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Economic Report 2023

Malaysia

30 June 2023

Executive Summary

Malaysia's GDP grew by 8.7% in 2022, driven mainly by private consumption after the lifting of Covid-19 restrictions. On the supply side, growth was mainly driven by the services sector followed by manufacturing. In 2023, GDP growth is expected to slow to 4-5%. The inflation rate was 3.3% in 2022, cushioned by government subsidies and price controls. Unemployment has decreased and wages have risen, while underemployment continues to increase due to skills mismatch. Malaysia's fiscal deficit has decreased but high spending on subsidies and a small tax base means the government's fiscal space continues to narrow. The new government has committed to reducing blanket subsidies and better target them to people in need.

Malaysia is a diversified economy with services and manufacturing as the two main drivers of growth. While its increasingly affluent population of 33 million people represents an interesting and more and more sophisticated market, Malaysia is highly integrated in transnational supply chains and serves companies as a hub for manufacturing – mainly in the electrical and electronics sector – and services. The digital economy and health care are important growth sectors too.

Malaysia is a relatively open economy. Total trade equaled 131% of GDP in 2021. In 2022, Malaysia ratified two important regional trade agreements: the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The European Free Trade Association (EFTA) and Malaysia continued their negotiations for an economic partnership agreement. In parallel, Switzerland and Malaysia are negotiating a new investment protection treaty. A bilateral air services agreement was concluded in 2022.

Malaysia's trade grew by 28% in 2022 and its surplus reached an all-time high. Taken together, the other ASEAN countries continued to be Malaysia's most important trading partners, followed by China, the US and the EU. Switzerland's goods exports to Malaysia grew by 17% to CHF 861 million, while imports increased by 7% to CHF 784 millon (excluding precious metals).

Malaysia continued to be attractive to foreign investors. The government approved almost USD 60 billion in foreign direct investments in 2022, mainly in the services and manufacturing sectors. While Switzerland ranked 10th for newly approved investments in 2022, it retained its position as 6th most important foreign direct investor with almost CHF 4 billion in investment stock, according the latest figures from 2021. Swiss companies in Malaysia were thought to employ almost 25'000 people.

Switzerland continued to be an attractive tourist destination for Malaysians. With over 55'000 visitors, 2022 not only marked the revival after the pandemic, but an all-time high.

Embassy of Switzerland in Malaysia
16 Persiaran Madge, 55000 Kuala Lumpur
+603-2148-0622
kualalumpur@eda.admin.ch
www.eda.admin/ch/countries/malaysia

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The main sources used in this Economic Report have been quoted primarily from Central Bank of Malaysia (Bank Negara Malaysia) and Department of Statistics, Malaysia, unless otherwise stated.

Exchange rate obtained from the average rate of the year, according to the Central Bank of Malaysia.
Year 2020: USD 1 = MYR 4.2016
Year 2021: USD 1 = MYR 4.1444
Year 2022: USD 1 = MYR 4.4

1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

The Malaysian **GDP expanded strongly by 8.7% in 2022** (3.1% in 2021), according to the Central Bank of Malaysia (see figure 1), despite slower global growth, and was driven mainly by private consumption following the lifting of Covid-19-related restrictions on 1 May 2022. Private consumption registered a robust growth of 11.3% in 2022, as the expansion in employment and subsequent increase in private sector wages contributed towards increased household spending. In addition, policy support remained available for impacted households and businesses. Private investment grew by 7.2%, lifted by higher capital spending in particular by export-oriented manufacturers. In tandem, public-sector expenditure rose 5.3%, reversing 2021's contraction, reflecting growth in investment by public corporations, according to the Central Bank of Malaysia (see figure 1). From a supply perspective, growth was mainly driven by the services sector. Manufacturing continued to grow significantly and construction expanded after having contracted in 2021, according to the Central Bank of Malaysia (see figure 2). The GNI per capita increased from RM 42,823 (USD 9,739) in 2020 to RM 52,819 (USD 12,004) in 2022, according to the Ministry of Economy.

GDP Growth by Expenditure Components (Annual Change, %)	% Share (2022p)	2021	2022p	2023f
Real GDP	**100**	**3.1**	**8.7**	**4.0 – 5.0**
Domestic Demand[1]	**93.1**	**1.7**	**9.2**	**5.4**
Private Consumption	60.2	1.9	11.3	6.1
Private Investment	15.4	2.6	7.2	5.8
Public Consumption	13.2	5.3	3.9	1.3
Public Investment	4.4	-11.3	5.3	7.0
Net Exports of Goods and Services	**5.4**	**-4.1**	**-1.8**	**9.7**
Exports	71.7	15.4	12.8	2.7
Imports	66.3	17.7	14.2	2.1

Note: p Preliminary, f Forecast, [1] Excluding stocks
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

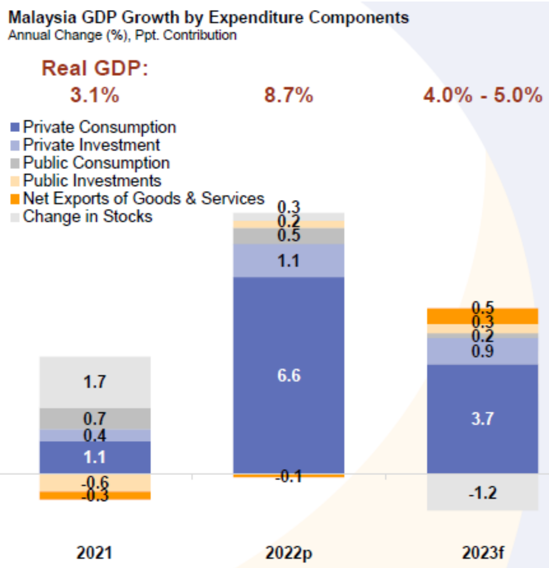

Figure 1. Source: Bank Negara Malaysia, Annual Report 2022, Presentation Slides p. 39

After the strong performance in 2022, the economy is expected to moderate and grow at between 4% and 5% in 2023, according to the Central Bank of Malaysia (see figure 1), amid a slower global economy. According to the Central Bank, growth will remain driven by domestic demand. Household spending is expected to be underpinned by sustained improvements in employment and income prospects. Tourist arrivals are expected to continue rising, further lifting tourism-related activities. The continued progress of multi-year infrastructure projects will support investment activity. The implementation of projects from the Budget 2023 would provide upside risks to the domestic growth outlook. Downside risks continue to stem mainly from global developments, including from weaker-than-expected growth outturns or much tighter and more volatile global financial conditions. However, the Central Bank expects the country to be able to cushion these effects through its highly diversified economy.

The Malaysian economy grew better than expected at 5.6% in the first quarter of 2023 (5% in 1Q 2022; 7.1% in 4Q 2022), driven mainly by private sector expenditure, according to the Central Bank of Malaysia. On May 12, 2023 in its quarterly bulletin release[1] it said growth was supported by a further expansion of household spending, continued investment activity, improving labour market and higher tourism activities. On a seasonally adjusted basis, the economy has recovered to its pre-pandemic levels.

[1] Central Bank of Malaysia, Quarterly Bulletin 1Q 2023 https://www.bnm.gov.my/-/quarterly-bulletin-1q-2023

GDP Growth by Economic Activity (Annual Change, %)	% Share (2022p)	2021	2022p	2023f
Real GDP	100	3.1	8.7	4.0 – 5.0
Services	58.2	1.9	10.9	5.0
Manufacturing	24.2	9.5	8.1	4.0
Mining & Quarrying	6.4	0.3	3.4	2.0
Agriculture	6.6	-0.2	0.1	0.7
Construction	3.5	-5.2	5.0	6.3

Note: p Preliminary, f Forecast
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

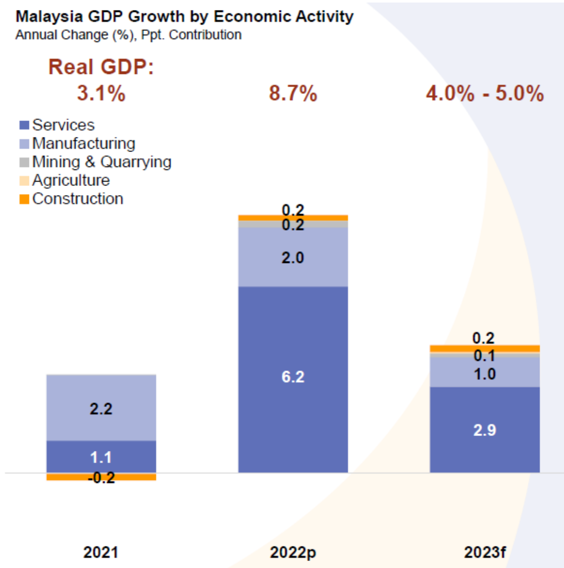

Figure 2. Source: Bank Negara Malaysia, Annual Report 2022, [Presentation Slides](#) p. 38

