbed 28.8 percent of Malaysia's electronic products in 1999, and electronics exports to Asia, as economic recovery takes hold, and to Europe are increasing. A quarter of Malaysia's manufactured exports went to the U.S.

Services: Services output, excluding government services, rose 6.7 percent in the first quarter of 2000 after an increase of 2.7 percent in 1999. Services accounted for 54 percent of GDP in 1999. Transportation and communication services registered strong gains. Trade, hotel and restaurant industries performed equally well.

Agriculture: Agricultural output rose by 2.9 percent in the first quarter of 2000, after gaining 6.3 percent in 1999 from a 4.4 percent contraction in 1998. Agriculture accounted for 9.3 percent of GDP and over one-tenth of Malaysia's export earnings in 1999. The sector employs 16 percent of the work force. Malaysia is the world's largest producer and exporter of palm oil, accounting for one-half of the world's output. Malaysia is also a significant producer of natural rubber, cocoa and tropical timber.

Mining/Energy: The mining sector rose 0.8 percent in the first quarter of 2000 after shrinking four percent in 1999. The decline was primarily due to lower crude oil output. The mining sector accounted for 7.3 percent of GDP in 1999. Although oil will continue to account for about half of Malaysia's primary energy supply through the year 2000, industry analysts estimate that Malaysia's position as a net exporter of oil will likely be reversed by 2010. At current production rates, Malaysia has 12-15 years of crude oil reserves, or about 3.6 billion barrels. The country's 85 trillion cubic feet of gas reserves are expected to last another 40 years. Malaysia produced an average of 693,200 barrels of oil including condensates per day and 3,802 million standard cubic feet of gas per day in 1999.

Construction/Property: Construction activity improved 1.2 percent in the first quarter of 2000, after contracting 5.6 percent in 1999 and 23 percent in 1998. The pick-up in activity was mainly due to support from several infrastructure projects. The overhang in the stock of commercial buildings and higher-cost residential units, however, continued to constrain the growth of the sector. The construction sector accounted for 1.9 percent of GDP in 1999.

As part of the effort to stimulate economic recovery, the government increased fiscal spending on infrastructure and education in 1999. The budget allocated RM5.3 billion (U.S.$1.4 billion) for building or upgrading roads, bridges, rail, ports and civil aviation. Measures were introduced to increase construction of low- and medium-cost residential houses, for which there is strong demand.

CHAPTER III: POLITICAL ENVIRONMENT

Malaysia is a stable, multiracial constitutional monarchy with a parliamentary system of government. The United Malays National Organization (UMNO), the Malaysian Chinese Association, the Malaysian Indian Congress, and a number of regional parties comprise the ruling coalition, which has governed Malaysia since independence in 1957. UMNO is the dominant party and its president traditionally serves as the Prime Minister. The current Prime Minister, Mohammed Mahathir, has been in that position since 1981.

Malays form the largest ethnic group in Malaysia with about 55 percent of the population. Chinese comprise about 26 percent of Malaysia's population and Indians about seven percent. Other groups, including native peoples in Sarawak and Sabah in East Malaysia, compose the remainder of the population. Following ethnic riots in Kuala Lumpur in 1969, the Malaysian Government introduced policies intended to stimulate economic growth and to increase the percentage of wealth of the Malay community.

In November 1999 there were nation-wide elections for the Parliament and for state assemblies. The ruling Barisan National faced a coalition of PAS (the Malay-based Islamic Party of Malaysia), the Chinese-based Democratic Action Party (DAP) and the multiracial National Justice Party (Keadilan). The Barisan National won about 75 percent of the parliamentary seats, higher than the two-thirds goal it had set for itself, but it lost to PAS a sizable number of Malay voters who traditionally had supported UMNO. One reason given for the movement of Malay voters to PAS was their unhappiness with the treatment of former Deputy Prime Minister Anwar Ibrahim, who was forced from office in the fall of 1998 and was tried and convicted in April 1999 of four charges of corruption. He later was tried for sodomy. UMNO and PAS continue to contend for the support of Malay voters. In May 2000 Prime Minister Mahathir was reelected to a three-year term as UMNO President. He is likely to remain prime minister as long as he is UMNO's president. By law the next parliamentary election does not have to be held until 2004.

Political relations between the United States and Malaysia have been strained in recent years by a general deterioration in human rights and judicial independence in Malaysia, the questionable actions against former Deputy Prime Minister Anwar, and excessive Malaysian rhetoric. Nevertheless, in most areas, our overall relationship with Malaysia is quite good. Malaysia has cultivated an excellent relationship with the U.S. business community. The United States and Malaysia differ on some international issues, but work together on others. Malaysia was a strong supporter of NATO's action in Kosovo and has contributed to international peacekeeping forces.

Malaysia is a leading member of the Association of Southeast Asian Nations (ASEAN), an organization the United States supports strongly. Malaysia also generally has played a helpful role in Asia-Pacific Economic Cooperation (APEC), which includes the United States and most economies around the Pacific Rim.

CHAPTER IV: MARKETING U.S. PRODUCTS AND SERVICES

Marketing

U.S. firms active in the Malaysian market range from large multinationals such as Boeing, General Electric, R.J. Reynolds and Bechtel to numerous small and medium size firms that have discovered opportunities in this growing market. U.S. exports to Malaysia move through a wide variety of sales channels depending on the product or service. For example, U.S. electronic components are purchased directly by major U.S. and other multinational companies with manufacturing facilities in Malaysia. Much of that business is intra-firm. Similarly, oil and gas production equipment is purchased directly from suppliers by a relatively few major U.S. and third-country companies, as well as the Malaysian national oil company, Petronas.

Major U.S. exporters of computer software are present in Malaysia with offices and joint ventures. Software is also handled by a large number of retail outlets and local and international consulting companies. Capital equipment is almost always handled by in-country representation, either through locally hired firms or by placing a corporate representative in Malaysia.

Food and other consumer goods are typically sold by U.S. export wholesalers to Malaysian general import houses, which handle distribution to supermarkets and other outlets. U.S. fast food and other franchises (Kentucky Fried Chicken, McDonald's, Kenny Rogers, Chili's, Baskin-Robbins, TCBY, Domino's Pizza, Coffee Bean and Tea Leaf, Starbucks, etc.) involving local partners have proliferated rapidly in recent years, reflecting lifestyle changes as Malaysia's per capita income rises and urbanization accelerates.

U.S. firms in the retail sector include Avon, Toys R Us, Hallmark and Levi's, among others. U.S. food and other consumer goods are primarily marketed to the rapidly growing urban middle class, and so tend to occupy the upper end of the local retail price spectrum.

Sales to the government require a local agent and/or a joint venture partner. Moreover, for contracts of significant size, direct involvement by the U.S. company, including its senior leadership and demonstrations of long-term commitment to the local market are typically required. Offsets and/or technology transfer are usually an integral part of any deal. Prices on major government projects tend to be negotiated, often after a bidding process has narrowed the range of potential candidate suppliers.

Many recent Malaysian government projects have been centered on IT projects designed to act as catalysts in the development of Malaysia's Multimedia Super Corridor (MSC). For example, Microsoft and Electronic Data Systems have been awarded an "electronic-government" project while Motorola and Unisys successfully bid on the "smart payments card" and projects as part of consortia, which included local companies. Moreover, investments by all four firms in the MSC were considered to be prerequisites for pursuing MSC-related projects.

Major equipment sales to corporations in both the private and public sector also require local agents, usually a local presence, and the active engagement of corporate leadership. This strategy has paid off for a number of U.S. firms, including Harris, FMC, Adtranz and Honeywell, which have supplied passenger trams, jet ways and information systems to the new Kuala Lumpur International Airport. Likewise, Parsons has provided design and engineering services to a local Malaysian firm building one of Kuala Lumpur's two light rail transit systems. It should be noted that bumiputra (ethnic Malay) firms are often given preference in securing government contracts and privatization projects.

Many exporters designate an existing Malaysian-based trading company as their local sales agent, responsible for handling customs clearance of imported goods, dealing with established wholesalers and/or retailers, marketing the product directly to major corporations or the government and handling after-sales service.

In other cases, some exporters have found it advantageous to establish their own subsidiary company in Malaysia to directly handle sales, distribution and service. While this provides more direct control, it requires a commitment of capital and the identification of suitable local joint venture partners to establish such a company in Malaysia. The selection of a joint venture partner is perhaps the single most important decision made by a potential investor in Malaysia.

The Government of Malaysia, for its part, is working to attract companies to establish offices in Malaysia to deal with both the local market and the regional market. There appears to be a government preference for companies with a local presence when considering bids on major items. For example, the Multimedia Development Corporation (MDC) has publicly announced that bids from firms investing in the MSC will receive priority consideration when the government awards major contracts associated with development of the corridor (i.e., flagship applications).

Companies represented by offices outside Malaysia are often at a disadvantage in such major competitions or in establishing long-term markets with major private sector firms, especially in the architecture, construction management, and engineering sectors. In addition, a local presence usually ensures that the customer will have access to after-sales service and follow-up, very much valued by Malaysians.

A number of Malaysian and international advertising, accounting and consulting firms are present in Kuala Lumpur and can provide market survey services and advice on potential agents or partners for an interested exporter.

Advertising approaches differ depending on market sectors. Consumer goods advertising techniques include the full range of television, radio, newspaper, outdoor and other approaches. However, due to health/religious concerns, there are prohibitions on most types of advertising for tobacco and alcoholic beverages. Danish brewer Carlsberg, for example, was forced to pull its sponsorship of the Commonwealth Games in 1998.

Any firm intending to establish a local office should secure the services of a local attorney. A former British colony, Malaysia has a legal system based on British common law, making it more familiar to U.S. firms than legal systems based on European continental models. The Malaysian legal system is relatively transparent. There is a wide range of highly professional legal firms available.

Malaysia is in the process of drafting new legislation to strengthen its intellectual property rights (IPR) regime. IPR is covered by the Trade Description Act of 1972, the Patent Act of 1983, the Copyright Act of 1987 and the Industrial Designs Act of 1996. In 1997, four pieces of legislation passed the Parliament that extend IPR protection particularly to new information technology applications. The legislation, which has not yet been enacted, covers computer crimes, digital signature, telemedicine and includes a revision of the Copyright Act. In addition, Malaysia has acceded to the Berne and Paris Conventions and is a member of the World Intellectual Property Organization.

Sales of equipment and material to particular industries such as electronics depend heavily on specialized trade fairs, publications and visits by company representatives. Sales to the government or for large-scale projects involving major equipment require extensive high-level contact by local representatives and visiting company representatives. Major companies with investments in Malaysia or interest in significant export sales often also engage in continuing programs of company image building through articles and advertising in local business journals, sponsorship of conferences and other events, and participation in public-private sector consultative bodies.

Malaysia currently has four nationwide TV channels, two government (TV1 and TV2) and two private (TV3 and the recently initiated ntv7). Most television channels broadcast programs in the local language, Bahasa Malaysia, as well as in English, Mandarin and Tamil. ASTRO, a direct-to-viewer satellite service, and MEGA TV, a cable network, are also available in the country.

Malaysia has a number of English language papers, the largest being the New Straits Times and the Star. The primary business-oriented paper is the Business Times, published by the New Straits Times group. The major Malay-language newspapers are Utusan Malaysia and Berita Harian, while the largest Chinese papers are Sin Chew Pit Poh and Nanyang Siang Pau. There are also Tamil and other language newspapers. There are a number of business-oriented magazines, including Malaysian Business, Malaysian Industry and the Malaysian Investor.

Several companies publish reports and gather information on the performance and health of Malaysian companies, including Rating Agency Malaysia, United Management Services and D&B Information Services. For major corporate transactions, financial advisors and lawyers can and will perform due diligence prior to purchase. Publicly listed companies are required to publish audited financial results, which can be checked prior to entering into any business agreements. In smaller arrangements, letters of credit are a standard requirement of potential customers, while bank references and track records can be checked prior to appointing agents.

Setting Up Business in Malaysia

The primary concerns for those considering setting up an office or factory in Malaysia are registration, taxes, rental/construction prices, labor and wages, insurance, cleaning and utilities.

Companies doing business in Malaysia must register with the Registrar of Companies (ROC) under the Companies Act 1965, with total fees, including application and name reservation, ranging according to nominal share capital from RM1,180 to RM70,180 (U.S.$310.50-18,468).

Generally, the income of companies and individuals accrued in, derived from, or remitted to Malaysia is liable to tax. However, income remitted to Malaysia by non-resident companies and individuals is exempted from tax. Tax percentages range as follows:

company tax 28 percent (38 percent for the petroleum industry); personal income tax of non-resident individuals 28 percent; withholding tax 10-15 percent; sales tax 5-15 percent (ad valorem single stage tax on import and manufacturing level); service tax five percent.

As the result of extensive construction that occurred prior to the economic downturn, office space is now widely available. This overcapacity has made costs competitive and negotiable. Office rental rates run between RM1.00 and RM5.60 (U.S$0.26-1.47) per square foot, while factory rental rates are from RM0.70 to RM2.00 (U.S.$0.18-0.53) per square foot. Water and air conditioning are usually part of the rental cost while electricity and telephone are not. For those interested in factory buildings, costs range from RM40 to RM110 (U.S.$10.50-29.00) per square foot. Northern and western Malaysia have the cheapest rents and costs rise closer to Kuala Lumpur.

Using the seven-person office as an average, the cost for insuring liability and assets is about RM1,000 (U.S.$263) per month and office cleaning is roughly RM350 (U.S.$92) per month.

Labor Standards

The Employment Act of 1955 is the main legislation on labor standards in Malaysia. Normal work hours are not to exceed 48 hours per week or eight hours per one day. A paid maternity leave of 60 days must be granted, as well as ten paid holidays, annual leave of 8-16 days, paid sick leave 14-60 days per year and overtime pay of time-and-a-half for normal work days, two-times for rest days and three-times for holidays.

Minimum contributions of 11 percent (employee) and 12 percent (employer) to the Employee Provident Fund (EPF) are compulsory. The Social Security Organization (SOCSO) administers social security schemes for workers earning wages not exceeding RM2,500 per month. The Human Resources Development Fund (HRDF) operates on the basis of a levy/grant system where contributing companies can apply for grants to subsidize the costs incurred in training their Malaysian employees. Mandatory contributions of one percent of monthly employee wages must be made by manufacturing companies which employ 50 or more Malaysians and companies employing from 10-50 employees and with a paid-up capital of RM2.5 million (U.S.$657,000) and above.

Any expatriate on staff requires a work permit. Obtaining a permit may take from two to three weeks with a fee of about RM400 (U.S.$105) per month payable in advance for one year.

Wages in the manufacturing sector vary among executives with the average basic monthly salary ranging from RM2,558 (U.S.$673) for executives to RM5,893 (U.S.$1551) for senior managers to RM12,075 (U.S.$3178) for top executives. Monthly non-executive salary averages range from RM574 (U.S.$151) for unskilled workers to RM806 (U.S.$212) for semi-skilled laborers to RM1,480 (U.S.$389) for skilled workers/craftsmen. Most companies provide medical benefits to both executives and non-executives. Personal accident insurance is more commonly provided than life insurance and coverage is generally RM100,000 (U.S.$26,315) or above (senior-middle executive) and RM50,000 (U.S.$13,158) or below (non-executives).

Living in Malaysia

Kuala Lumpur and the surrounding areas offer a wide variety of housing suitable for expatriates requiring standards comparable to those in the U.S. House rentals vary from RM900-17,000 (U.S.$237-4,474) per month and apartments from RM500-11,000 (U.S.$.132-2895). The further from Kuala Lumpur, the cheaper the prices.

Due to the availability and reasonable cost, most expatriates in Malaysia have some domestic help. Live-in maids or amahs (childcare) charge from RM700-RM1,000 (U.S.$184-263) per month and part-time maids are paid from RM350-RM450 (U.S.$92-118) per month.

There are more than 30 international schools registered with the Ministry of Education, Malaysia. These schools are located in Kuala Lumpur, Labuan, Johor Bahru, Kota Bharu, Malacca, Mantin, Kuantan, Penang, Ipoh, Kota Kinabalu and Kuching. The International School of Kuala Lumpur offers an American curriculum with an application fee of RM500, registration fee of RM1,000 (U.S.$263) (pre-school) and RM13,000 (U.S.$3,421) (K-12), and annual tuition of RM16,100 (U.S.$4,237) (pre-school), RM24,400 (U.S.$6,421) (K-5), RM28,250 (U.S.$7,434) (grades 6-8) and RM30,650 (U.S.$8,055) (grades 9-12).

Quality health care is accessible in Malaysia with many reputable private hospitals, as well as numerous clinics and doctors who are experienced in the expectations and needs of expatriates. General practitioners charge from RM20 to RM80 (U.S.$5.30-21.00), while physicians, pediatricians and psychiatrists charge from RM55 to RM165 (U.S.$14.47-43.42). Hospital stays cost from RM60 (U.S.$15.79) (4-bed ward) to RM600 (U.S.$158) (VIP) per day; routine check ups from RM265 to RM565 (U.S.$70-149), and dental check ups from RM60 to RM150 (U.S.$16-39).

Most popular foods from around the world can be found in Kuala Lumpur. However, not all items are available all of the time. The further from Kuala Lumpur, the more difficult it becomes to find imported products, which are also significantly more expensive than local products.

Golf and tennis clubs are very popular in Malaysia. Corporate membership fees per nominee range from RM24,000 to RM100,000 (U.S.$6,316-26,316). Monthly subscriptions are from RM95 to RM125 (U.S.$25-32.80) and greens fees from RM50-RM290 (U.S.$13.15-76.32).

Utility Costs (RM[1] or Sen)

	Commercial	Industrial	Residential
Electric[2] (sen/kWh)	12.8-40[a]	11.8-40.[a]	500-1150/mo
Water (RM/m^3)	0.52-1.2	0.52-1.2	25-200/mo

Gas (RM/tank)	15-20	15-20	15-20
Sewerage[3] (RM/mo.)	7-10,500[b]	2-2.5/head	6-8
Waste Disposal[4] (RM/ton)		450-3,780[c]	
Telephone[d] (RM/mo.)	20-35		13-20
Internet[5e] (limited-RM/min)	0.025-0.04		0.01-0.04
(unlimited-RM/mo.)	100		50
Television[6] (RM/mo.)			MEGA 51[f] ASTRO 80[f]

[a]Based on voltage and time of day
[b]Based on annual value of property
[c]Based on form of waste (organic/inorganic, package/bulk) and mode of disposal
[d]Local calls – 9sen first 3 minutes then 3 sen for each additional minute or part thereof.
[e]Commercial one time membership fee of RM50 and annual fee of RM50; Residential one time membership fee of RM25 and annual fee of RM20
[f]MEGA refundable deposit of RM150 and installation of RM150; ASTRO transferable receiver set and satellite RM1199 and installation of RM200
[1] ; RM3.8=U.S.$1.0.
[2] Tenaga Nasional Berhad (TNB) in Peninsular Malaysia; Sabah Electricity Sdn. Bhd. (SESB) in the State of Sabah; Sarawak Electricity Supply Corporation (SESCO) in the State of Sarawak
[3] Managed by Indah Water Konsortim Berhad.
[4] Kualiti Alam Sdn. Bhd. is the designated company handling scheduled waste treatment in Malaysia.
[5] Internet services in Malaysia are provided by MIMOS Bhd. (Jaring), Telekom Malaysia Bhd. (TMnet), and Maxis Net. Digi and Celcom have also recently announced that they will be developing ISP services as well.
[6] Malaysia has four free TV channels and two subscription services. MEGA TV offers five channels including CNN and ESPN; ASTRO, a satellite service, provides 20 TV channels as well as 8 radio channels.

CHAPTER V: LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

Non-agricultural Sectors

Water and Wastewater

The water and wastewater treatment market still holds the largest opportunities (in dollar value terms) in the environmental sector and accounted for two-thirds of the U.S.$ 770 million market for environmental goods in Malaysia.

As reported in the latest issue of the Department of Environment Quality Report, the major sources of river pollution are livestock farming activities and domestic sewage discharges, earthworks and land-clearing activities, followed by agro-based and manufacturing industries. The major polluters are raw natural rubber factories, crude palm oil mills, textile, metal finishing and electroplating, paper, food and beverage plants. The small and medium-sized metal finishing and electroplating factories are significant contributors to the river pollution in Malaysia.

The water/wastewater market is highly competitive with domestic and foreign companies that are well established and provide adequate supply-treatment services and equipment. Centralized water supply and treatment systems for large industrial areas and housing estates, as well as tourist development projects, are some sectors in which private investment can take part. Sophisticated treatment systems, such as compact, space-saving systems (e.g., compact biological treatment and aeration equipment systems), are also very much sought after.

Other areas that U.S. firms can take part in are integrated wastewater services, pollution prevention technologies and wastewater recycling. This includes advanced waste recovery systems for solvents, waste oil, acids and metals, as well as ultrapure water technologies systems, especially for the wafer fabrication industry. High-tech water monitoring and analytical equipment and oil-water separators are also in demand. Most advanced chemicals used in water and wastewater treatment are imported from Germany, the United Kingdom and the United States, representing another opportunity.

Although U.S. environmental companies are highly respected for their advanced technologies and experience, they have failed to be as competitive as European and other Asian companies because of higher product costs and the perception of poor after-sale services. U.S. firms that have been successful in the Malaysian market are usually those that have some form of local presence; a well-connected local partner is extremely useful, especially when competing for government projects.

Environmental Sales Projections for Malaysia
U.S. Dollars (Millions)

	1998	1999	2000f
Wastewater	270	280	290
Water Supply	170	170	180
Solid Waste	110	110	110
Hazardous Waste	80	90	90
Air Quality	60	60	60
Environmental Consulting	40	40	40
Total Sales	730	750	770
Exchange Rates	4.0	3.8	3.8

Note: Projections are based on (1) GDP growth forecast by UNCTAD; (2) National Economic Recovery Plan’s forecast of GDP growth for Malaysia for 2000; (3) Asian Environmental Business Journal forecasts (1997). Qualitative sector-specific growth rates estimates from interviews with industry leaders. Source: US DOC, International Trade Administration 98113

eCommerce

According to International Data Consulting, a computer industry advisory firm, Internet Commerce Revenue in Malaysia totaled $18.01 million in 1998, increased to approximately $58.89 million in 1999, and could rise to $2.066 billion by 2003. According to the Technowledge Asia and Microsoft Malaysia survey, five percent of companies have an eCommerce program in place, three percent are in the implementation stage, and 34 percent are considering implementing a program in the near future.

Initially, the main focus of eCommerce in Malaysia had been in the business-to-consumer (B2C) sector. Due to the low traffic and low volume in this sector, and various other barriers, the industry has shifted focus to business-to-business (B2B) eCommerce. Since Malaysia is a product-based, manufacturing, and export-intensive country, eCommerce is seen as an important and suitable tool to boost the profits of many Malaysian companies. Industry experts believe that many companies understand that eCommerce will enable them to reach more customers, reduce their overhead costs, and ultimately help them become more efficient.

Although there is promise in eCommerce, there are also obstacles to eCommerce development, the most critical being a lack of understanding among companies on how eCommerce will benefit their business. The education process needs to emphasize the step by step process of implementing an eCommerce program. As many industry analysts mention, companies are not willing to invest a large sum of money unless they are reasonably sure that an eCommerce program will be successful.

According to PIKOM (Association of the Computer Industry in Malaysia), manufacturing, banking/finance, and distributive trade (wholesale trade) are the industries that are currently spending the most on IT products. Based upon discussions with industry insiders, these are the prime industries for procuring Internet/eCommerce products and services.

Some companies that are offering eCommerce products and services in this market include Andersen Consulting, Arthur Andersen, Applied Business Systems, Camtech Asia IT & T, Computer Systems Advisers (M) Bhd, CyberTouch, and Telekom Malaysia.

	U.S. Dollars/Persons (Million)		
	1998	1999	2000f
On-line Sales (U.S.$)	18.0	58.9	122.0
Internet Subscribers (Persons)	0.577	0.774	1.6
Internet Users (Persons)	1.2	2.8	6.4
Exchange Rate	4.0	3.8	3.8

Source: International Data Corporation (IDA), Asia Pacific reports; PIKOM (Association of the Computer and Communications Industry Malaysia)

Technical & Vocational Training

As the Malaysian government intensifies its efforts to increase worker skills and productivity and to transform the country into a knowledge-based economy (K-economy), Malaysia's technical/vocational training institutions are expected to play an increasingly important role in the future of the country's economy.

Every year, roughly 300,000 high-school age students take the national scholastic examination, i.e., the SPM. Usually only 68 percent of these students pass, and only around 30 percent of the passing students get to continue their education in government colleges, which are limited in space. The rest of the passing students have the option of entering a government-run polytechnic or government technical/vocational institution, both also limited in space and competitive, or a private institution. Thus, a large majority of students who pass the SPM, and all of the students who do not, must go either to a private technical/vocational institution or a private college if they are to further their studies. Many students go overseas for study, but this is expensive.

Currently there are only about 50 private technical/vocational institutions in the country, and just five are large ones. The lack of large private technical/vocational institutions is due to the high capital investment they entail. There appears to be more room for growth in the private technical/vocational institutions, especially in new technologies, including information technology. There is clearly a need for more technical/vocational institutions and the government is taking steps to build more.

Many Malaysian government ministries have expressed an interest in active participation from the U.S. in the local technical and vocational training scene. There is an increasing need to fill in the gap of emerging technologies, which the U.S. companies are more than qualified to do. Information technology and multimedia will be the future enabling tools to increase the efficiency, productivity and competitiveness of the economy. Various initiatives were taken to promote the use and development of IT, including the launching of the Multimedia Super Corridor (MSC).

Some of the areas that have been identified which U.S. companies can contribute to the technical/vocational training providers are:

- IT and Multimedia
- Distance Learning and Internet Technologies
- Manufacturing (utilizing advanced technologies)
- Engineering, Electronics, Telecommunication
- Aviation, Aerospace, Marine Technology
- Medicine, Chemical Engineering, Automotive Engineering
- Educational Management Information Systems
- Curriculum Development
- Standards Development for technical/vocational training providers
- Consultancies/ Staff Training.

Medical/Healthcare Sector

Malaysia is currently equipped with 150 government hospitals and 3000 clinics. Each of the 13 states has its own government hospital, and government clinics proliferate in almost every town and village in the country. In addition to government facilities, there are 214 private hospitals licensed by the Ministry of Health (MOH) and 70 private or NGO-sponsored haemodialysis centers.

Although the healthcare network is extensive, nearly all medical equipment, instruments and supplies are imported. The U.S. has always been competitive in this market, with probably a 50 percent share of the market (in terms of units). Competition comes from Japan, Germany and Australia.

There will be an increased focus on IT in medical care and health services administration, especially in areas such as telemedicine, engineering and continuing medical education. As part of the Multimedia Supercorridor (MSC) initiative, four pilot telemedicine projects are underway. These will focus on antenatal and prenatal health and management, cardiovascular health and management, cancer prevention and management, and injury prevention and management. As the government aggressively pushes for technology integration in the healthcare sector, opportunities exist for U.S. technology providers.

In the next five years efforts will be concentrated on the following areas:

- Undergraduate medical education
- Establishment of telemedicine and IT
- Promotion and usage of traditional medicine
- Containing healthcare costs
- Primary care clinics network
- Country wide distribution of private hospitals
- More private laboratories
- Increased individual healthcare self management
- Creation of networking and paperless hospitals

Malaysia is also trying to promote itself as a center for “health tourism” for citizens from less-developed countries (e.g., Myanmar, Laos, the Middle East), which lack sophisticated services, as well as for those from countries where healthcare is very expensive (e.g., Europe and the U.S.).