In line with global developments, Malaysia’s annual headline **inflation** rate in 2022 increased to **3.3%** (2021: 2.5%), due to both supply and demand conditions, according to the Central Bank of Malaysia. Inflation was driven largely by higher input costs due to higher global commodity prices following the military conflict in Ukraine, export restrictions in commodity-exporting countries, supply shortages and adverse weather conditions and sustained USD strength leading to higher import prices. These factors also coincided with stronger demand conditions amid pent up demand following the reopening of the economy and domestic policies such as the increase of the minimum wage and premature pension withdrawals from the Employee Provident Fund (EPF). Government subsidies and price controls on petrol, diesel, liquefied petroleum gas (LPG), cooking oil, flour, sugar and electricity softened inflation, according to the Central Bank of Malaysia. To rein in the core inflation rate, the central bank raised the Overnight Policy Rate (OPR) by another 25 basis points to 3% in May 2023, back to the pre-pandemic level of November 2019. Headline and core inflation is expected to average at between 2.8% and 3.8% in 2023, according to the Central Bank of Malaysia.

Malaysia’s **labour market** improved in 2022, with the unemployment rate falling to 3.9%, still higher than the 3.3% before the pandemic in 2019, according to the Central Bank of Malaysia. Total employment was 15.8 million in 2022 (2021: 15.3 million), while labour force participation improved slightly to 69.5% (2021: 68.6%), according to the Central Bank of Malaysia. Improvement in employment conditions was driven mainly by continued expansion in consumer and tourism related sectors coupled with policy measures to support labour markets such as hiring incentives, youth and graduate employment schemes and upskilling and reskilling initiatives, according to the Central Bank of Malaysia. Private sector wage growth was 5.6% in 2022 (2021: 2.5%), driven mainly by manufacturing sector wages, according to the Central Bank of Malaysia. While time-related underemployment has gone back to pre-pandemic levels, skills related underemployment is still increasing, pointing to structural mismatches in the labor market (e.g. skills mismatch), according to the World Bank.[2] For 2023, the unemployment rate is expected to lower to 3.5%, with higher total employment of 16.1 million, according to the Central Bank of Malaysia.

Malaysia’s external **debt** in 2022 declined to USD 259.2 billion or 63.9% of GDP (2021: USD 259.1 billion or 69.6% of GDP), according to the IMF.[3] The central bank’s international reserves declined to USD 114.7 billion at the end of 2022 (2021: USD 116.9 billion), sufficient to finance 5 months of retained imports of goods and services, and 1.0 times of the total short-term external debt, according to the IMF. Due to better management of fiscal deficits, federal government debt declined slightly, standing at RM 1.08 trillion (USD 234.8 billion) at the end of December 2022 or 60.4% of GDP (2021: 63.4%), according to the IMF.[4] **Fiscal deficit** is expected to decrease to 5.6% of GDP in 2022 from 6.4% in 2021, according to the IMF. Despite a record spending plan in the 2023 budget, the deficit is projected at 5% in 2023, and to average at 4.5% of GDP over 2024-28, remaining at 4.6% in 2025, above the authorities’ deficit target

[2] World Bank Economic Monitor February 2023: https://www.worldbank.org/en/country/malaysia/publication/malaysia-economic-monitor-february-2023-expanding-malaysia-s-digital-frontier

[3] IMF, Article IV Consultation (June 1, 2023), page 4: https://www.imf.org/en/Publications/CR/Issues/2022/04/28/Malaysia-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-517398

[4] IMF, Article IV Consultation (June 1, 2023), page 39: https://www.imf.org/en/Publications/CR/Issues/2022/04/28/Malaysia-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-517398

of 3.2% of GDP, said the IMF.[5] Among the measures to raise revenue, the government plans to introduce a capital gains tax for companies when disposing of unlisted shares, in line with international practice, a luxury goods tax and an excise duty on liquid or gel products containing nicotine used for electronic cigarettes and vaping. However, Malaysia's fiscal space is expected to narrow in the near term, with lower revenue, high rigid expenditures (obligations related to salaries, pensions, and interest payments stood at around 56% of total government spending in 2022) and high subsidies spending.

According to the World Bank,[6] spending on **subsidies and social assistance** (including cash transfers) in 2022 jumped to RM 67.4 billion (USD 15.3 billion), mainly due to higher global oil prices, representing 3.4% of GDP (2021: 1.5%). In comparison, the spending allocation for the Ministry of Health and the Ministry of Education in 2022 stood at 1.9% and 3.1% respectively. In budget 2023, subsidies spending has been reduced again by 12.9% to RM 56.8 billion (USD 12.9 billion), due to the expectation of a lower oil price and in line with the government's announced shift towards a more targeted subsidy mechanism. The new government concedes that the amount spent for subsidies is unsustainable, leading to budget deficits and reducing the fiscal space for development expenditure i.e. public investment. Subsidies and price controls are a key component of Malaysia's social policy, even though they also benefit the well-off. Changing the system is politically tricky. As the World Bank highlights, Malaysia's tax framework is in need of reform, as government revenue has been on a downward trend since 2012, driven by declines in oil-related revenues and consumption taxes. After a temporary increase in 2022 due to higher crude oil prices, government revenue is expected to resume its declining trend in 2023.

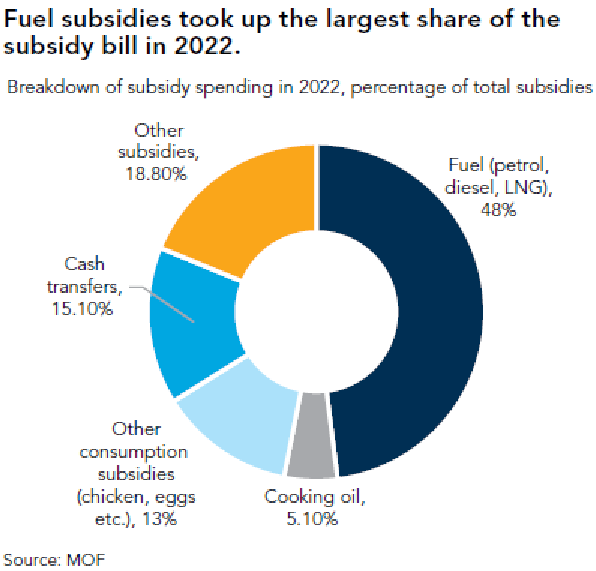

Figure 3. Source: World Bank Economic Monitor Feb. 2023

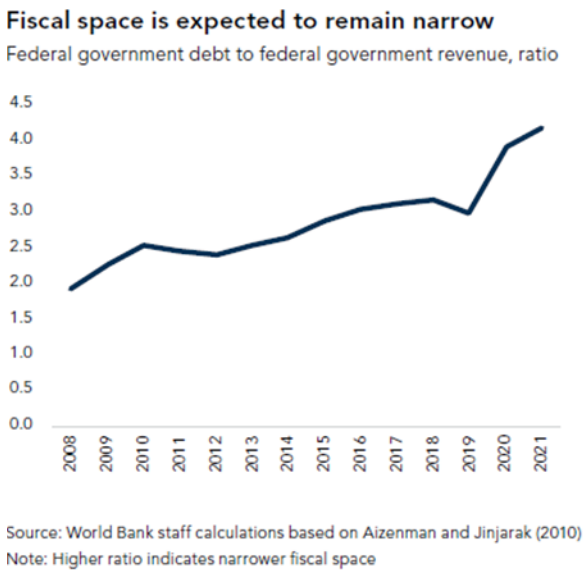

Figure 4. Source: World Bank Economic Monitor Feb. 2023

The following are some major financial sector, economic developments and policy changes in Malaysia in 2022-2023:

- Malaysia's central bank, in **January 2022** launched the Financial Sector Blueprint 2022-2026, which sets out the bank's development priorities for the financial sector with five priority areas: funding Malaysia's economic transformation, elevating the financial well-being of households and businesses, advancing digitalisation of the financial sector, positioning the financial system to facilitate and an orderly transition to a greener economy and advancing value-based finance through thought leadership in Islamic finance.
- The central bank introduced two new financing facilities for SMEs – RM 1 billion Business Recapitalisation Facility (BRF) and RM 1 billion Low Carbon Transition Facility (LCTF) – which are open from 3 February 2022 until the funds are fully utilised.
- The central bank launched the Cross-Border QR Payment Linkage between Malaysia and Indonesia with Bank Indonesia, the republic's central bank, to enable instant, secure, and efficient cross border payments.
- The expiry of government support measures and the loan moratorium in **March 2022** had limited impact on domestic consumption levels. While the relatively high level of household debt in Malaysia (81.2% to GDP: Dec. 2022) remains a concern despite a decline from record levels

[5] IMF, Article IV Consultation (June 1, 2023), p. 49: https://www.imf.org/en/Publications/CR/Issues/2022/04/28/Malaysia-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-517398

[6] See footnote 2.