Medical Equipment Market
U.S. Dollars (Millions)

	1998	1999	2000f
Total Imports	173.6	195.1	214.5
Imports from the U.S.	42.1	46.8	52.4

Exchange rate	4.0	3.8	3.8

Note: Although Malaysia exports about U.S.$209.95 million of its medical products, they are mainly catheters, surgical gloves, examination gloves, condoms, endotracheal tubes, sutures, pumps, syringes, needles, etc., which are not included in the medical equipment definition, for this purpose.

Urban & Mass Transportation Sector

The Klang Valley, which incorporates the city of Kuala Lumpur and its surrounding areas, lacks a coordinated public transportation network. As a result, the Malaysian government is likely to come out with a plan soon to merge, amalgamate or integrate all or some of the public transport companies operating in the Klang Valley and around the country. These include mostly operators of rail and bus networks, many of which were privatized prior to the recession of 1998-99. As this restructuring occurs, opportunities exist for U.S. companies involved in public transportation.

Major rail projects, both urban and cross-country, include:

- the RM1.14 billion (U.S.$300 million) Kuala Lumpur monorail project (8.6 km track), or Kuala Lumpur People Rapid Transit (KLPRT), which was resumed in mid-1999 after having stopped for over a year due to financial constraints;
- the RM2.4 billion (U.S.$632 million) Express Rail Link (ERL) project, which will connect KL Sentral (the main railway station in the Kuala Lumpur City) with Kuala Lumpur International Airport (KLIA);
- the RM1.6 billion (U.S.$420 million) Rawang-Ipoh (about 200 km) electrified double-track project, which will link Kuala Lumpur and the city of Ipoh and cut the travel time between the two cities to two hours from four;

- the RM400 million (U.S. $105 million) Petronas railway project (72 km) linking Kerteh, an oil and gas landing and processing center, and Kuantan, a petrochemical center, to facilitate transportation of raw materials for industrial needs;

- a RM383 million (U.S. $100 million) KTM national railway project involving the construction of a 31.5km single track rail to connect the Port of Tanjung Pelapas (PTP) to the national rail grid.

In addition, several multi-million dollar expressways and highways are being constructed or being planned. The potential exists to supply intelligent toll systems and electronic display systems for these expressway projects, and also heavy construction equipment.

Railway and Related Equipment
U.S. Dollars (Millions)

	1998	1999	2000f
Total Market Size	150	100	180

Total Local Production	65	84	105
Total Exports	5	3	5
Total Imports	90	19	80
Imports from U.S.	3	3	5
Exchange Rate	4.0	3.8	3.8

Franchising

The concept of franchising is not new in Malaysia. The Singer Sewing Machine Company is believed to have been one of the first franchise systems introduced in Malaysia in the 1950’s and was followed by fast food retailing in the form of A&W, KFC and McDonald's. Today, the franchise industry in Malaysia is made up of more than 200 franchisors and more than 1,000 franchisees, resulting in more than 2,500 outlets. In recent years, the franchise industry has registered an average annual growth rate of around ten percent. It now comprises approximately four percent of the total number of retail outlets in the country and accounts for approximately five percent of total retail sales.

In the Seventh Malaysia Plan, franchising was identified as one of the growth strategies for the structural change and upgrading of the distributive trade industry. In 1995, its contribution was 12.1 percent of Malaysian GDP and is anticipated to increase by 12.7 percent by the end of 2000.

The Government of Malaysia (GOM) plays an instrumental role in promoting franchising in Malaysia. Under the Ministry of Entrepreneur Development, many programs and facilities have been created to facilitate franchising among bumiputra (ethnic Malay and other indigenous groups) middle-class entrepreneurs.

The Franchise Act, which went into effective in mid-1999, makes it mandatory for franchisors and franchisees to register with the Ministry of Entrepreneur Development. The objective is to keep track of the growth of the franchise industry in the country. The Act also seeks to regulate such matters as predisclosure and registration requirements for franchise businesses.

While the severe economic downturn (1997-1999) forced many corporations to retrench employees, the government recognizes that franchising represents a potential opportunity to get retrenched workers, especially experienced middle managers (some of whom receive substantial pay-outs) working again. In fact, many consultants are incorporating franchising into the compensation plans of retrenched employees.

The GOM is encouraging the participation of large corporations in the franchise sector. Major franchise companies such as Johor Corporations, Berjaya Group and Antah Holdings have been actively involved in franchising.

American franchises, particularly in the fast food and restaurant sectors, remain extremely strong in the marketplace. This is especially true since the majority of the world's franchising originates in the United States. In Malaysia, American franchises account for about 70 percent of the total foreign franchise sales.

The business sectors identified as potential businesses to be developed as franchise businesses are:

- Food industry, bakery and local cuisine
- Services industry, such as laundry and distribution of electrical goods
- Education
- Information Technology, such as computer services
- Homegrown products or business systems with export potential
- New or innovative products in growth industries
- Halal products, i.e. those acceptable for consumption by Muslims

MALAYSIAN FRANCHISE MARKET

	1998	1999	2000f
Total franchise sales	632	660	696
Sales by local franchises	76	80	86
Sales by foreign franchises	556	580	610
Sales by U.S. franchises	390	410	430
Total number of outlets	2,500	2,700	3,000
Exchange Rate	4.0	3.8	3.8

Modernization of the Financial Services Sector

Due to the ongoing consolidation and restructuring of Malaysia's financial industry, there are ample opportunities for foreign consultants with expertise in mergers and acquisitions, restructuring, efficiency improvement, financial instruments and information technology.

The fast track mergers that are presently taking place among the Malaysian banking institutions (to result in ten core banking groups by end-2000) are providing opportunities for foreign consulting firms. Many U.S. companies have already been engaged to perform due diligence and valuation of banking institutions. The areas of required expertise that will be needed by the anchor banks, according to their feedback, are as follows:

- Information Technology
    - for merging the operations of all the banking institutions into one entity
    - Electronic Banking to support new products required to make the banks more competitive
    - E-Banking solutions & hardware
    - Security solutions & hardware

- Human Resource Development
  - to prepare the banks for management change and culture change as a result of the mergers
- Risk Management
  - to improve the banks' management of risk
- Globalized Banking
  - to strategize and structure new products and systems required to make the banks competitive in the global market environment

The U.S. consultants that have been engaged by the financial community recently include Solomon Smith Barney, Arthur Andersen, Boston Consulting Group, Morgan Stanley and Goldman Sachs.

The upcoming mergers of the insurance companies and stockbroking companies will also require a similar type of expertise.

There are numerous opportunities for the services and products of U.S. companies in the financial sector over the next few years as the whole financial system consolidates and merges to prepare itself for the new global environment and technology. Furthermore, the financial institutions are also looking for strategic alliances with foreign companies with relevant expertise and global networks to prepare themselves for the new economy.

Automotive Parts and Components

Malaysia represents one of the biggest automobile markets in Southeast Asia. In the first quarter of 2000, 75,660 cars were sold in Malaysia, versus 54,784 sold in the same quarter in Thailand. Although the Malaysian automotive market is highly protected by the Government of Malaysia, the demand for imported automotive parts and components should improve as Malaysia plans to lower its import duties on car parts and components to five percent or less by January 1, 2002.

Malaysia's national car program, begun in the early 1980's, was designed to protect and promote the country's local automobile manufacturers, namely Proton and Perodua. Tariffs on automobiles range from 42-80 percent on completely knocked down (CKD) cars and from 140-300 percent on completely built up (CBU) cars. Likewise, tariffs on imported four-wheel drives and multipurpose vehicles (MPVs) are also high (10-40 percent for CKD and 60-200 percent on CBU). Imported vans also attract higher tariff rates (5-40 percent on CKD and 42-140 percent on CBU).

Largely as a result of this protection, Proton is the number one brand of car not only in Malaysia, where it commands a market share of roughly 70 percent, but also throughout ASEAN. The market share breakdown of motor vehicle brands in ASEAN in the January 1999 – August 1999 period was as follows: Proton (23 percent), Toyota (22 percent), Perodua (13 percent), Isuzu (9 percent), Mitsubishi (9 percent), Honda (6 percent), Nissan (6 percent), Other (12 percent).

Under the ASEAN Free Trade Area (AFTA) agreement, Southeast Asian countries were to have cut import duties on automobiles by 2003. Malaysia, however, has asked for an extension of at least two years to meet this deadline. ASEAN Trade Ministers in a recent meeting granted this request, although Malaysia intends on opening its parts and components market sooner.

Meanwhile, Proton is launching a new model, Waja, later in 2000. The Waja is available in engine options of 1.6 and 1.8 liters, either in manual or automatic models. Proton expects to sell 40,000 to 50,000 units of Waja annually. Proton is optimistic that domestic purchasers will absorb its entire production of Waja. However, the car is also targeted for export. For the first four months of 2000, sales of Proton cars exceeded 56,000 units and, with the new model, total Proton sales could reach 180,000 units this year, or 70 percent of the market. Last year, Proton sold 157,000 cars.

Motor Vehicles, Parts & Accessories
U.S. Dollars (Millions)

	1998	1999	2000f
Total Market Size	1,966	3,462	4,170
Total Local Production	1,659	2,542	3,035
Total Exports	298	256	270
Total Imports	605	1,176	1,405
Total Imports from U.S.	10	47	55
Exchange Rate	4.0	3.8	3.8

Renewable Energy and Energy Efficiency

Malaysia's energy policy has been based on a four-fuel strategy: oil, gas, hydro and coal. Of these, gas is dominant. Almost 70 percent of Malaysia's electricity is supplied via gas-fired power plants. Previously, oil was dominant, but Malaysia has successfully converted to gas given its abundance in Malaysia and its lower cost, both in terms of money and pollution generated.

However, Malaysia is currently interested in devising a five-fuel policy, with so-called "renewable energy" making up the alternative source. The reasoning behind this initiative is two-fold: first, energy experts have determined that Malaysia now relies too heavily on gas and should diversify even further; and second, Malaysia is aware of – and would like to reduce – the pollution caused by the other options. The Government of Malaysia is in the process of devising this "five-fuel" policy into the Eighth Malaysia Plan, which covers the period 2001-2005. (Malaysia's industrial development has been driven by a series of five-year economic plans. The country's goal in the Seventh Malaysia Plan was to reduce its dependence on oil.)

This policy initiative could present opportunities for U.S. firms involved in renewable energy and energy efficiency. A recent study has found that the most promising areas for renewable energy in Malaysia are in the conversion of biomass waste to energy, and in solar-power applications. Furthermore, as Malaysian industry becomes increasingly aware of the bottom-line benefit of energy efficient equipment and applications, demand for these should rise.

Energy Efficient Equipment Sales Projections for Malaysia
U.S. Dollars (Millions)

	1998	1999	2000f
Total Market	166.8	175.2	187.4
Total Local Production	38.9	40.9	43.7
Total Imports	127.9	134.3	143.7
Total U.S. Imports	25.6	26.9	28.7
Exchange Rates	4.0	3.8	3.8

- Projections extrapolated from Hagler-Bailley data and based on assumption that the energy efficiency market growth mirrors GDP growth. U.S. Imports based on Commercial Attache estimates.

Agricultural Sectors

Fresh Fruits

Exports of U.S. high value products including fresh fruits are expected to increase with economic recovery. U.S. apples, oranges and grapes have always been lucrative export products because of their popularity among Malaysian consumers. U.S. exports of these fruits are projected to increase by about 30 percent in 2000.

Fresh Fruit Market
US Dollars (Millions)

	1998	1999	2000f
Total Market Size	51.6	51.9	67.5
Total Imports	51.6	51.9	67.5
Imports from the U.S.	20.1	15.1	19.6

Source: Malaysian Department of Statistics and Foreign Agricultural Office estimates

Temperate Hardwood and Softwood

The Malaysian furniture/interiors sector continued to achieve impressive growth. In 1999, another 9,547 condominium/apartment units and a total lettable area of 854,000 sq meters (office and retail) were completed in and around Kuala Lumpur. In addition, 97 new hotels/resorts were completed with 22,662 rooms in the country. New hotels/resorts are under construction in new growth areas near the new Kuala Lumpur International Airport and the new and modern seaport named Westport. The GOM is in the midst of building a new Administrative Center and city at Putrajaya with impressive governmental and residential buildings, a grand mosque and recreational facilities. All these developments provide tremendous opportunities for the expansion of the furniture/interiors sector and the increased usage of U.S. hardwood.

Malaysia is the top exporter of furniture in the ASEAN region with export earnings increasing by 20 percent to RM3.9 billion (U.S.$1.02 billion) in 1999. During 1999, the United States continued to be the largest single market for Malaysian wooden furniture (37 percent), followed by Japan (14 percent), Singapore (9 percent) and United Kingdom (9 percent). There was also a significant market diversification of local furniture-related products exported to 176 countries last year as compared with 142 in 1998.

Much of the success of the Malaysian furniture industry is directly attributable to coupling cheaper native woods, such as rubberwood, with high-value veneers from the U.S. Strong increases in market shares of U.S. temperate hardwood veneer in past years confirm this trend. As Malaysia aims to be among the top ten furniture exporters in the world by 2005, the U.S. wood industry, if properly positioned, would largely benefit from the realization of such a vision.

The American Hardwood Export Council (AHEC) has done a commendable job of increasing the awareness of U.S. hardwoods in Malaysia. Their main activities - educational programs for the furniture industry, seminars, trade shows and conventions - are highly relevant in assisting U.S. expansion in this region. It may also be appropriate to conduct a seminar dealing with the technical application of popular U.S. hardwoods in making furniture and flooring in Malaysia. U.S. wood suppliers should participate at trade shows to make direct contact with local furniture manufacturers. With concerted marketing efforts, U.S. market share can increase.

Temperate Hardwood Veneer
U.S. Dollars (Millions)

	1998	1999	2000f
Total Market Size	20	25	29
Total Imports	20	25	29
Import from the U.S.	10	14	17

Temperate Softwood Veneer
U.S. Dollars (Millions)

	1998	1999	2000f
Total Market Size	7	9	12
Total Imports	7	9	12

Import from the U.S.	2	3	5

Source: Malaysian Department of Statistic and Foreign Agricultural Attaché estimates

Note: All tables in this section use rough exchange rates of RM2.8/US$1.0 for 1997, RM4.0/US$1.0 for 1998 and RM3.8/US$1.0 for 1999. Some markets may be growing in ringgit terms but contracting in U.S. dollar terms due to currency devaluation. f-indicates forecast figures.

CHAPTER VI: TRADE REGULATIONS AND STANDARDS

Within the Government of Malaysia, the Ministry of International Trade and Industry (MITI) is primarily responsible for the formulation and implementation of trade regulations and policies. Information about licensing and tariffs is available from the Customs Department. Malaysia follows the Harmonized Tariff System (HTS) for the classification of goods.

The Government of Malaysia operates a system of import licensing. Import licenses are required for a number of items, including arms and explosives; motor vehicles; certain drugs and chemicals; plants; soil; tin ore, slag or concentrates; and various essential foodstuffs. In October 1997, Malaysia imposed a restrictive licensing regime on imports of heavy construction equipment. Another license requirement was established in April 1999 for certain iron and steel products. Similarly, an import permit requirement for certain electrical household goods was imposed in April 1999 for safety reasons. Prohibited imports include multicolor copying machines, any “indecent or obscene” articles and certain poisonous chemicals.

In May 1999, the Malaysian Government announced new requirements for the licensing and operation of direct selling companies. These requirements include a) no more than 30 percent of the locally incorporated company can be foreign owned, b) local content of products should be no less than 80 percent, c) no new products would be approved for sale that did not meet local content requirements, and d) all price increases would be approved by the Ministry of Domestic Trade and Consumer Affairs (MDTCA). These guidelines also spell out the conditions under which companies may receive one, two and three year licenses. The Ministry indicated that the local content targets are not mandatory, except for adherence to Malaysia’s national equity policy supporting bumiputra (ethnic Malay) participation in the economy. In May 2000, the Minister announced that license issuance for direct selling companies would be frozen pending a review of existing licenses and company operations.

All imported beef and poultry products must originate from facilities which have been approved by Malaysian authorities as “halal,” or acceptable for consumption by Muslims.

Raw materials used directly for the manufacture of goods for export are exempted from import duties if such materials are not produced locally or if the local materials are not of acceptable quality and price. This provision, for example, applies to Malaysian imports of semiconductor components used in the fabrication of completed semiconductors for export. Exemptions from duties are also available for machinery and equipment used directly in the manufacturing process or not available locally.

Tariffs are the main instruments used to regulate the importation of goods in Malaysia. Import duties range from zero to 300 percent. Seventeen percent of Malaysia's tariff lines (principally in motor vehicle, construction equipment, forestry, logging, agricultural, and minerals sectors) are also subject to non-automatic import licensing designed to protect import-sensitive or strategic industries. The higher rates apply to luxury goods and protected sectors such as automobiles. The level of tariff protection is generally lower on raw materials and increases for those with value-added content or which undergo further processing.

In the 2000 budget, the Malaysian Government abolished duties on 43 food categories and reduced duties on 136 additional categories of food products. The Government abolished or reduced significantly import duties on prepared cereals, prepared vegetables, prepared/preserved fruits, nuts, fruit juices, pasta and various seafood items. However, tariffs on leaf tobacco, cigarette products, alcoholic beverages and some processed and high-value food products remain high. Imports of chicken parts are regulated through licensing and sanitary controls. The sole authorized rice importer is a government corporation with the responsibility of ensuring purchase of the domestic crop and wide powers to determine imports. In December 1993 and April 1994 protective tariffs (with a planned five-year duration) were imposed on imports of plastics, resins, and craft paper. After review, in 1998, tariffs on plastic resins were lowered to 20 percent. In addition to import duties, a sales tax of ten percent is levied on most imported goods. Like import duties, however, this sales tax is not applied to raw materials and machinery used in export production.

All imported consumer goods must identify the importing agent, typically accomplished by affixing a label after goods have cleared customs. Prepackaged drugs must be labeled in English or Bahasa Malaysia indicating the substance and its components. Food labels must indicate the use of additives and shelf life.

Quantitative import restrictions are seldom imposed, except on a limited range of products for protection of local industries or for reasons of security. For example, a system of quantitative licenses has been instituted for the import of certain plastic resins, for the purpose of protecting a domestic petrochemical operation.

Malaysia also has an export licensing system. In some cases, such as textiles, export licenses are used to ensure compliance with bilateral export restraint agreements. In other cases, such as rubber exports, special permission from government agencies is required. Export duties are imposed on the principal commodities: petroleum, timber, rubber, pepper, palm oil, and tin. For petroleum this duty is a flat rate of 25 percent. For other commodities it is calculated on the basis of a threshold price and no duty is charged if the price falls below the given threshold. The government revised export levies for timber-based products -- removing them entirely for some species -- to encourage and spur exports during the economic downturn. Rubberwood, however, is subject to an export quota.

Malaysia introduced a "cess" in 1990 to assist in the management of over-logged forests. Funds raised from the Forest Development Cess are used to implement a program designed to achieve the International Tropical Timber Organization guidelines specifying that all timber must come from sustainably-managed forests by the year 2000. The state of Sabah, however, does not impose a cess and does not impose levies.

Malaysia has Free Zones (FZ’s) in which export-oriented manufacturing and warehousing facilities may be established. Raw material, products and equipment may be imported duty-free into these zones with minimum customs formalities. Companies that export not less than 80 percent of their output and depend on imported goods, raw materials and components may be located in these FZ’s. Goods sold into the Malaysian economy by companies within the FZ’s must pay import duties. In addition to the FZ’s, Malaysia permits the establishment of licensed manufacturing warehouses, which give companies greater freedom of location while enjoying privileges similar to operating in a FZ.

Ports, shipping and maritime-related services play an important role in Malaysia since 90 percent of its international trade is seaborne. The government is presently promoting Port Klang (Westport and Northport) as a regional load and transshipment center. In this effort to divert shipping to Malaysian ports, the government has designated Port Klang as a Free Commercial Zone. Other ports with Free Commercial Zone status are Penang Port and Johor Port.

Malaysia is a member of the ASEAN Free Trade Area (AFTA) which aims to reduce trade barriers among the member countries (Malaysia, Indonesia, Singapore, Thailand, the Philippines, Brunei, Vietnam, Laos, Myanmar and Cambodia) over a 15-year period. Progress to date has been relatively slow, though the target date for completing AFTA has been advanced to 2003. In May 2000, Malaysia received approval from its ASEAN partners for an extension of its commitments under AFTA to reduce tariffs in the automobile sector and on selected agricultural products until 2005. Malaysia has also requested an extension of its commitments under the World Trade Organization (WTO) Agreement on Trade-Related Investment Measures (TRIMS) to eliminate local content requirements in the automotive sector.

CHAPTER VII: INVESTMENT CLIMATE

Openness to Foreign Investment

The Malaysian government encourages foreign direct investment, particularly in export-oriented manufacturing and high-tech industries, but retains considerable discretionary authority in approving individual investment projects. Outside the export sector, in keeping with long-standing public policies designed to increase bumiputra (ethnic Malay) participation in the economy, the Malaysian government encourages or requires joint ventures between Malaysian and foreign companies, limiting foreign equity and employment.

Malaysia actively woos foreign investment in the information technology industry, particularly in the Multimedia Super Corridor (MSC), an ambitious project underway to transform a 15-by-40 kilometer area stretching south from Kuala Lumpur into Asia's version of Silicon Valley. Foreign investors in the MSC receive a host of tax and regulatory exemptions (see Appendix A) in exchange for a commitment of substantial technology transfer to the local economy. In the services sector, the government promotes foreign investment in information technology, hotel and tourism, research and development (R&D), and training. Malaysia does not actively seek foreign investment in financial or professional services or foreign participation in agriculture or construction. Foreign investment is also restricted in the oil and gas industries.

The Malaysian industrial development authority (MIDA) screens all proposals for manufacturing projects in Malaysia, both foreign and domestic. MIDA determines whether each project is consistent with the Second Industrial Master Plan (1996-2005) and government strategic and social policies. Applications for investment in other sectors are handled by the relevant regulatory agency.

Investment regulations are specified in the Promotion of Investments Act of 1986 and the Industrial Coordination Act of 1975. The Securities Commission and the Foreign Investment Committee implement the regulations specified in the Malaysian Code on Takeovers and Mergers. The Foreign Investment Committee also formulates policy guidelines for foreign participation in non-manufacturing sectors.

In 1998, in response to the financial crisis, the Malaysian government relaxed existing restrictions on foreign equity in new manufacturing projects. Foreigners may now hold 100 percent equity in any new manufacturing project for which MIDA approves a license between July 15, 1998, and December 31, 2000, whether export-oriented or not. Foreign equity holders will not be required later to divest or dilute their equity holdings in projects approved during this period.

This relaxed policy applies only to new projects (both green-field and expansion) and is subject to review and amendment after December 31, 2000, after which time the government may return to its previous policy. Previously, foreign ownership in manufacturing firms was generally limited to a 30 percent share. Greater shares, up to 100 percent, are permitted depending on export orientation. See Appendix B for elaboration of present and previous Malaysian government policies on equity ownership in new manufacturing projects.

Most existing foreign-owned manufacturing firms are required by their licenses to export a certain percentage of their production. However, these export requirements for existing manufacturing projects have been temporarily relaxed. Between January 1, 1998, and December 31, 2000, any existing manufacturing firm, regardless of the export target specified in its manufacturing license, may apply to the Ministry of International Trade and Industry (MITI) for permission to sell up to 50 percent of its product on the domestic market.

The Malaysian government has also loosened foreign-held equity restrictions in several other industries. Permitted foreign ownership in telecommunications firms increased from 30 percent to 61 percent, though foreign equity should be reduced to 49 percent after five years. Foreigners may now hold a 70 percent stake in shipping companies (up from 49 percent), 49 percent in forwarding agencies (from 30 percent) and 51 percent in insurance companies (from 49 percent).

Malaysia promotes the acquisition of economic assets by bumiputras to create a balance of wealth among races. The government often requires foreign and domestic firms to take on bumiputra partners (usually 30 percent of share capital) and to maintain a workforce that proportionately reflects Malaysia's ethnic composition.

Malaysia offers a number of fiscal incentives to foreign manufacturing investors (see Appendix C). Historically these incentives have been linked to performance criteria such as export-percentage requirements, as specified in individual manufacturing licenses. As mentioned above, however, export requirements have recently been relaxed, which will not affect the benefits and incentives that firms receive.

Project approval depends on many factors. MIDA may consider the size of an investment, the export-orientation of production, the percentage of local equity participation, the type of financing (both local and offshore) required, capital/labor ratio, the potential for technological diffusion into the local economy, the ability of existing and planned infrastructure to support the effort, and the existence of a local or foreign market for the output. The criteria are applied in a non-discriminatory manner, except in instances where both a local and foreign firm propose identical projects. All requests are handled on a case-by-case basis.

In an effort to insulate the Malaysian economy from risks posed by volatile short-term capital flows, the government imposed selective capital controls on September 1, 1998, and fixed the exchange rate of the Malaysian ringgit at RM3.8/U.S.$1.0. See Appendix D. In September 1999, the government relaxed most of the currency controls imposed on foreign investments in Malaysian securities. It replaced a multi-tiered exit tax with a simplified flat ten percent levy applied to profits taken out of Malaysia regardless of when the investment was made. The government maintains that these current measures will remain in place until the international financial community imposes more strict regulations on international currency trading. While Malaysia's current account remains fully convertible, the measures made the ringgit non-tradable overseas. Foreign portfolio investors may still trade in Malaysian securities and derivatives. However, transactions must be made through authorized brokerage firms.

Following introduction of the selected capital controls, the Malaysian parliament amended the Companies Act to restrict the payment of dividends to an amount not exceeding the after-tax profit of that financial year or the average of the dividends declared for the two years preceding that financial year. The 2000 budget repealed this amendment.

Foreign participation in commercial banking remains restricted, with foreign equity limited to an aggregate 30 percent in any single institution. For virtually all publicly listed companies, only a minority portion of stock is available for trading; the majority is often held by the principal shareholders. Malaysia has maintained a robust privatization program that slowed as a result of the recent economic downturn. Foreign participation is generally welcome at all stages of the program. Foreign firms are able to participate in government-financed research and development programs.

Major Taxation Issues Affecting U.S. Business

A company is a tax resident in Malaysia if its management and control is exercised in Malaysia, that is, if directors' meetings are held in Malaysia. Resident companies pay an income tax of 28 percent on all income. Payments made to non-residents for technical or management services and rental of movable properties are subject to withholding tax at the rate of ten percent.

Tax authorities normally collect taxes within 30 days after the issuance of a notice of assessment. However, companies are required under the compulsory tax payment scheme to pay tax in bimonthly installments for each assessment year commencing from the month of January or February based on an estimate of tax payable. Tax on royalties, rental of movable properties, technical or management service fees and interest received by non-resident companies are collected by means of withholding tax. The withholding tax is payable within one month of crediting the non-resident company.

Through 1999, taxes were assessed on the previous fiscal year's income. Starting in 2000, the tax collection system changed to a present-year assessment. The result of the changeover is that no taxes were assessed on income earned in 1999, although taxpayers are permitted to carry forward and write off losses incurred during 1999.

Conversion and Transfer Policies

Despite the imposition of selective capital controls, Malaysia's current account remains fully convertible. Importers and exporters have sufficient access to foreign exchange to meet their needs. The Central Bank has shown flexibility in exercising the capital control measures imposed in 1998. Ringgit earned by foreigners in the form of salaries, interest payments and dividends may be converted into foreign currency for repatriation abroad.