(93.2%: Dec. 2020), the bulk of household borrowers remain resilient with loan repayment improved at 8.7% in Dec. 2022 (5.8%: Dec. 2019) amid better income and employment conditions. More than one-third of SMEs remain in loan restructuring initiatives and thus in a financially difficult position. Since the expiry of the loan moratorium, the share of business loans under repayment assistance declined to just 14.8% of total banking system loans (including development financial institutions) at end June 2022 (2021: 26.6%). About 94 percent of total business loan accounts approved for rescheduling and restructuring were made up of SMEs.

- In **April 2022**, the central bank announced five successful applicants for the digital bank licenses. Three out of the five consortiums are majority-owned by Malaysians namely Boost Holdings and RHB Bank Berhad, Sea Limited and YTL Digital Capital Sdn. Bhd. and KAF Investment Bank Sdn. Bhd. The other two involve Singaporean GXS and Japanese AEON.
- On **October 6, 2022**, the government unveiled its New Investment Policy (NIP) to continue Malaysia's move towards becoming the preferred investment destination in Southeast Asia. The NIP will serve as a forward-looking framework to ensure Malaysia remains ever-ready to cater to the changes in the global economic landscape and spur investment in future growth sectors. The policy identifies five priority sectors for investment, some of which are of particular interest to Switzerland: Pharmaceutical, digital economy, electrical and electronics, chemical, and aerospace. The policy articulates expectations in terms of environmental, social and governance (ESG) standards and states that Malaysia will in the future only support investments that can propel the country forward towards enhanced ESG positioning.
- On **October 7, 2022**, the first Budget 2023 was tabled, along with the mention of implementing a Global Minimum Tax (GMT) of 15% on multinational companies by 2024. Malaysia is among the 136 countries announced by the Organisation for Economic Cooperation and Development (OECD) previously as countries that are ready to reform the international taxation system.
- As at **31 December 2022**, the Employees Pension Fund's (EPF) total investment assets came in at RM1 trillion, down marginally by 0.7% from RM1.01 trillion in 2021. RM145 billion was withdrawn by members under four withdrawal schemes, causing a huge outflow of funds that saw EPF's asset under management dropping for the first time in history.
- On **January 1, 2023**, the government reduced power subsidies for large businesses and multinational companies. Medium voltage and high voltage users will be charged a surcharge of 20 sen per kWh from Jan 1, due to the higher electricity generating cost i.e. coal prices. Small and medium-sized enterprises, as well as those involved in agriculture and food production were not affected.
- On January 1, 2023, the proposed amendments to Malaysia's Employment Act came into force. The ammendments allow employees to apply for flexible working arrangements, increase maternity and introduce paternity leave, and provide greater protection against all types of harassment and discrimination, among others.
- On **24 February 2023**, PM Anwar Ibrahim tabled a revised Budget 2023 of RM 388.1 billion, the largest ever at 20.4% of GDP, comprising RM 289.1 billion operating expenditure and RM 99 billion development expenditure. Anwar, who is also Finance Minister, is focused on narrowing the budget deficit while facing pressure to maintain subsidies to support lower-income groups. He is broadening the revenue base through taxes targeting luxury goods and capital gains, asking the wealthy to take "joint responsibility". Income tax will be raised by up to 2 percentage points in the 24% to 28% tax bracket for those earning between RM 100,000 to RM 1 million. The government has announced it may also implement a capital gains tax on the sale of shares in private companies in 2024, but ruled out reintroducing a goods and services tax. At the same time, RM 64 billion in subsidies, aid and incentives will be provided. To reduce burden on the middle-income group, the government will reduce the income tax rate for some 2.4 million middle income earners by 2 percentage points, resulting in additional disposable income of RM1300 for about 2.4 million taxpayers. Anwar forecast the deficit to narrow to 5% of GDP this year from 5.6% last year.
- In **February 2022**, the U.S. Customs and Border Protection (CBP) lifted a two-year import ban on palm oil products made by Malaysia's Sime Darby Plantation, after determining the goods were no longer produced with forced labour. Goods made by Sime Darby Plantation, the world's largest palm oil company by land size, have been blocked by the U.S .customs authorities from entering the U.S. since December 2020 over suspected abusive labour practices. In response, Sime Darby Plantation appointed an ethical trade consultancy to audit its facilities, and last year set aside about USD 20 milllion to compensate current and former migrant workers who paid recruitment fees to secure jobs at the firm.
- On **May 1, 2023**, the EU and the US raised concern over a possible review of the 5G network contract by the Malaysian government that may allow Huawei to bid and risk national security and foreign investment. The contract had been awarded to Ericsson. The Financial Times quoted a letter sent by envoys to Malaysia from the US and EU to the government in April. Malaysia's

Communications and Digital Minister Fahmi Fadzil responded on May 3 that Malaysia has the right to ensure its own policies without interference from other parties as a sovereign country.

- On **May 3, 2023**, Malaysia said it will adopt a dual network model for its 5G rollout next year after coverage reaches 80%, following widespread concerns about pricing and competition over a single state-run network. PM Anwar Ibrahim's six-month-old administration aims to dismantle monopolies and promote competition, targeting state agency Digital Nasional Berhad (DNB), which owns the spectrum licenses and building out the physical network infrastructure. Ericsson was awarded the contract to deploy the network for DNB. 5G coverage had reached almost 60% by early May and is expected to reach 80% by the end of 2023, according to the Communications and Digital Minister.
- On May 3, 2023, central bank in a surprise increased the overnight policy rate (OPR) by 25 basis point to 3%, back to pre-pandemic levels in Nov. 2019.
- On **May 5, 2023**, Communications and Digital Minister Fahmi Fadzil said the current 5G coverage of populated areas (Copa) has reached 57.8%, which is an increase from 54.7% at the end of February, adding that another 2,000 sites would need to be covered to achieve 80 per cent Copa by year end.
- On **May 9**, government lifted the export ban of renewable energy. It also expressed its intention to increase the capacity of renewable energy to up to 70% of its power mix by 2050, which experts think is very ambitious. The expansion of the capacity would allow surplus to be exchanged across borders with neighbouring countries, mainly Singapore, through a mechanism determined by the government. Energy producers expect to benefit from higher energy prices abroad and to be able to re-invest profits in the expansion of renewable energy capacity at home.

2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

Malaysia is an upper middle-income economy with a population of over 32.7 million. The country's growing affluent middle class is increasingly driving consumer and business demand for quality products and services. Swiss products and brands are favorably viewed in terms of the high quality and enjoy a strong presence in many sectors, including pharmaceuticals, food production and beverages, construction, machinery and infrastructure, transportation, and various consumer products. Malaysia also remains an attractive destination for Swiss companies, some of which have been established locally for over 100 years, as a regional base for production, distribution and administration for the Southeast Asian and global markets.