All payments to other countries must be made in foreign currency, other than the currency of Israel, Serbia or Montenegro, through authorized foreign exchange dealers. Depending on the size of their monthly receipts, resident exporters and approved operational headquarters are allowed to retain a maximum of U.S.$10 million in export proceeds in foreign currency accounts. Resident and non-resident travelers may carry no more than RM1000 into or out of Malaysia. Residents may not carry out foreign currency more than the equivalent of RM10,000 (U.S.$ 2632). Non-residents may carry out any amount of foreign currency up to the amount they carried in.

Expropriation and Compensation

The Embassy is not aware of any cases of uncompensated expropriation of foreign-held assets by the Malaysian government. The government's stated policy is that all investors, both foreign and domestic, are entitled to fair compensation in the event that their private property is required for public purposes. Should the investor and the government disagree on the amount of compensation, the issue would be referred to the Malaysian judicial system, which has proved capable of enforcing property and contractual rights.

Dispute Settlement

Malaysia is signatory to the UN-sponsored convention on the settlement of investment disputes. The domestic legal system is open and accessible. Past cases of foreign investment disputes, which have been rare, have consistently been handled satisfactorily by existing dispute settlement mechanisms. Many firms chose to include mandatory arbitration clauses in their contracts.

Should local administrative and judicial facilities fail to satisfy claimants, a dispute would be submitted to the International Center for Settlement of Investment Disputes (ICSID) under the aegis of the United Nations. The government has set up the Kuala Lumpur Regional Center for Arbitration under the auspices of the Asian-African Legal Consultative Committee to offer international arbitration, mediation and conciliation for trade disputes.

Performance Requirements/Incentives

Fiscal incentives granted to both foreign and domestic investors historically have been subject to performance requirements, usually in the form of export targets, local content requirements and technology transfer. Performance requirements are usually written into the individual manufacturing licenses of local and foreign investors. Some performance requirements for existing projects have recently been relaxed.

In general, however, if a firm (foreign or domestic) fails to meet the terms of its license, it risks losing any tax benefits it may have been awarded. In extreme cases, a firm could lose its manufacturing license. The government has stated that, in the long term, it intends gradually to eliminate most of the fiscal incentives now offered to foreign and domestic manufacturing investors.

Appendix A lists benefits for companies with MSC status. Appendix B describes the conditions of foreign equity structure. Appendix C lists investment incentives in the manufacturing sector.

Right to Ownership and Establishment

Foreign-held equity limits have been lifted for new manufacturing projects approved through December 31, 2000, although projects approved before July 1998 are still bound by the equity structure specified in their individual manufacturing licenses, normally 30 percent if production is targeted at the domestic market. Foreign ownership permitted in local fund management companies is 70 percent for companies working with both local and foreign clients and dealing with both institutional and unit trust funds. Forty-nine percent foreign ownership is permitted in brokerage companies.

Malaysia has also temporarily eased equity restrictions on licensed telecommunications companies. Under measures announced in May 1998, foreign ownership in telecommunications companies may rise as high as 61 percent, but must through divestiture or dilution not exceed 49 percent after five years.

Under the Insurance Act of 1996, foreign insurance subsidiaries were required to incorporate their operations locally by June 30, 1998. However, the government has granted individual extensions to this deadline. Foreign shareholding exceeding 49 percent is not permitted unless the Malaysian government approves higher shareholding levels. As part of the 1997 WTO Financial Services Agreement, Malaysia committed itself to allowing existing foreign shareholders of locally incorporated insurance companies to increase their shareholding to 51 percent. New entry by foreign insurance companies is limited to equity participation in locally incorporated insurance companies and aggregate foreign share in such companies may not exceed 30 percent.

Certain financial industries have additional barriers to entry. For example, the government severely restricts establishment in the financial service industry. No new banking or insurance licenses, except for re-insurance firms, are being issued. Foreign firms wishing to enter this market may purchase equity in existing firms. In February 2000, the government approved substantial consolidation of the banking industry into ten “anchor” banks to create stronger, more competitive institutions that might better withstand future fluctuations of the global financial market. Financial institutions are required to complete their merger plans by January 2001.

The Malaysian government maintains broadcast content quotas on both radio and television programming. Eighty percent of television programming must originate from local companies owned by ethnic Malays. However, in practice, local stations have been granted substantial latitude in programming because of a lack of suitable local programming. Radio programming must also consist of 60 percent locally originated content. The Communications and Multimedia Act, which calls on industry groups to establish content standards and could be the basis for modification of existing local content restrictions, transferred responsibility for regulating broadcasting from the Minister of Information to the Ministry of Energy, Telecommunications, and Multimedia.

Under the terms of the Petroleum Development Act of 1974, the upstream oil and gas industry is the sole province of the parastatal Petroleum Nasional Berhad (Petronas), which is the sole entity with legal title to Malaysian crude oil and gas deposits. Foreign investment is in the form of production sharing contracts (PSC). Ownership of agricultural land is restricted to Malaysian citizens.

Historically, non-export-oriented foreign firms that have negotiated temporary exemptions from general equity limits have been required to restructure within a definite timeframe. A restructuring program may involve taking on new local partners, giving existing local partners a greater equity share, or floating shares on the Kuala Lumpur Stock Exchange (KLSE). In the end, the foreign ownership of most firms producing for the domestic market was to be reduced to 30 percent. However, as mentioned previously, all new manufacturing license applications received through December 31, 2000, are exempt from equity and export conditions and equity restructuring won’t be required in the future.

Private entities, both foreign and domestic, have a right to acquire, merge with, and take over business enterprises according to the Foreign Investment Committee (FIC) guidelines of 1974. However, the acquisition or disposal of five percent or more of interests in any local financial institution requires the prior approval of the Minister of Finance.

Protection of Property Rights

Malaysia has an effective legal system and adequate legislation to protect private property. Foreigners are permitted to purchase and secure mortgages from financial institutions for property, chattel and real estate in Malaysia with the exception of agricultural land and residential properties valued less than RM250,000 (U.S.$65,800). Individual foreigners are also barred from owning more than 20 percent of the commercial properties in any single development project, though their aggregate commercial holdings are not restricted.

Intellectual Property Rights (IPR) are covered by the Trade Description Act of 1972, the Patent Act of 1983, the Copyright Act of 1987 and the Industrial Designs Act of 1996. Malaysia is a member of the World Intellectual Property Organization (WIPO), the Berne

Convention for the Protection of Literary and Artistic Works, and the Paris Convention. Malaysia provides protection to all works (inter alia video tapes, audio material, and computer software) published in Berne Convention countries regardless of when the works were first published in Malaysia.

In April 2000, the Malaysian Parliament passed amendments to the Copyright Act, the Patents Act, and the Trademarks Act, as well as legislation on layout designs of integrated circuits and geographical indications, to comply with Malaysia's commitments under the WTO Agreement on Trade-Related Intellectual Property (TRIPS). The Ministry of Domestic Trade and Consumer Affairs (MDTCA) also submitted to Parliament comprehensive optical disc legislation to establish a licensing and regulatory framework for manufacturing copyrighted work and control piracy. The lower house of parliament passed this legislation on July 12, 2000. The Act will come into force after it passes the Senate, receives the King's approval, and is gazetted by the Ministry.
As the number of manufacturing licenses for optical disc production has increased, so have piracy rates for software and music and video discs. Malaysia's production capacity for cds far exceeds local demand plus legitimate exports, and pirate products believed to have originated in Malaysia have been identified throughout the Asia-Pacific region, North America, South America and Europe. In April 2000, the United States Trade Representative (USTR) placed Malaysia on the special 301 Priority Watch List for its failure to substantially reduce pirated optical disc production and export.

The Malaysian Government is aware of the problem and has expressed its determination to move against illegal operations. The Prime Minister and his Cabinet have publicly spoken out about the need to improve IPR protection. The government has established a special task force, chaired by the Minister of Domestic Trade and Consumer Affairs, which includes representation from all ministries and agencies with responsibilities for IPR. Government and industry cooperation has expanded. On July 1, 2000, MDTCA and Business Software Alliance (BSA) launched "Crackdown 2000" targeting corporate use of unlicensed software. Police and legal authorities are generally responsive to requests from U.S. firms for investigation and prosecution of copyright infringement cases.

Patents registered in Malaysia generally have a 15-year duration, which can be extended under certain circumstances. Although the processing time for trademark registration may be as long as 18 months, infringement has not been a problem. Copyright protection extends to computer software and lasts for 50 years. The Copyright Act includes enforcement provisions allowing government officials to enter and search premises suspected of infringement and to seize infringing copies and reproduction equipment.

Transparency of the Regulatory System

Malaysia has an open system of government, economic and business regulation. For tax purposes, local and foreign enterprises are treated essentially the same. The corporate tax rate is 28 percent, except for the petroleum industry which is taxed at 38 percent.

The Malaysian government restricts the number of expatriate personnel employed by foreign and domestic firms. As described in Appendix E, a new foreign-invested project is allotted a certain number of "key posts," determined by the size of the investment, that may be occupied by foreigners in perpetuity. Beyond these automatic allowances, a firm wishing to employ expatriate personnel generally must demonstrate that there is a shortage of qualified Malaysian candidates and that a Malaysian citizen is being trained.

In the past, foreign firms have complained that the procedures for obtaining work permits are time-consuming and burdensome. Due to the acute shortage of professionals, scientists and academicians, Malaysia has made some progress in simplifying permit approval for these categories of foreign personnel. With the present procedure, the foreign investor submits permit applications simultaneously with the project proposal to the relevant ministry. The Ministry approves the applications with the project, then forwards them directly to the Immigration Department for immediate issuance of the required documents. Permit-approval bodies now convene more often and have successfully computerized their operations further reducing the processing time.

In addition, the government monitors hiring practices to ensure that all employers strive to meet guidelines designed to ensure a racial balance in employment.

Efficiency of Capital Markets and Portfolio Investment

Broadening and deepening domestic capital markets are major government priorities. To foster development, monetary authorities grant local and foreign private firms liberal access to a variety of credit instruments. Credit is generally allocated on market terms. In November 1998 a rehabilitation fund of RM500 million was established to provide loans at a concessionary rate of interest --five percent-- to small and medium-sized businesses to help them overcome cash-flow problems.

Following the government's decision to impose selective capital controls and fix the exchange rate of the ringgit, the Central Bank has progressively lowered deposit and lending rates. It has encouraged banks to increase lending and has identified a loan growth rate of eight percent for 1998 and 1999 as a one of its goals. Loan growth was only 0.5 percent in 1999, but is expected to increase between 2-6 percent in 2000.

Foreign investors have access to credit on the local capital market, but are required to source at least 60 percent of local borrowing from a domestic bank. Central Bank permission is required for ringgit financing over RM200,000 (U.S.$53,000), a threshold imposed in September 1998. Foreign brokerage firms and foreign correspondent banks are limited to an aggregate maximum of RM5 million (U.S.$1.32 million) in ringgit credit facilities from Malaysian banking institutions to fund the mismatch of receipts and payments through their external accounts.

Malaysia's capital controls are described in Appendix D. Local currency may not be sent abroad to purchase imports, or received from abroad in compensation for exports. No one may carry more than 1000 ringgit into or out of the country with the exception of border traders, who may carry up to RM10,000 or the equivalent in foreign currency. A resident of Malaysia may carry no more than RM10,000 equivalent in any foreign currency out of the country, although a non-resident may carry out any amount of foreign currency up to the amount he or she brought in.

Borrowing large amounts of money requires special approval in Malaysia: the controller of foreign exchange must vet every loan application greater than RM10 million (U.S.$2.63 million) equivalent in any foreign currency for non-residents.

Foreigners may trade in securities and derivatives. As mentioned earlier, in September 1999, the government relaxed most of the currency controls imposed on foreign investments in Malaysian securities. It replaced a multi-tiered exit tax with a simplified flat ten percent exit levy applied to profits taken out of Malaysia regardless of which the investment was made.

The Malaysian government has an adequate regulatory system to facilitate portfolio investment. In the wake of the regional financial crisis, Malaysia has taken steps to improve accounting transparency and corporate governance. Publicly listed companies must now submit quarterly reports that include a balance sheet and income statement within two months of each financial quarter's end. Companies must submit audited annual accounts for public scrutiny within four months of each year's end. To promote professionalism, directorships have been limited. A director of any publicly-listed company may no longer hold more than 25 directorships in total.

Legislation also regulates equity buyback, mandates book entry of all securities transfers and requires that all owners of securities accounts be identified. A Central Depository System (CDS) for stocks and bonds established in 1991 makes physical possession of certificates unnecessary. All shares traded on the Kuala Lumpur Stock Exchange (KLSE) must now be deposited in the CDS. However, short-selling is not permitted.

The domestic banking system came under acute stress as a result of the regional economic crisis. During 1998, the government undertook measures to recapitalize distressed banks, to remove nonperforming loans from banks' books and to restructure loan agreements. Danaharta, also known as the National Asset Management Company, was established in June 1998 to purchase and subsequently manage or dispose of nonperforming loans (NPL's) in the banking sector. By May 2000, Danaharta had acquired some U.S.$9.63 billion in non-performing loans, equal to 42 percent of NPL's in the banking system.

Danamodal, a special purpose vehicle established in august 1998 to recapitalize ailing financial institutions, has injected a total of RM7.1 billion (U.S.$1.9 billion) into ten banking institutions. By May 2000, the amount of injected capital was reduced to RM4.9

billion (U.S.$1.3 billion) after six banks made partial or full repayments. System-wide, the risk-weighted capital adequacy ratio of banks was 13 percent as of May 2000, up from 10.5 percent in December 1997. A Corporate Debt Restructuring Committee (CDRC) was also established to facilitate voluntary corporate debt restructuring. As of May 2000, CDRC had received 69 applications for debt restructuring involving debts of RM36.9 billion (U.S.$9.7 billion). Of which, 21 cases involving RM16 billion (U.S.$4.2 billion) were resolved.

In February 2000, Bank Negara Malaysia, the Central Bank, gave approval to consolidate the country's 54 domestic financial institutions under ten "anchor" banks. Financial institutions are required to complete their merger plans by January 2001. Consolidation of Malaysia's financial sector has been a long-standing policy objective to prepare Malaysia's financial sector for increased competition and globalization. The government has also announced plans to consolidate domestic brokerage houses into 15 "universal brokers" as part of a larger government effort to improve the strength and efficiency of Malaysia's capital markets. The Securities Commission is working on a Capital Market Master Plan, which should be released this year.

Political Violence

Malaysia has experienced little political violence since serious ethnic rioting in 1969. Since 1998, supporters of the reform movement launched by former Deputy Prime Minister Anwar Ibrahim have staged a number of largely peaceful demonstrations. In a few cases, police and demonstrators clashed, but there were no deaths or serious injuries.

Corruption

News reports and anecdotes indicate that corrupt practices exist. Malaysia considers bribery a criminal act and does not permit bribes to be deducted from taxes. The Anti-Corruption Agency (ACA) began operations in 1967. Since June 1997, senior state-level officials have been required to declare their assets to the ACA upon taking office. Foreign businessmen are asked to report any individuals who ask for payment in return for government services. ACA investigations are reported in the newspapers.

Transparency International, a nonprofit organization, ranked Malaysia the 32nd least corrupt in its 1999 survey of 99 countries. Malaysia's score of 5.1 on a scale of 0 (corrupt) to 10 (clean) placed it in a tie with Costa Rica, ahead of countries such as south Korea, Thailand, China, the Philippines and Indonesia, though behind others such as Singapore, Hong Kong, Taiwan and most of Western Europe. The Malaysian chapter of Transparency International is the Kuala Lumpur society for transparency and integrity.

Bilateral Investment Agreements

Malaysia has bilateral investment guarantee agreements with 67 economies:
1959 - USA
1960 - Germany
1971 - Canada
1972 - Netherlands
1975 - France
1978 - Switzerland
1979 - Sweden, Belgium, Luxembourg
1981 - United Kingdom
1982 - Sri Lanka, Romania
1984 - Norway
1985 - Austria, Finland
1987 - Organization of Islamic Conference, Kuwait, ASEAN
1988 - Italy, South Korea, People's Republic of China
1991 - United Arab Emirates
1992 - Denmark, Vietnam, Papua New Guinea, Chile, Laos
1993 - Taiwan, Hungary, Poland
1994 – Indonesia, Albania, Zimbabwe, Turkmenistan, Namibia, Cambodia, Argentina Jordan, Bangladesh, Croatia, Bosnia-Herzegovina
1995 - Spain, Pakistan, Kyrgyzstan, Mongolia, Uruguay, India
1996 - Peru, Kazakhstan, Malawi, the Czech Republic, Guinea, Ghana
1997 - Egypt, Botswana, Cuba, Uzbekistan, Macedonia, North Korea
1998 - Yemen, Turkey, Lebanon, Burkina Faso, Sudan, Djibouti, Ethiopia
1999 - Senegal, Bahrain

Malaysia has a limited investment guarantee agreement with the United States under the U.S. overseas private investment corporation (OPIC) program. Efforts to negotiate a more comprehensive bilateral investment treaty still require resolution of several issues, the most important of which is differing interpretations of national treatment.

Malaysia has double taxation treaties with 50 countries:
1968 and 1973 - Singapore
1970 - Japan, Sweden, Denmark, Norway
1972 - Sri Lanka
1973 - United Kingdom, Belgium
1974 - Switzerland
1975 and 1991 - France
1976 - New Zealand, Canada, India
1977 - Germany, Poland
1980 - Australia
1982 - Thailand, South Korea, Philippines, Pakistan, Romania
1983 - Bangladesh
1984 - Italy, Finland
1985 - People's Republic of China
1988 - Netherlands
1989 - USA, Hungary, Austria

1991 - Indonesia
1992 - Mauritius, Iran
1993 -Papua New Guinea, Saudi Arabia, Russia, Sudan
1994 - Albania, Zimbabwe, Turkey, Jordan
1995 - Mongolia, Vietnam, Malta, United Arab Emirates, Fiji
1996 - the Czech Republic
1997 - Kuwait, Egypt
1998 - Argentina
1999 - Bahrain

Malaysia’s double taxation agreements with the United States, Saudi Arabia, and Argentina are currently limited to air and sea transportation. Discussion between the U.S. and Malaysia about a comprehensive agreement continues.

Malaysia encourages foreign direct investment particularly in export-oriented manufacturing and high-tech industries but retains considerable discretionary authority over the approval of individual investment projects. Especially in the case of investments where production or services are oriented toward the domestic market, this authority has historically been used to restrict foreign equity and to extract favorable technology transfer and joint venture agreements with local partners. In the wake of the economic downturn, however, equity restrictions and export requirements have been loosened to attract investment.

OPIC and Malaysia

Since 1959, Malaysia has qualified for the U.S. Overseas Private Investment Corporation (OPIC) insurance programs. However, given Malaysia's political stability, attitude toward foreign investors, and available dispute settlement mechanisms, few investors have sought OPIC insurance in Malaysia.

As Malaysia begins to attract more small and medium-sized investors, there may be greater potential for U.S. firms to take advantage of OPIC's direct loan program.

Labor

Labor market conditions had improved in 1999. At the end of 1999, the Malaysian unemployment rate declined to 3.0 percent from 3.2 percent at the end off 1998. As the domestic economic activities began to pick up, the number of job vacancies has exceeded the number of retrenched workers. The regional economic downturn in 1997-1998 has led to retrenchments, which affected mostly Malaysia’s substantial foreign workforce. In February 2000, the government lifted the freeze on foreign workers except for some specific jobs. The government imposes a monthly per capita levy on employers of foreign workers: RM125 (U.S.$33) on foreign construction and manufacturing workers and RM30 (U.S.$8) on domestic and agricultural workers.

In recent years wage rates have climbed faster than productivity rates, prompting concerns about Malaysia's future competitiveness. However, the rate of wage increases has slowed to 2.7 percent in 1998 from 10.2 percent in 1997. In 1999, the private sector wage rate rose 5.5 percent. Productivity in Malaysia, while contracting 1.5 percent in 1998, rebounded to 4.4 percent growth in 1999. The National Labor Advisory Council, a tripartite forum, has introduced a set of guidelines for a productivity-linked wage system to facilitate collective negotiations of wage agreements. Malaysia no longer seeks labor-intensive industries and reserves its fiscal incentives for high value-added projects.

Malaysia is a member of the International Labor Organization (ILO). Labor relations in Malaysia are generally non-confrontational. A system of government controls strongly discourages strikes. Some labor disputes are settled through negotiation or arbitration by an industrial court. Once a case is referred to the industrial court, the union and management are barred from further industrial action.

While national unions are proscribed, there are a number of national confederations of unions. Employers and employees share the costs of the Social Security Organization (SOSCO), which covers eight million workers as of December 1999. No welfare programs or government unemployment benefits exist; however, the Employee Provident Fund (EPF) provides retirement benefits for private workers, while civil servants receive pensions.

Foreign Trade Zones/Free Ports

Malaysia has Free Zones (FZ's) in which export-oriented manufacturing and warehousing facilities may be established. Raw material, products and equipment may be imported duty-free into these zones with minimum customs formalities. Companies that export not less than 80 percent of their output and depend on imported goods, raw materials and components may be located in these FZ's. Goods sold into the Malaysian economy by companies within the FZ's must pay import duties. In addition to the FZ's, Malaysia permits the establishment of licensed manufacturing warehouses, which give companies greater freedom of location while enjoying privileges similar to operating in a FZ.

Ports, shipping and maritime-related services play an important role in Malaysia since 90 percent of its international trade is seaborne. The government is presently promoting Port Klang (Westport and Northport) as a regional load and transshipment center. In this effort to divert shipping to Malaysian ports, the government has designated Port Klang as a Free Commercial Zone. Other ports with Free Commercial Zone status are Penang Port and Johor Port.

Foreign Direct Investment

The U.S. has consistently been a leading investor in Malaysia. According to the Malaysian Industrial Development Authority, the U.S. was the largest foreign investor in the manufacturing sector with approved projects valued at U.S.$1,641 million in 1998. Japan was second with U.S.$484 million, followed by Taiwan, with U.S.$255 million. The three made up more than 70 percent of total foreign manufacturing investments in Malaysia in 1998. (note: manufacturing investment only; upstream oil and gas investments not included.)

U.S. firms with significant investment in Malaysia include: Exxon/Mobil which participates in upstream and downstream activities, Caltex, Conoco, Union Carbide, and Eastman Chemical in downstream activities, all major semiconductor manufacturers (e.g., Motorola, Texas Instruments, Intel, National Semiconductor, Intersil), a number of computer component makers (e.g., Seagate, Komag) and medical products manufacturer Baxter International. Virtually all major Japanese consumer electronics firms (Sony, Fuji, Panasonic, Matsushita, Hitachi etc.) Have facilities in Malaysia. See page 50 for investment tables.

CHAPTER VIII: TRADE AND PROJECT FINANCING

The government has taken a number of preemptive measures to strengthen Malaysia's banking system, which has come under increasing stress since the onset of the regional financial crisis in mid-1997. As of January 1,2000, the banking sector included 33 commercial banks, 22 finance companies, 12 merchant banks and seven discount houses. Total banking system assets were U.S.$211.6 billion in December 1999. Bank Negara mandated the merger of Malaysia's financial institutions into ten anchor banks. The banks have until the end of 2000 to complete their merger plans. The banking system remains the largest financial intermediary in the country, accounting for almost 68.6 percent of total assets of the financial system.

Three U.S. banks have operations in Malaysia: Bank of America, Citibank, and Chase. Citibank operates branches in both Kuala Lumpur and Penang. Malaysia also has an offshore banking center on the island of Labuan where 62 offshore banks maintained offices as of mid-1997. Most Malaysian banks have correspondent relationships with banks in the United States. A list of major Malaysian commercial banks can be found later in this report**.**

Exports to Malaysia may be financed through letters of credit issued to importers by banks in Malaysia. Finance is readily available on the domestic market to Malaysian importers. Although limited capital controls were imposed in September 1998, Malaysia's current account remains fully convertible. Importers and exporters have sufficient access to foreign exchange to carry on their business. Ringgit cannot be sent or received from abroad, thus payments for imports and exports must be sent and received in foreign currency (except that of Serbia, Montenegro and Israel). While the capital controls complicated the activities of portfolio investors, foreign direct investment capital remains freely convertible.

In addition to the Malaysian banking sector, exports to Malaysia can be supported by the U.S. Export-Import Bank (EXIMBANK). EXIMBANK can provide direct or intermediary loans, loan guarantees to enable a foreign buyer to secure private credit, loan guarantees to a private creditor to provide working capital to an exporter, and insurance policies for exporters to eliminate both political and commercial risk of repayment by foreign purchasers.

Export financing is also available through the U.S. Small Business Administration (SBA), which provides regular business loans, a revolving export line of credit, joint guarantees with EXIMBANK, investment company financing, long-term asset financing and international trade loans to compete, export and develop export markets.

For exporters of agricultural products, the U.S. Department of Agriculture Market Access Program has authorized U.S.$100 million in credit guarantees for sales of U.S. agricultural commodities to Malaysia under the Commodity Credit Corporation's Export Credit Guarantee Program (GSM102) for fiscal year 2000. The credit facility is renewable on a fiscal year basis (September through October), subject to the approval of the Commodity Credit Corporation. The credit guarantee facility covers sales of a wide range of agricultural products including soybeans, corn, fresh fruits/vegetables, dried fruit, dairy products, meat, grains and livestock feed. In addition, USDA has been authorized U.S.$50,000 for the Southeast Asian region (eligible countries include Malaysia) for the Facility Guarantee Program (FGP). The FGP provides credit guarantees for the sale of capital goods and services for the establishment or improvement of agriculture-related facilities, which will in turn primarily promote U.S. agricultural exports.

While EXIMBANK and SBA financing has not been used extensively in the past, it is being used more frequently as firms respond to the financial crisis in Southeast Asia. For example, EXIMBANK has recently provided guarantees for the two new silicon wafer fabrication plants in Malaysia.

In the past, major infrastructure projects have been funded by a variety of means: Malaysian government funds, the domestic capital markets, banks and investment funds like the Employee Provident Fund, international consortia, and supplier credits.
In the case of the new Kuala Lumpur International Airport (KLIA) for example, the Japanese Government made available a long term soft loan of U.S.$600 million through the Overseas Economic Cooperation Fund. However, given the current credit crunch and depressed stock market, major projects are likely to be funded through alternative means in the future, such as foreign direct investment, various debt and/or equity instruments, asset sales and securitization.

CHAPTER IX: BUSINESS TRAVEL

In general, business customs in Malaysia do not differ fundamentally from those in the United States. Frankness, openness, punctuality, etc. are all valued traits in business negotiations and dealings. Visiting businesspeople should be aware of some religious and cultural sensitivities. For example, Malay Muslims may feel uncomfortable in business/social functions where alcohol is served. Many businesses and government agencies have working hours for a half-day on Saturday mornings.

U.S. business visitors to Malaysia do not require visas unless they are coming for the purpose of employment in the country. The typical entry-period for Americans is three months. Business visitors may be issued passes at the point of entry for the purpose of attending business meetings and conducting business negotiations in Malaysia. However, anyone who is to be employed in Malaysia, or is to engage in work in Malaysia such as the overseeing of the installation of equipment on a project, must apply for a business or professional pass prior to arrival in Malaysia. English is widely spoken in Malaysia and is commonly used in business.