Malaysia is a highly diversified emerging market, with services and manufacturing as the two key drivers of growth. The **service industry**, which accounts for 58.2% of the national economy (see figure 6), recorded a strong growth of 10.9% in 2022 (2021: 1.9%), attributed to the upswing in tourism-related activities following the reopening of international borders, increased consumer spending, higher adoption of digitalization across all sectors as well as improved demand for professional services. During the strict lockdown, a significant population of Malaysians learned to order groceries, food and products online, increasing the use of food and goods delivery services. **Online retail trade** activity grew on average by 18.3% in 2022, retaining Malaysia's top 10 position as one of the world's leading countries in this field, according to eMarketer.[7]

Malaysia's e-commerce revenue surpassed RM1 trillion (USD 224.3 billion) for the second year in a row in 2022, reaching RM 1.1 trillion, said the Malaysia Digital Economy Corporation (MDEC[8]). The percentage of Malaysians who used cash payments has dropped from 88% in 2019 to 78% in 2022, according to Cash Matters[9]. The digital economy is expected to play a key enabling role in the recovery, in Asia as well as in Malaysia, according to the World Economic Forum.[10] In 2022, Malaysia had the highest social media penetration rate (91.7%)[11] and the second highest smartphone penetration rate

[7] eMarketer, *Top 10 Countries, Ranked by Retail Ecommerce Sales Growth, 2022*: https://www.insiderintelligence.com/chart/253485/top-10-countries-ranked-by-retail-ecommerce-sales-growth-2022-change

[8] MDEC's *National E-Commerce Strategic Roadmap (NESR):* https://mdec.my/nesr

[9] Cash Matters Survey, 8.8.2022, *Malaysia is a Cash-driven country*: https://www.cashmatters.org/blog/malaysia-is-a-cash-driven-country

[10] World Economic Forum, 10.2.2022, *How digitalization is making South and Southeast Asia engines of growth: https://www.weforum.org/agenda/2022/02/digitalization-south-southeast-asia/*

[11] Statista, 16.2.2023, *Social media penetration SEA 2022*, by country: https://www.statista.com/statistics/487981/social-penetration-in-southeast-asian-countries/

(88.8%)[12] in Southeast Asia after Singapore, according to Statista, a German leading provider of market and consumer data.

Figure 5

Malaysia's GDP by Sector, 2021-2023

	SHARE (%)	CHANGE (%)		
	2022[1]	2021	2022[1]	2023[2]
Services	58.2	1.9	10.9	5.3
Manufacturing	24.2	9.5	8.1	3.9
Agriculture	6.6	-0.2	0.1	1.1
Mining	6.4	0.3	3.4	1.2
Construction	3.5	-5.2	5.0	6.1
GDP	**100.0**	**3.1**	**8.7**	**~4.5[3]**

[1] Preliminary
[2] Forecast
[3] Approximate
Note: Total may not add up due to rounding and exclusion of import duties component
Source: Department of Statistics and Ministry of Finance, Malaysia

Figure 6

The **wholesale and retail sub-sector** of the service industry grew 13.5% in 2022, supported by strong performance in all segments following an increase in household spending mainly attributed to improvement in the labour market. The retail trade segment recorded a significant growth of 18.3%. The **transportation and storage subsector** shot up by 30.8% in 2022, backed by significant growth of all segments following a more vigorous highway, port and airport activities. Meanwhile, the **food & beverages and accommodation subsector,** turned around significantly by 33.2% following a return of tourism activities in line with the substantial recovery in hotel occupancy rates and patronage at restaurants.

Malaysia is the world's third-largest **Islamic finance banking market** according to Fitch Ratings[13], an area that promises further growth, which Swiss financial institutions in Malaysia confirms for their own business. The digitization of the financial sector plays another important role. However, the central bank has no immediate plans to issue a central bank digital currency (CBDC) as the domestic payment system remains efficient to support the needs of the economy and allow real-time digital payments. There are also no plans by the central bank to recognise cryptocurrencies as legal tenders in Malaysia, citing price fluctuations, exposure to cyber threats, lack of scalability and negative impact on the environment.

Strong external trade supported an exceptional performance of the **manufacturing sector** (25.8% of economy), which grew 27.8% (2021: 24.9%), driven primarily by the electrical and electronics (E&E) sector, continues to play central role in Malaysia's economy. In Penang in particular, a semiconductor industry ecosystem has formed, imbedded in global supply chains, in which Swiss companies also participate. The pandemic has highlighted in particular the important role of Swiss companies based in Malaysia play as intermediary suppliers. Aided by structural shifts towards digitalization, the E&E sector recorded a robust export growth of 30.2% (2021: 18%) driven by strong demand for products associated with remote working, e-commerce, cloud-based services, and medical devices.

Life sciences, pharma and health care is another important sector in Malaysia. On the one hand, health care spending is expected to further increase and the health care system is expected to be further developed. On the other hand, Malaysia is developing its own pharmaceutical industry, aspiring to become a hub in Southeast Asia. Pharma is one of the three immediate priorities of Malaysia's New Investment Policy.

[12] Statista, 5.10.2022, *Smartphone penetration in Malaysia 2010-2025*: https://www.statista.com/statistics/625418/smartphone-user-penetration-in-malaysia/ Statista, 4.5.2023, *Smartphone penetration rate in selected countries 2022*: https://www.statista.com/statistics/539395/smartphone-penetration-worldwide-by-country/ Statista, 19.1.2023, *Smartphone penetration in Singapore 2010-2028*: https://www.statista.com/statistics/625441/smartphone-user-penetration-in-singapore/

[13] Fitch Ratings, 9.2.2023, *Malaysia's Islamic Financing Growth to Continue Outperforming Conventional Banks*: https://www.fitchratings.com/research/banks/malaysia-islamic-financing-growth-to-continue-outperforming-conventional-banks-09-02-2023

The **agriculture** sector which forms 6.6% of the total economy, turned around by 0.1% in 2022 (2021: -0.2%) (see figure 6), mainly driven by the recovery in the oil palm subsector following firmer prices, the gradual return of foreign workers to the plantation industry and improved fresh fruit bunches yield, particularly in the second half of the year. Palm oil is the mainstay of Malaysian agriculture, with the largest share of 79.8% of agriculture exports in 2022.

The **construction** sector, which forms 3.5% of the total economy and another important sector for Swiss companies, rebounded by 5% (2021: -5.2%) (See figure 6), mainly attributed to the positive performance of non-residential buildings and specialized construction activities subsectors. The acceleration of infrastructure projects such as the East Coast Rail Link (ECRL) and the Rapid Transit System (RTS) Link to Singapore also supported the sector’s performance.

The **start-up scene** in Malaysia is broad, with a great wealth of ideas, which is mainly supported by government grants. However, only a few manage to mature and leapfrog to market maturity, also because long-term financial support, especially from private investors, is largely lacking in the country.

Services and manufacturing have been the mainstay sectors for Swiss companies in Malaysia over the years and continue to be so according to their growth potential. Malaysia as a manufacturing location continues to benefit from its strategic location at the center of Asian supply chains, a well-developed infrastructure, a pro-business environment, an English-speaking business and consumer environment, a young and educated workforce, a well-established legal framework, and the ability to repatriate capital and profits. In the context of the relocation and diversification of supply chains in Asia, Malaysia continues to offer an interesting location option for Swiss companies, particularly in the E&E sector and for the machinery industry.

3 FOREIGN ECONOMIC POLICY

3.1 Host country’s policy and priorities

Malaysia sees itself as an open economy and trading nation. It also regards foreign direct investments as an important driver for economic development and encourages them. Malaysia remains committed to the rules-based multilateral trading system under the World Trade Organisation (WTO) as a member since its creation in 1995 and has fully implemented the Agreement on Trade Facilitation since June 2021. Malaysia has concluded 16 **free trade agreements** (FTA), according to the Ministry of Investment, Trade and Industry[14]. The FTA coverage ratio in its total trade amounted to 67.3% in 2022. Out of the 16, 7 are bilateral FTAs with Japan, Pakistan, New Zealand, India, Chile, Australia and Turkey. Malaysia is a founding member of ASEAN, which established the ASEAN Free Trade Area (AFTA) in 1993. ASEAN has 6 regional FTAs namely with China, Korea, Japan, Australia and New Zealand, India and Hong Kong. Last year, Malaysia ratified two regional FTAs – March 2022 for the Regional Comprehensive Economic Partnership (RCEP), the world’s largest free trade zone including 15 countries, and November 2022 for the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which includes 11 countries.

The **CPTPP** deepens and broadens Malaysia’s market access, adding Canada, Mexico and Peru to the countries not covered by an existing FTA, according to the Ministry of Investment, Trade and Industry (MITI). It also provides access to a wider range of high-quality raw materials at competitive prices and increases the country’s attractiveness as an investment destination. The CPTPP also offers technical assistance and capacity building programmes. According to the cost-benefit-analysis mandated by the government, the CPTPP will lead to an expected increase of Malaysia’s total trade to USD 656 billion and a positive trade balance of 8.5% of GDP by 2030, according to MITI[15].