Malaysia is well served by a number of international airlines through Kuala Lumpur. Further international connections are close by in Singapore, to which there is a joint Malaysian Airlines/Singapore Airlines air shuttle service. Within the country, Malaysian Airlines provides frequent service to all major cities. The new Kuala Lumpur International Airport (KLIA) is located 50 kilometers south of Kuala Lumpur and is capable of handling 25 million passengers and 1.2 million tons of cargo annually.

Kuala Lumpur and other major cities in Malaysia have world class hotel accommodations catering to both business visitors and international tourists. For longer stays in the country, the market for rental housing and apartments in the Kuala Lumpur area is large and not overly expensive by regional standards.

Malaysia offers a variety of food from the three local cultures -- Malay, Chinese, and Indian -- as well as U.S., Japanese, and European cuisine. Kuala Lumpur has several state-of-the-art medical facilities.

International telephone service from Malaysia is adequate and more investment is being undertaken to keep up with the very rapid growth in demand. Telekom Malaysia, the national phone company, aims to upgrade Malaysia’s telecom services to the level of developed countries by the year 2005. Periodic power outages usually caused by thunderstorms in and around the country are not uncommon, although there have not been any major power outages since the nationwide blackout in 1996, which affected all of Peninsular Malaysia.

Malaysia has no restrictions on temporary entry of business-related materials, such as software, laptop computers, etc. The movement of exhibit materials for Malaysia-based trade shows is typically handled by official freight-forwarding companies that are able to handle customs and other required procedures easily and quickly.

The electrical current is 220V and cycles at 50hz. Mark-ups on products are negligible or not prohibitive and bargaining in some retail outlets is not uncommon. Tipping for service is generally not practiced.

The following are commercial holidays for 2001:

January 1	New Year's Day
February 1	Kuala Lumpur City Day
January 24*	Chinese New Year
March 5 or 6 *	Hari Raya Haji
March 26*	Awal Muharam
May 1	Labor Day
May 7 *	Wesak Day
June 6	King's Birthday
June 4 *	Prophet Muhamad's Birthday
August 31	National Day
October *	Deepavali
December 25	Christmas
December 17	Hari Raya Puasa

* The dates of these holidays cannot be determined with absolute accuracy at this time because they are based on a lunar calendar.

"Guide for Business Representatives" is available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; tel (202) 512-1800; fax (202) 512-2250. Business travelers to Malaysia seeking appointments with U.S. Embassy Kuala Lumpur officials should contact the commercial section in advance. The commercial section can be reached by telephone at 60-3-2168-5000 or fax at 60-3-242-1866 or e-mail at kuala.lumpur.office.box@mail.doc.gov

CHAPTER X: ECONOMIC AND TRADE STATISTICS

A. COUNTRY DATA

Population:	22.18 million (1998); 22.71m (1999); 23.25m (2000f)
Population Growth Rate:	2.37 percent per annum
Religions:	Islam (the official religion and that of all of the Malay population, 57 percent of the national total); Buddhist, Confucian, Taoist (much of the Chinese population, about 30 percent of the national total); Hindu (much of the Indian population, about 10 percent of the national total); Christian (about 3 percent).
Government System:	Constitutional monarchy with a parliamentary structure, with executive power vested in a Prime Minister. UMNO, the United Malays National Organization, has held dominant power since independence in 1957, in coalition with smaller Chinese and Indian parties.
Languages:	Bahasa Malaysia is the national language. However, English is widely understood and used in business. Chinese and Indian languages are used within their respective communities.

Work Week:

Government and most businesses:

Monday - Thursday:	8:00 a.m. - 12:45 p.m.
	2:00 p.m. - 4:15 p.m.
Friday:	8:00 a.m. - 12:15 p.m.
	2:45 p.m. - 4:15 p.m.
Saturday:	8:00 a.m. - 12:45 p.m.

In Kelantan, Terengganu, Johor, Perlis and Kedah States:

Saturday - Wednesday:	8:00 a.m. - 12:45 p.m.
	2:00 p.m. - 4:15 p.m.
Thursday:	8:00 a.m. - 12:45 p.m.

U.S. Embassy:

Monday - Friday:	7:45 a.m. - 4:30 p.m.

B. DOMESTIC ECONOMY

	1998	1999	2000f
Real GDP (U.S.$ Millions-1978 prices)	46,513	50,659	53,526
Real GDP Growth Rate (%)	-7.5	5.6	5.8
GDP per capita (U.S.$)	3,272	3,473	3,642
Govt. Spending as % of GDP	21.7	22.8	23.4
Inflation (%) (CPI)	5.3	3.0	3.2
Unemployment (%) (official)	3.2	3.0	29
Foreign Exchange Reserves (U.S.$ Millions)	26,196	30,842	34,451*
Avg. Exchange Rate (RM/1U.S.$)	3.92	3.80	3.80
Debt Service Ratio (%)	6.6	5.3	5.6
U.S. Economic/Military Assistance (International Military and Education Training) (US$ Millions)	0.9	0.7	0.7

-Sources: Bank Negara Annual Report 1999; Ministry of Finance Economic Report 1998/2000; U.S. Department of Commerce; U.S. Embassy Estimates
-(f) Forecast by Ministry of Finance Economic Report 1999/00 and Bank Negara Annual Report 1999; U.S. Embassy Estimates
-*as of mid-June 2000

C. TRADE

OVERALL: (U.S.$ Millions)

	1998	1999	2000f
Total Malaysian Exports (F.O.B.)*	71,925	84,526	92,184
Total Malaysian Imports (C.I.F.)*	58,189	65,500	75,858
U.S. Exports to Malaysia (F.A.S.)**	8,952	9,079	9,321
U.S. Imports from Malaysia (C.I.F.)**	19,001	21,428	22,149

Sources: *Official Malaysian Statistics
**USDOC data; (f) U.S. Embassy estimates based on first four months' data.

D. INVESTMENT STATISTICS

TABLE ONE: SOURCES OF APPROVED FOREIGN INVESTMENT IN MALAYSIA
(Value in U.S.$ Millions; Shares in Percent)

Country	1996	1997	1998	1999
U.S.	1,157	853	1,641	1,358
Japan	1,843	770	484	264
Taiwan	310	479	245	70
Singapore	1,906	456	245	237
Netherlands	29	12	160	203
U.K.	152	74	122	51
Germany	59	644	39	49
Switzerland	755	45	36	186
Australia	54	32	30	14
Korea	258	241	19	9
Hong Kong	5	8	6	17
India	25	9	5	23
France	6	1	4	2
Finland	65	1	3	19
Pakistan	--	--	12	259
Others	171	457	298	575
TOTAL	$6,795	$4,082	$3,349	$3,336
U.S. Share	16.9	20.1	49.2	40.7
Foreign Share	49	44	49.8	75
Foreign	6,795	4,082	3,349	3,336
Domestic	6,853	5,107	3,373	1,111

Source: Malaysian Industrial Development Authority; values represent approved, not actual investment

-Exchange Rates: 1997 (US$=RM2.81), 1998 (US$3.92), 1999 (US$=RM3.80).

-Note: Manufacturing investment only, does not include the upstream oil and gas industry.

TABLE TWO: FOREIGN INVESTMENT BY SECTOR
(U.S.$ Millions)

Sector	1996	1997	1998	1999
Chemicals	87	260	1059	69
Petroleum	1,000	1,495	549	828
Electronics	3,681	1,023	485	1564
Basic Metal	244	249	253	63
Textiles	137	50	159	16

Food Mfg.	51	62	50	72
Paper, Print	626	170	162	282
Rubber Prod	23	32	27	8
Non-Metal	259	41	74	70
Fab'd. Metal	230	215	106	43
Transport	133	100	81	61
Other	324	386	344	320
TOTAL	$6,795	$4,083	$3,349	$3,336

-Source: Malaysian Industrial Development Authority

TABLE THREE: MALAYSIAN INVESTMENT ABROAD
(US$ Million)

Country	1996	1997	1998	1999
Singapore	845	658	530	430
U.S.	571	832	421	268
U.K.	540	200	207	149
France	40	157	53	324
Indonesia	165	220	49	100
Hong Kong	328	302	41	42
Australia	216	175	29	27
Philippines	151	103	26	25
China	204	112	19	53
Others	6156	6950	6490	8950
TOTAL	$10,715	$10,458	$8,413	$10,368

-Investment data include equity investment, purchase of real estate abroad and extension of loans to non-residents.
-Sources: Cash BOP Reporting System, Bank Negara Malaysia

TABLE FOUR: FDI FLOW TO MALAYSIA
(U.S.$ Billion)

	1996	1997	1998	1999
FDI	5.74	6.83	2.68	3.50
% of GNP	5.8	6.9	3.8	4.8

-Sources: Bank Negara Annual Report 1996-1998

CHAPTER XI: U.S. AND MALAYSIAN CONTACTS

1. U.S. Embassy Trade Personnel

The Commercial Service
Mike Hand, Commercial Counselor
Gregory Wong, Commercial Attaché
William Czajkowski, Commercial Attaché
Local Address:
U.S. Embassy
376 Jalan Tun Razak, Kuala Lumpur
APO Postal Address from the U.S.:
American Embassy, Kuala Lumpur
APO AP 96535-8152
Tel: (60)(3) 2168-5000
Fax: (60)(3) 242-1866
Email: mike.hand@mail.doc.gov
gregory.wong@mail.doc.gov
william.czajkowski@mail.doc.gov

Foreign Agricultural Service
Bonnie Borris, Agricultural Attaché
Tel: (60)(3) 2168-5000
Fax: (60)(3) 242-1866
Email: agkualalumpur@fas.usda.gov

Security Assistance Office
Mark Swaringen, Security Assistance Chief
Tel: (60)(3) 2168-5000
Fax: (60)(3) 241-1080

Economic Section
Chris Marut, Economic Counselor
Caryn McClelland, Economic Officer
Leo Gallagher, Economic Officer
Troy Pederson, Economic Officer
Tel: (60)(3) 2168-5000
Fax: (60)(3) 2168-4952
Email: marutcj@state.gov

U.S. - Asia Environmental Partnership Program (U.S.-AEP)
Vivian How, Director
Tel: (60)(3) 2168-5050

Fax: (60)(3) 248-4035
Email: vivian.how@mail.doc.gov

2. American Chamber of Commerce

American - Malaysian Chamber of Commerce (AMCHAM)
Kathy King, Executive Director
11.03 AMODA, 22 Jalan Imbi
55100 Kuala Lumpur
Tel: (60)(3) 248-2407
Fax: (60)(3) 242-8540
Email: amcham@po.jaring.my

3. Malaysian Government Agencies:

Ministry of International Trade and Industry (MITI)
YB Dato' Seri Rafidah Aziz, Minister
YB Dato' Kerk Choo Ting, Deputy Minister
Blk. 10, Government Offices Complex
Jalan Duta
50622 Kuala Lumpur
Tel: (60)(3) 651-0033/6022/8044
Fax: (60)(3) 651-0827

Ministry of Energy, Communications and Multimedia
YB Datuk Leo Moggie anak Irok, Minister
Datuk Tan Chai Ho, Deputy Minister
1st Floor, Wisma Damansara
Jalan Semantan
50668 Kuala Lumpur
Tel: (60)(3) 257-5000
Fax: (60)(3) 255-7901

Ministry of Science, Technology & Environment
YB Datuk Law Hieng Ding, Minister
Datuk Zainal Dahalan, Deputy Minister
14th Floor, Wisma Sime Darby
Jalan Raja Laut
Kuala Lumpur
Tel: (60)(3) 293-8955
Fax: (60)(3) 392-6006

Ministry of Works
YB Dato' Seri S. Samy Vellu, Minister
Mohamed Khaled Nordin, Deputy Minister
Jalan Sultan Salahuddin

50580 Kuala Lumpur
Tel: (60)(3) 466-1100
Fax: (60)(3) 469-6612

Malaysian Industrial Development Authority (MIDA)
YBhg Tan Sri Datuk Zainal Abidin Sulong, Chairman
YBhg Dato' Zainun Aishah bt Dato' Ahmad, Director General
6th Fl., Wisma Damansara, Jalan Semantan
50490 Kuala Lumpur
Tel: (60)(3) 255-3633
Fax: (60)(3) 255-0697
Email: promotion@mida.gov.my

Malaysian Industrial Development Authority-United States Offices:
Consul-Investment
Consulate General of Malaysia
(Investment Section)
550, South Hope Street, Suite 400
Los Angeles, CA 90071
Tel: (213) 955-9183
Fax: (213) 955-9878
Email: lacamida@aol.com

Malaysian Industrial Development Authority
John Hancock Centre, Suite 3350
875, North Michigan Avenue
Chicago, IL 60611
Tel: (312) 787-4532
Fax: (312) 787-4769
Email: mida-chicago@msn.com

Consul-Investment
Consulate General of Malaysia
(Investment Promotion Section)
313 East, 43rd Street
New York, NY 10017-4899
Tel: (212) 687-2491
Fax: (212) 490-8450
Email: nymida@aol.com

Director
Malaysian Industrial Development Authority
226 Airport Parkway, Suite 480
San Jose, CA 95110
Tel: (408) 392-0617/8
Fax: (408) 392-0619

Email: midasanjose@aol.com

4. Malaysian Trade Associations/Chambers of Commerce

Federation of Malaysian Manufacturers (FMM)
Lee Cheng Suan, Chief Executive Officer
Wisma FMM, No. 3
Jalan Persiaran Agang, PJU 9
Bandar Sri Damansara
52200 Kuala Lumpur
Tel: (60)(3) 636-1211
Fax: (60)(3) 637-6715

Malaysian International Chamber of Commerce & Industry
Peter J. L. Jenkins, Executive Director
Wisma Damansara
P.O. Box 10192
50706 Kuala Lumpur
Tel: (60)(3) 254-2205
Fax: (60)(3) 255-4946

National Chamber of Commerce and Industry
Pardip Kumar, Executive Director
37, Jalan Kia Peng
50450 Kuala Lumpur
Tel: (60)(3) 241-9600
Fax: (60)(3) 241-3775