Negotiations for an FTA between **EU** and Malaysia (MEUFTA) were launched in 2010 and put on hold after seven rounds in 2012 at the request of Malaysia. A stocktaking exercise took place in 2016-17 to assess the prospect to resume negotiations. The new government appointed in November 2022 announced in January 2023 that they are reassessing whether to resume negotiations. On May 23, 2023, Malaysia and the **United Arab Emirates** announced they will negotiate a Comprehensive Economic Partnership Agreement (CEPA) covering trade in goods and services, investments and economic cooperation.

[14] Ministry of Investment, Trade and Industry - Malaysia’s Free Trade Agreements (FTAs): https://fta.miti.gov.my/index.php/pages/view/4?mid=23

[15] Ministry of Investment, Trade and Industry, press release, October 5, 2022: https://www.miti.gov.my/miti/resources/Media%20Release/MEDIA_RELEASE_MALAYSIA_RATIFIES_THE_CPTPP_5_OCTOBER_2022.pdf

In January 2021, Malaysia initiated a **WTO dispute** complaint against the European Union's Renewable Energy Directive II (REDII), which intends to phase out the usage of palm oil in biofuels classified as unsustainable by 2030. WTO has agreed to establish an expert panel.

3.2 Outlook for Switzerland (potential for discrimination or comparative advantage)

The **Malaysia-European Free Trade Association (EFTA) Economic Partnership Agreement** (MEEPA) has undergone thirteen rounds of negotiations since March 2014.[16] The last round was conducted physically in October 2022 in Kuala Lumpur, after negotiations had resumed in February 2020 following a change in government in Malaysia. The next round of negotiations is scheduled for 2023 in Geneva. The treaty aims at establishing a rules-based trading environment, as well as enhanced market access for goods and services. In the coming rounds of negotiations, the partners must strike a balance that also includes sustainability provisions for oilseed products (palm oil). The conclusion of an FTA between Malaysia and the EFTA will improve the competitiveness of Swiss exports to Malaysia. Swiss companies could benefit further from using Malaysia as a 'springboard' to other countries in the region.

The **Double Taxation Agreement** of 30th December 1974 and the Investment Guarantee Agreement of 1st March 1978 between Switzerland and Malaysia have paved the way for the development of bilateral trade between both countries. Negotiations for a new **investment protection agreement** have been underway since September 2021, and the fifth round took place in May 2023. An updated **air services agreement** is about to be ratified.

There are no specific discriminative policies being implemented against Switzerland. Swiss companies producing in Malaysia for other markets benefit from Malaysia's free trade agreements, especially with ASEAN, RCEP and CPTPP countries. Since 2019 Malaysia has not undertaken any new harmful trade interventions affecting Switzerland, while some liberalising interventions were undertaken in 2022, according to Global Trade Alert[17] (see figure 7 and 8).

Figures 7 and 8: Global Trade Alert Number of Interventions Per Year between Malaysia (as an implementing country) and Switzerland (as an effected country)

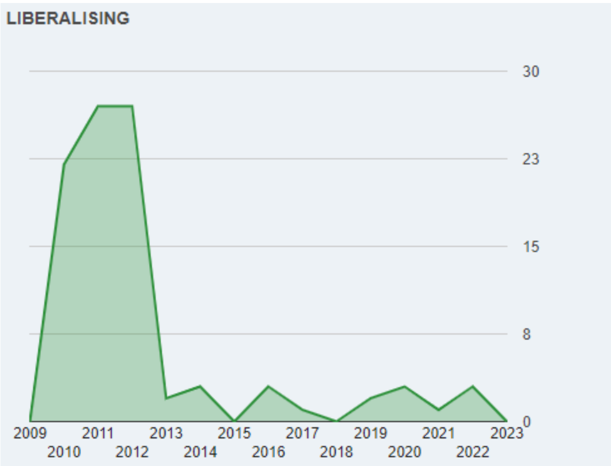

Figure 7. Source: Global Trade Alert

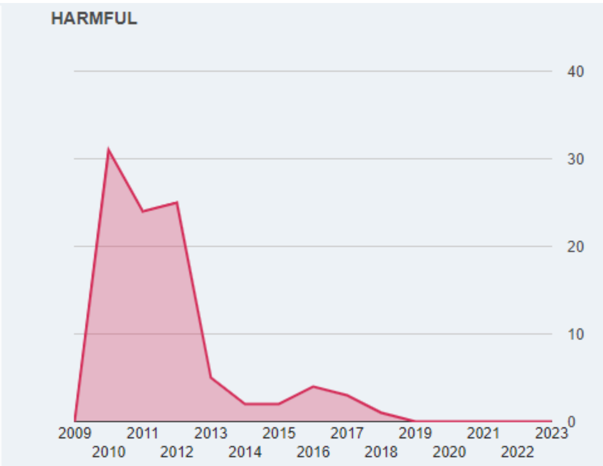

Figure 8. Source: Global Trade Alert

Malaysia is ranked 45th out of 88 countries in the **International Trade Barrier Index[18]** (TBI) 2023 released by the US-based Tholos Foundation. The TBI scores countries on a 1-10 scale in four different pillars describing the most direct forms of trade barriers: tariffs, non-tariff barriers, services restrictions, and a facilitation score capturing the "behind the border" measures necessary to allow trade to occur. Malaysia's services restriction scores for construction, retail, and professional services are relatively high while the country's facilitation score is much better than the world average. The component considers property rights protection, logistics performance, digital trade barriers and membership in regional trade agreements.

[16] EFTA Website for negotiation reports: https://www.efta.int/free-trade/ongoing-negotiations-talks/malaysia
[17] Global Trade Alert: https://www.globaltradealert.org/country/123/affected-jurisdictions_203/period-from_20090101/period-to_20230607

[18] International Trade Barrier Index published by Tholos Foundation: https://www.tradebarrierindex.org/

4 FOREIGN TRADE

4.1 Developments and general outlook

Malaysia's openness to trade as measured by the trade-to-GDP ratio in 2021 was a high 131, same as Switzerland's, according to the World Bank's Trade (% of GDP) data[19] (global average is 57). Malaysian goods continued to be in global demand, especially manufactured goods such as semiconductors and commodities such as oil and gas. The recovery in global growth and trade activity lead to record-high Malaysian exports in 2022 of RM 1.6 trillion (USD 361 billion, +25%), causing the E&E sector to flourish, according to the Ministry of Investment, Trade and Industry (MITI). This has allowed Malaysia to maintain a surplus in its current account throughout the pandemic, even as it ran deficits in services and income. The surplus in 2022 amounted to RM 255.1 billion or 19% of GDP (2021: RM 252.6 billion / 16% of GDP), according to MITI.

4.1.1 Trade in goods

Malaysia's total trade in 2022 recorded a new record to reach RM 2.8 trillion (USD 631 billion), registering the fastest growth since 1994 at 27.8%[20], according to MITI. Trade surplus reached an all-time high at RM255.1 billion, representing Malaysia's achievement in sustaining a trade surplus for 25 consecutive years, according to MITI. Malaysia's trade performance was in tandem with countries in the region, notably Indonesia, Singapore, Thailand, China, South Korea and Taiwan, which were also recovering from the impact of the pandemic. China remained Malaysia's largest trading partner in 2022, for 14 consecutive years, with a share of total trade at 17.1%, expanding by 15.6%. The United States' share was 9.4%, followed by the EU at 7.6%. Trade with the EU in 2022 increased by 20.1% from the year earlier to RM 216.5 billion (USD 49.2 billion). Japan was Malaysia's fourth-largest trading partner for eight consecutive years since 2015 with a 6.4% share, according to MITI. Taken together, the other ASEAN countries were Malaysia's biggest trading partners, accounting for 27.1% of total trade in 2022. Trade with ASEAN increased by 34% from the year earlier to RM 772 billion (USD 175.5 billion),

<u>Exports</u>

Malaysia's exports in 2022 grew by 25% to RM 1.6 trillion (USD 361 billion), better than forecasted and exceeding the 12th Malaysia Plan[21] projection for 2025, driven by robust external demand and higher global commodity prices, according to MITI. Exports to major trading partners namely ASEAN, China, the US, the EU and Japan registered new record highs. Exports to China increased 9.4%, to the U.S. 17.5% and Japan 29.6%, driven by manufactured goods. Exports to ASEAN made up 29.2% of Malaysia's total exports, increasing 31.8% in 2022. Exports to the EU improved by 21.8% to RM 126.3 billion (USD 28.7 billion), buoyed by strong exports of manufactured goods, accounting for 88.7% of exports, such as electrical and electronic products (E&E), petroleum products, manufacturers of metal, iron and steel products, as well as agriculture goods such as palm oil-based manufactured products.

Top main export categories are manufacturing at 84.2%, agriculture at 7.8%, and mining at 7.5%, according to MITI. Out of manufacturing, E&E products continue to hold the biggest share of Malaysia's total exports at 45.4%, recording a 4.7% rise compared to the previous year. The increase was powered by robust demand for semiconductors, telecommunications equipment, office machines and automated data processing equipment due to remote working and learning trends as well as business digitalization. With Malaysia as a significant commodity exporter, the second largest share under manufacturing at 12.5% was exports in petroleum products which grew 66.4% from the year earlier. Under mining, the largest share of 58.1% was liquefied natural gas which grew 33.5% compared to the previous year, second largest share of 27% was crude petroleum that expanded 46.3% from a year ago. Under agriculture, palm oil was the largest share of 79.8%, though contracting 1% year-on-year.

Major Export Products (2022)

[19] World Bank's Trade (% of GDP) data 2021: https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?name_desc=true&locations=MY

[20] Malaysia's External Trade Statistics, Trade Performance for Year 2022 and December 2022: https://www.miti.gov.my/miti/resources/Trade%20Performance%20Media/Trade_Performance_Press_Release_December_2022.pdf

[21] Five-year overall development plan by the Malaysian government 2021-2025.

Products	2022ᵖ	2021ᶠ	Change
	RM Million	RM Million	%
Total Exports	**1,551,736.2**	**1,241,022.1**	**25.0**
E&E Products	593,494.8	455,953.0	30.2
Petroleum Products	163,004.3	96,205.8	69.4
Palm Oil & Palm Oil Based Agriculture Products	96,525.9	75,811.3	27.3
Chemicals & Chemical Products	80,609.4	70,683.1	14.0
LNG	67,985.5	38,192.7	78.0
Manufactures of Metal	63,560.3	61,556.7	3.3
Machinery, Equipment & Parts	60,453.0	49,921.6	21.1
Optical & Scientific Equipment	56,694.2	46,928.3	20.8
Palm Oil-Based Manufactured Products	41,364.2	32,703.9	26.5
Iron & Steel Products	33,354.4	29,408.8	13.4

Figure 9. Source: MITI Trade Performance for 2022, Press Release

Imports

In 2022, Malaysia's total imports rose by 31.3% to RM 1.3 trillion (USD 293 billion) according to MITI. The three main categories of imports by end use which accounted for 71.7% of total imports in 2022 were: intermediate goods valued at RM 705.7 billion or 54.5% share, capital goods amounted to RM 120.3 billion or 9.3% share, and consumption goods totaled RM 104.1 billion or 8% share. China has remained the largest import source since 2011 (20.7%), followed by Singapore, Taiwan, the U.S., and Japan. These countries contributed 54.7% to the total imports. Imports from ASEAN amounted to a 24.3% share of Malaysia's total imports, while the EU accounted for a 7% share. Imports from ASEAN picked up by 37.1% in 2022, while imports from China grew 20.7% and from the US by 34.4%. Imports from the EU improved by 17.7% to RM 90.22 billion (USD 20.5 billion), mainly being E&E products, chemicals and chemical products as well as machinery, equipment and parts.

Major Import Products (2022)

Products	2022ᵖ	2021ᶠ	Change
	RM Million	RM Million	%
Total Imports	**1,296,635.7**	**987,344.0**	**31.3**
E&E Products	393,804.2	314,546.1	25.2
Petroleum Products	148,716.8	89,546.3	66.1
Chemicals & Chemical Products	115,512.8	96,550.6	19.6
Machinery, Equipment & Parts	89,376.5	68,638.0	30.2
Manufactures of Metal	63,853.3	54,216.1	17.8
Crude Petroleum	52,941.7	14,130.9	274.7
Transport Equipment	50,982.3	33,588.2	51.8
Iron & Steel Products	33,438.3	33,452.2	-0.04
Optical & Scientific Equipment	29,851.7	26,855.0	11.2
Processed Food	29,013.8	24,857.9	16.7

Figure 10. Source: MITI Trade Performance for 2022, Press Release

Top main import categories are manufacturing at 83.3%, agriculture at 5.6%, and mining at 9.3% according to MITI. Out of manufacturing, E&E products continue to hold the biggest share of Malaysia's total imports at 36.5%, recording a marginal 0.5% rise compared to the previous year. The second largest share under manufacturing at 13.8% was imports in petroleum products which surged 72.9% from the year earlier. Under agriculture, the largest share of 56.9% was other agriculture (apart from palm oil and palm-based products: natural rubber, other vegetables oils, seafood, sawn timber and moulding, and sawlog sub-sectors) which grew 7.3% from a year ago. Under mining, the largest share of 44.1% was liquefied natural gas which surged 600% compared to the previous year, second largest share of 17.7% was metalliferous ores and metal scrap that expanded 6.8% from a year ago.

Malaysia's trade performance is expected to grow at a softer pace in year 2023, in line with the outlook by World Trade Organization (WTO) which anticipates global trade to grow by 1%, according to MITI.

For 2023, Malaysia's trade is expected to grow by 1.3% while exports and imports are estimated to increase by 2.2% and 0.2% respectively as reported by Ministry of Finance (MOF) in its Economic Outlook 2023[22]. This is due to global uncertainties arising from inflationary pressures, prolonged geopolitical tensions, exporters' capacity in meeting environmental, social and governance (ESG) market demands, disruption in global supply chains and volatility in commodity prices. Nevertheless, continuous demand for manufactured good especially E&E products will support trade growth due to technological advancement, according to MITI.

4.1.2 Trade in services

In 2022, total trade in services increased by 39.4% to RM 336.9 billion (USD 76.6 billion)[23], with the deficit narrowing for the first time since 2019 to RM 56.4 billion as services exports grew faster than imports (see figure 11), according to the Department of Statistics Malaysia. The favourable growth of exports was spearheaded by a significant travel recovery from the COVID-19 pandemic since Malaysia's international borders reopened on April 1, 2022. Tourism is usually the third-largest contributor to Malaysia's GDP, after the manufacturing and commodities sectors. In 2019, the sector had contributed about 15.9% to the total GDP.

Total trade in services as a contribution of GDP at current prices accounted for 18.8% in 2022, according to Department of Statistics Malaysia. Asia remained the leading market for Malaysia's services exports constituting 55.1 per cent of total services valued at RM77.3 billion. Top service export destinations in 2022 were, in a descending order, the U.S., Singapore, and Hong Kong. Top service import destinations were the U.S., Singapore and China.

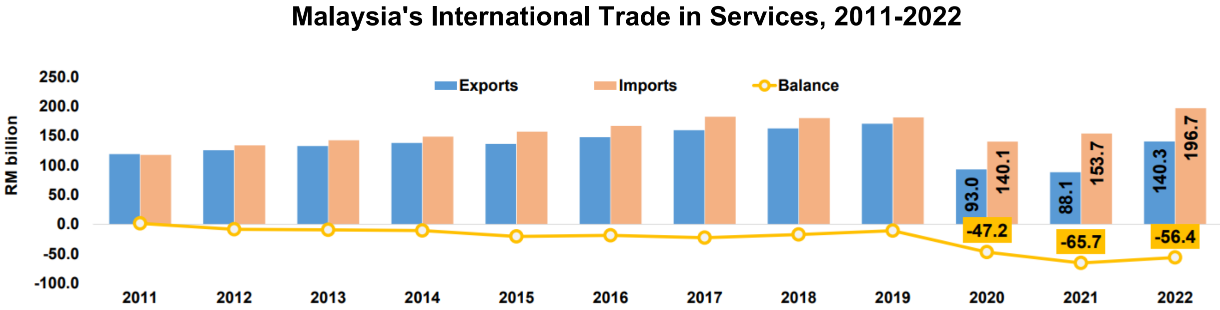

Figure 11. Source: Department of Statistics Malaysia

4.2 Bilateral trade

4.2.1 Trade in goods

The total bilateral Swiss-Malaysian trade in 2022 continued to grow to CHF 2.28 billion (2021: CHF 2.17 billion), in line with the recovery of the global economy. Exports from Switzerland to Malaysia increased by 2% while imports from Malaysia increased by 10%. Switzerland continues to maintain a trade surplus with Malaysia. If trade in precious metals is excluded, trade is almost balanced.[24]