5. Malaysian Market Research Firms (partial list)

AC Nielsen
19/F Menara MPPJ
Jalan Tengah
46200 Petaling Jaya
Tel: (60)(3) 756-2311
Fax: (60)(3) 756-6490

Acorn Marketing & Research Consultants
6-4A 2-67A Jalan Batai
Damansara Heights
50490 Kuala Lumpur
Tel: (60)(3) 254-1688
Fax: (60)(3) 225-2129

In-Depth Research and Management Consultants
3017 3rd Floor

President House
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: (60)(3) 242-3541
Fax: (60)(3) 242-3540

Market Behavior (Malaysia) Sdn. Bhd.
Suite 801-802 8th Floor, Block B, Menara Amcorp No. 18
Jalan Persiaran Barat
46050 Petaling Jaya
Phone: (60)(3) 755-2008
Fax: (60)(3) 757-6208

Research Pacific
28-C Lrg Mdn Tuanku
53000 Kuala Lumpur
Tel: (60)(3) 291-7315
Fax: (60)(3) 291-1753

Sofres FSA (Malaysia) Sdn Bhd
32nd Floor UBN Tower
Letter Box 63, 10
Jalan P. Ramlee
50250 Kuala Lumpur
Tel: (60)(3) 232-3611
Fax: (60)(3) 232-2719

6. Commercial Banks (partial list)

Major U.S. Banks

Citibank Berhad
Citibank Building
28 Medan Pasar
P.O. Box 10112
50050 Kuala Lumpur
Tel: (60)(3) 232-8585
Fax: (60)(3) 232-7932

Bank of America Malaysia Berhad
Wisma Goodhill
G.P.O. Box 10950
50730 Kuala Lumpur
Tel: (60)(3) 209-4201
Fax: (60)(3) 201-9087

Chase Manhattan Bank
Bangunan Pernas International
Kuala Lumpur
Tel: (60)(3) 2270 4111
Fax: (60)(3) 2270 4110

Major Malaysian Commercial Banks

Bumiputra Commerce Bank
6 Jalan Tun Perak
50050 Kuala Lumpur
Tel: (60)(3) 293-1722
Fax: (60)(3) 291-4522

Malayan Banking Berhad (Maybank)
Menara Maybank
100 Jalan Tun Perak
50050 Kuala Lumpur
Tel: (60)(3) 230-8833
Fax: (60)(3) 230-2611

Public Bank Berhad
Menara Public Bank
146 Jalan Ampang
50450 Kuala Lumpur
Tel: (60)(3) 263-8888
Fax: (60)(3) 263-9917

RHB Bank
223 RNB Center
Jalan Tun Razak
50400 Kuala Lumpur
Tel: (60)(3) 987-8888
Fax: (60)(3) 987-9000

7. Washington-based U.S. Government Contacts for Malaysia

U.S. Department of Commerce
Susan Abbatecola, Malaysian Desk Officer
Market Access and Compliance
Room 2306
14th & Constitution Ave., NW
Washington, D.C. 20230
Tel: (202) 482-2000
Fax: (202) 482-3316

U.S. Department of Commerce
Carmine D'Aloisio, Regional Director
Room 1229
14th and Constitution Ave., NW
Washington, D.C. 20230
Tel: (202) 482-2000
Fax: (202) 482-5179

Export Import Bank of the United States (EX-IM BANK)
Cheryl Conlin, Business Development Officer for Asia
811 Vermont Ave. NW
Washington, D.C. 20571
Tel: (202) 565-3923
Fax: (202) 565-3931

Overseas Private Investment Corporation (OPIC)
James Brache, Regional Manager, Asia
1100 New York Avenue, NW
Washington, DC 20527
Tel: (202) 336-8585
Fax: (202) 408-9859

Trade Development Agency (TDA)
Geoff Jackson, Regional Director Asia
Manisha Kothari, Country Manager, Malaysia
1621 North Kent Street, Suite 300
Arlington, VA 22209-2131
Tel: (703) 875-4357
Fax: (703) 875-4009

Multilateral Development Bank Office
Janet Thomas, Director
Tel: (202) 482-3399
Fax: (202) 273-0927

Trade Promotion Coordinating Committee
Trade Information Center
Tel: (800)-USA-TRADE
Fax: (202) 482-4473

U.S. Department of Agriculture
Foreign Agricultural Service
Trade Assistance and Promotion Office
Tel: (202) 720-7420
Fax: (202) 205-9728

8. U.S.-Based Multipliers Relevant for Malaysia

U.S. - ASEAN Council for Business and Technology
Ernest Bower, President
1400 L. St., NW, Suite 375
Washington, D.C. 20005-3509
Tel: (202) 289-1911
Fax: (202) 289-0519

Pacific Basin Economic Council (PBEC)
Ann R. Wise, Director General
PBEC U.S. Member Committee
1667 K Street NW
Suite 410
Washington, D.C. 20006
Tel: (202) 293-5730
Fax: (202) 289-1940

CHAPTER XII: MARKET RESEARCH

A list of U.S. DOC/Commercial Service Industry Sector Analysis (ISA) reports is noted below. A complete list of all market research reports available for Malaysia (i.e., prior to 1996) can be found on the NTDB or at the new Commercial Service website: www.usatrade.gov

Available ISAs from Fiscal Years 1997-2000:

Air Quality Monitoring and Control
Commercial Opportunities in the Multimedia Super Corridor
Commercial Opportunities in Telemedicine
Defense-Related Equipment Market
Distance Learning (Commercial Opportunities for Information Technology in Education)
E-Commerce (ASEAN regional report)
Financial Sector
Franchising
Healthcare Services
Information Technology
Industrial Process Control
Medical Equipment and Services
Paper and Paperboard
Opportunities in Higher Education and Training
Renewable Energy and Energy Efficiency
Solid Waste Management
Water Filtration Products
Waste Water Treatment Equipment

Forthcoming ISAs for Fiscal Year 2001*:

Automotive Parts and Accessories

*****subject to change

Available and Forthcoming USDA/Foreign Agricultural Service Commodity Reports and Market Briefs for Fiscal Year 2001:

Forest Products Report
Grain and Feed Report
Oilseeds and Products Report
Poultry Annual
Sugar Report
The Exporter's Guide
Tobacco Report
Dairy Annual

CHAPTER XIII: TRADE EVENT SCHEDULE

U.S. Department of Commerce, Commercial Service:

Event:	Franchising Trade Mission
Date:	October 2-3, 2000
Location:	Kuala Lumpur
Event:	Russell 20-20 Trade Mission
Date:	October 15-17, 2000
Location:	Kuala Lumpur
Event:	ASEAN Communications & Multimedia 2000
Date:	October 31-November 3, 2000
Location:	Kuala Lumpur
Event:	Executive-Level ASEAN High-Tech Trade Mission
Date:	February 2001
Location:	Kuala Lumpur
Event:	Study USA 2001
Date:	March 6-7, 2001
Location:	Kuala Lumpur
Event:	Vocational Training Trade Mission
Date:	July 2001

Location: Kuala Lumpur

Event: Industry Tradefair Malaysia (ITM 2001)
Date: June 6-10, 2001
Location: Kuala Lumpur

Event: National Healthcare Conference and Exhibition
Date: June 2001
Location: Kuala Lumpur

Event: Oil & Gas Malaysia (OGM)/Environmex 2001
Date: July 2001
Location: Kuala Lumpur

Event: Financial Sector Modernization Trade Mission
Date: September 2001
Location: Kuala Lumpur

U.S. Department of Agriculture, Foreign Agricultural Service:

Event: In-store Promotions
Date: October/November 2000
Location: Tong Hing Supermarket, Sabah

Event: Menu Promotion
Date: May/July 2001
Location: To be determined

Event: Food and Hotel Malaysia
Date: September 2001
Location: Kuala Lumpur

Note: Because trade event schedules may change, firms should consult the Export Promotion Calendar on the NTDB or contact the U.S. Embassy, Kuala Lumpur for the latest information.

APPENDIX A
MULTIMEDIA SUPER CORRIDOR (MSC) INCENTIVES

Companies with MSC status are eligible for the following incentives:

- Pioneer status for 10 years or 100 percent investment tax allowance.
- No duty on computer and capital equipment.
- A special guideline to regulate foreign currency transactions and loans.

- A special incentive for companies whose presence will attract others to establish their operations in the multimedia super corridor.
- Small- and medium-scale firms can apply for government funding for R&D in designated areas.
- No restriction on recruitment of expatriates.
- Exemption from all capital control measures.

Note: for the latest information, see www.mida.gov.my/policy/chapter3.html#3_9

APPENDIX B
FOREIGN EQUITY GUIDELINES

General policy for manufacturing investment

For manufacturing licenses approved between July 15, 1998 and December 31, 2000:

- No equity restrictions on any new project regardless of export orientation.
- No equity restructuring will be required later.

For manufacturing licenses approved before July 1998 (individual license terms may vary):

- No equity conditions are imposed on projects that export at least 80 percent of their output.
- For projects exporting from 51 to 79 percent of output, majority foreign ownership of up to 79 percent is permitted. This limit can be raised under certain circumstances.
- For projects that export between 20 and 50 percent of output, 30 to 51 percent foreign ownership is allowed.
- For projects exporting less than 20 percent of output, maximum foreign ownership is 30 percent.

Note: from January 1, 1998, through December 31, 2000, all manufacturing companies with export conditions in their licenses can apply to sell up to 50 percent of their total output to the local market. Applications will be assessed by the Ministry of International Trade and Industry (MITI) on the following criteria:

- For products with zero import duty, an automatic approval will be given

- For products with import duty, the evaluation will be based on (i) whether the products are available locally or (ii) if the domestic supply is inadequate.

The relaxation of export conditions was an attempt to encourage local sourcing.

Policy on Malaysian equity distribution where foreign equity is less than 100 percent, local equity will be distributed as follows:

- For foreign projects without a local partner, if 70 percent or more of the equity is foreign-held, the balance is reserved for bumiputras. If less than 70 percent is foreign-held, 30 percent is reserved for bumiputras, and the rest for other Malaysians. If the equity reserved for bumiputras is not taken up, miti will allocate the balance to other Malaysians.

- For foreign joint ventures with bumiputra, the bumiputra partner will hold all local equity. If he or she is unable to do so, miti will allocate any unclaimed local equity to other Malaysians.

- For foreign joint ventures with non-bumiputra, the local partner will take at most 30 percent of the equity. Any other local equity will be held by a bumiputra.

Policy on equity for non-renewable resources:

For projects that involve the extraction or mining and processing of mineral ores, majority foreign equity participation of up to 100 percent is permitted. In determining the percentage, the following criteria will be taken into consideration:

- The level of investment, technology and risks involved in the project

- The availability of Malaysian expertise in the areas of exploration, mining and processing of the minerals concerned

- The degree of integration and level of value-added involved in the project.

Note: for the latest information, see www.mida.gov.my/policy/homepage.html

APPENDIX C
EXPORT INCENTIVES

The principal incentives for the manufacturing sector are contained in the promotion of investments act of 1986 and the income tax act of 1967. These incentives apply to companies subject to Malaysia’s 28 percent corporate income tax. Some are also available for investments in agriculture, tourism, R&D and technical training.

Incentives for manufacturers:

- Pioneer status. Initial entrant(s) in designated new industries can receive full or partial tax exemption for five to ten years depending on the type of products. Dividends to shareholders will also be tax-exempt.

- Investment tax allowance (ITA). A write-off of up to 60 percent of capital expenditures incurred during the first five years of project commencement against 70 percent of income. Any unused balance can be carried forward. Not available to firms with pioneer status.

- Reinvestment allowance. An allowance of 60 percent of capital expenditures to expand, modernize or diversify an existing facility.

- Export credit refinancing (ECR). Provides qualified exporters with below-market, short-term commercial credit for pre- and post-shipment.

- Export allowance. Five percent of the fob value of export sales can be deducted from the pre-tax income of trading companies exporting Malaysian manufactures.

- Double deduction of export credit insurance, provided the insurance company is approved by the ministry of finance.

- Double deduction for export promotion, granted for certain qualifying expenditures (e.g., overseas advertising and export market research).

- Infrastructure allowance (ia). In Sabah, Sarawak, and the Eastern corridor of the Malaysian peninsula, an allowance of 100 percent is granted for capital expenditure on infrastructure such as reconstruction, extension or improvement of any permanent structure to set off against 85 percent of income.

- Incentives for research and development. These inducements include a five-year tax holiday and permission to carry tax-relief period losses forward to the taxable period.

- Incentives for training. These benefits consist of an investment allowance for buildings used for training and a double deduction for approved training expenses.

- Customs exemption for raw materials, machinery. Granted for export-oriented manufacturers that use raw materials or components that are not made locally of acceptable quality. It also applies to machinery directly used in production. Under certain circumstances, it may be granted for firms producing for the domestic market.

Note: for the latest information, see www.mida.gov.my/policy/chapter3.html#3_1

APPENDIX D
SELECTED CAPITAL CONTROLS

- All export and import transactions must be settled in a foreign currency, except that of Israel, Serbia, and Montenegro. Exporters should repatriate their foreign currency proceeds to Malaysia within six months of their receipt, after which special permission is required.

- Travelers may not carry more than RM1000 into or out of Malaysia. But border traders may carry up to RM10,000 (U.S.$2,632) or the equivalent in foreign currency. Non-resident travelers may bring in as much foreign currency as they wish, and carry out any amount up to the amount they brought in.

- For portfolio funds there is the imposition of a flat 10 percent levy on repatriation of capital gains.

- Within Malaysia, borrowing in excess of RM5 million (U.S.$1.3 million) in foreign currency equivalent or RM200,000 in ringgit by foreigners requires special permission from the Central Bank.

- Wages, dividends, interest, rental, commissions and production profits may be converted and repatriated freely.

- MSC status exempts a company from all foreign exchange controls.

Note: For the latest information, see www.bnm.gov.my/feature/ecm/index.htm