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[22] Malaysia's External Trade Statistics, Trade Performance for Year 2022 and December 2022, see pg. 12: https://www.miti.gov.my/miti/resources/Trade%20Performance%20Media/Trade_Performance_Press_Release_December_2022.pdf

[23] Department of Statistics Malaysia, Statistics of International Trade in Services 2022: https://www.dosm.gov.my/uploads/release-content/file_20230622112037.pdf and https://www.dosm.gov.my/uploads/release-content/file_20230622105206.pdf

[24] See Annex 4

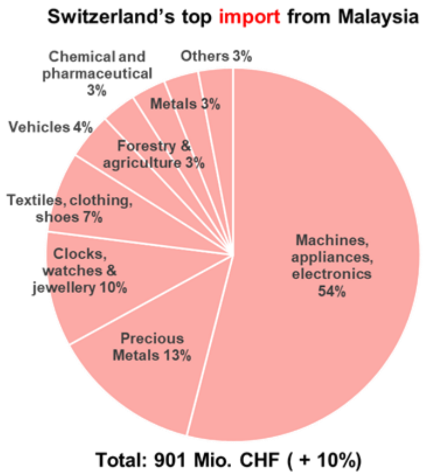

Figure 12

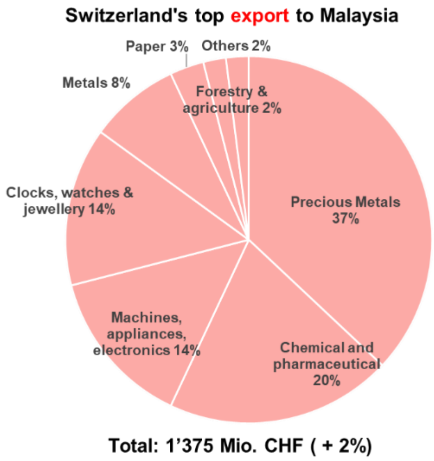

Figure 13

Source: Swiss Customs Administration *Data for 2022 is provisional

Precious metals continue to take the biggest share of exports at about 37%, followed by pharmaceutical products at 20% and machinery at 14%. Meanwhile, Switzerland continues to import mainly machinery from Malaysia. With the exception of exports of precious metals (-15.9% YOY), all trade categories have seen increases in 2022.[25] Imports of rubber products from Malaysia declined (-27.4%, CHF 83.1 million), after surging 88.5% in 2021, due to lower demand for medical gloves.

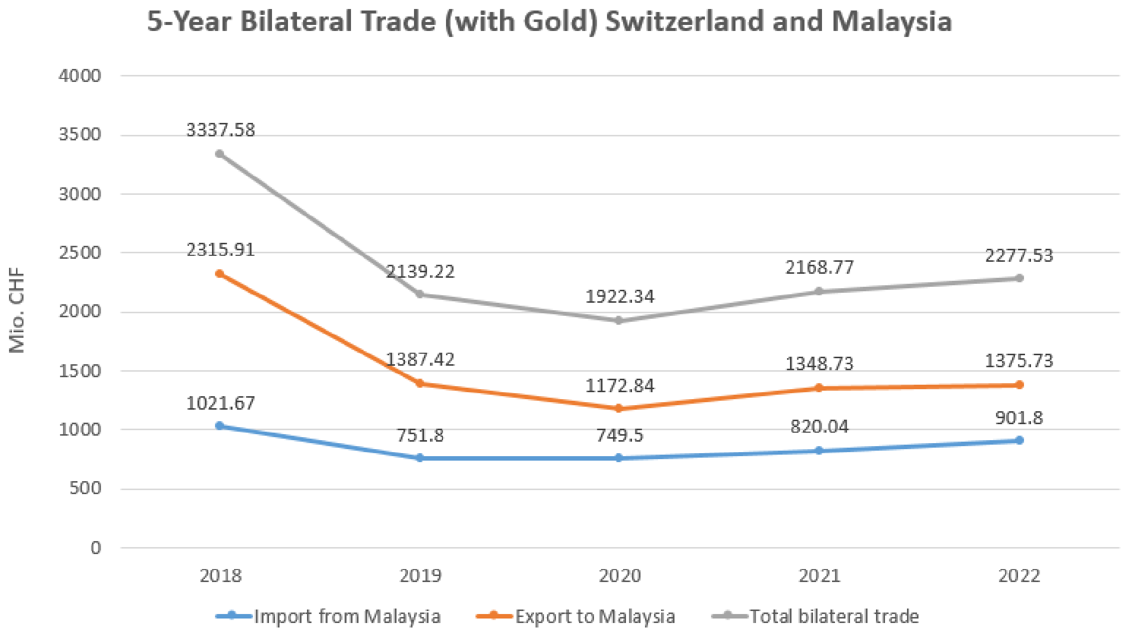

Figure 14. Source: Swiss Customs Administration * Data for 2022 is provisional

[25] See Annex 4

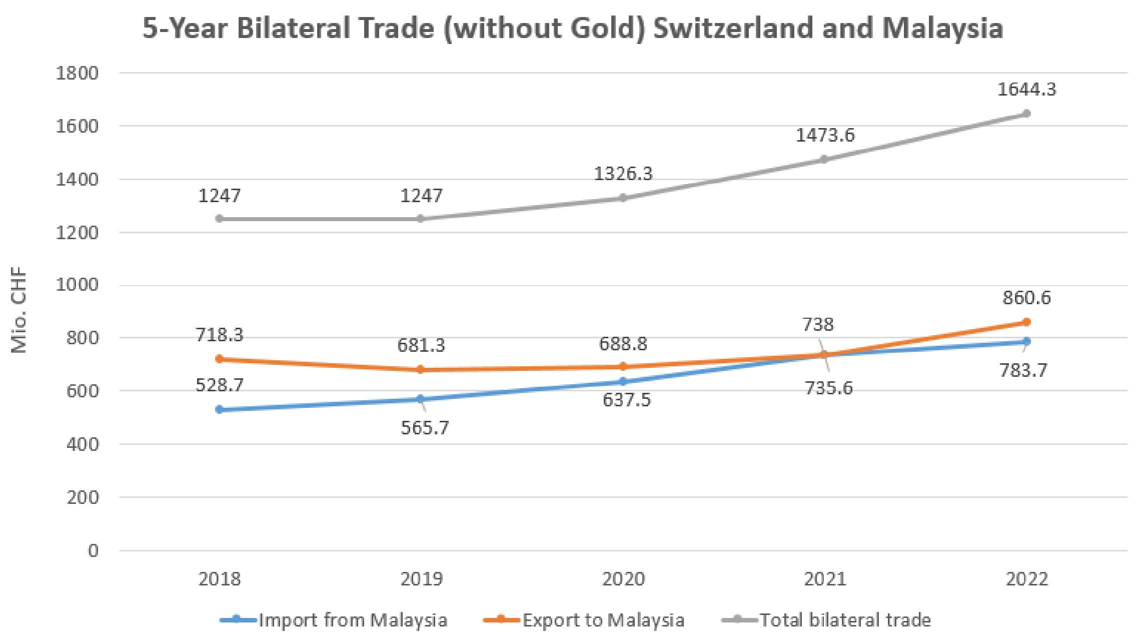

Figure 15. Source: Swiss Customs Administration *Data for 2022 is provisional

Swiss imports of palm oil from Malaysia continued to decline (2022: -70%), declining even faster than Swiss imports of this commodity in total (total imports in 2022: -25.6%). Switzerland imported 976 metric tons from Malaysia in 2022, 8.1% of Switzerland's total palm oil imports, making Malaysia the fourth most important import source, after Ivory Coast, Solomon Islands and Papua. In 2021, Malaysia was still the third most important source.

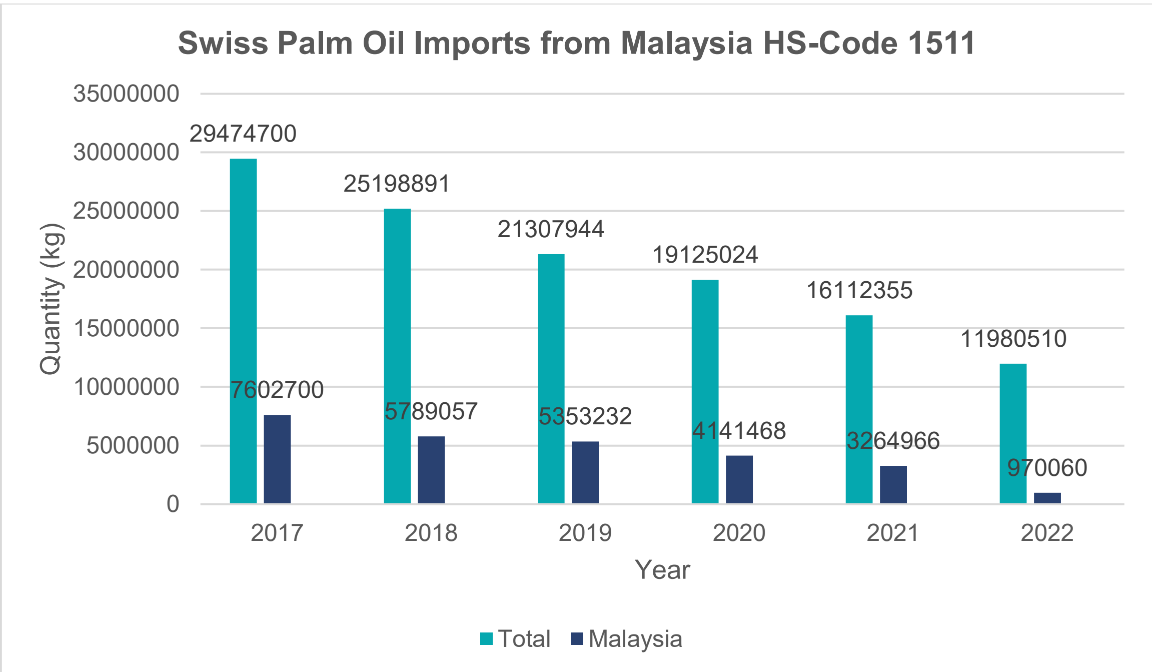

Figure 16. Source: Swiss Customs Administration * Data for 2022 is preliminary

As Malaysia is moving towards an upper-middle-income nation, more than half the population are in the middle- to high-income groups and have growing purchasing power. Lifestyles are becoming more sophisticated and modern, leading to the greater consumption of imported consumer products from western countries. When making purchase decisions about such products, consumers place a premium on products that feature high quality and safety standards, and items that provide superior function or performance. A prime example is within the drugstore or pharmacy channel, where premium ranges are driving category growth, while larger sections of supermarkets are allocated for products that contain organic or all-natural ingredients.

4.2.2 Trade in services

The total bilateral Swiss-Malaysian trade in services in 2022 declined 6% to CHF 1.01 billion (2021: CHF 1.07 billion) due to lower exports during the year (see figure 17). Exports from Switzerland to Malaysia declined by 12.5% (see figure 18) while imports from Malaysia increased by 12.3% (see figure 19).

Exports registered lower contribution from license fees, technical and other services. License fees continue to take the biggest share of services at 39% (-17.6% YOY, CHF 270 million) followed by other services at 34% (-25.8% YOY, CHF 234.1 million), transport at 8% (+48.8% YOY, CHF 55.3 million), telecommunications at 4% (+38% YOY, CHF 26.2 million) and technical, trade-related and other business services at also 4% (-8.9% YOY, CHF 27.4 million). Meanwhile, Switzerland continues to import services in telecommunications at 31% (+23% YOY, CHF 98.7 million), technical, trade-related and other business services at 23% (+1.7% YOY, CHF 74.7 million) and transport at 15% (+25.6% YOY, CHF 48.4 million).

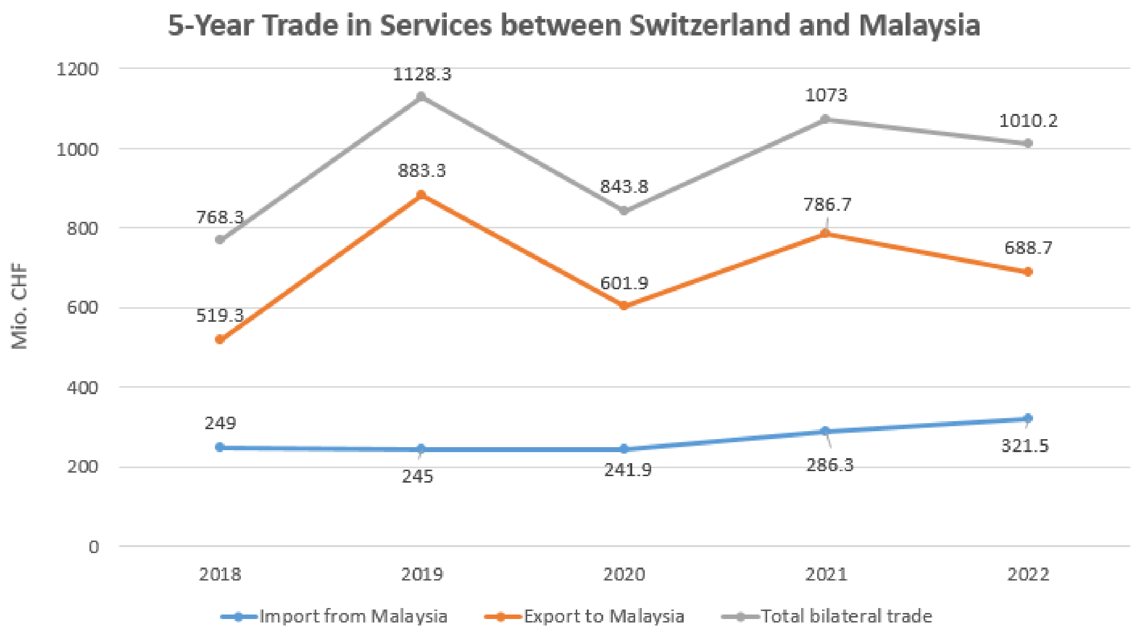

Figure 17. Source: Swiss National Bank (SNB)

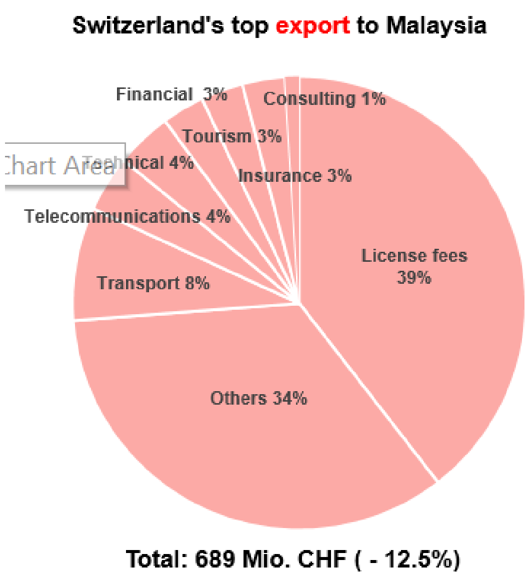

Figure 18

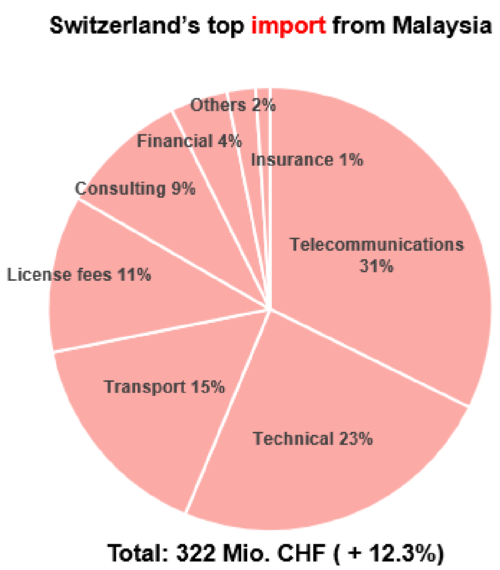

Figure 19

Source: Swiss National Bank (SNB)

5 DIRECT INVESTMENTS

5.1 Developments and general outlook

In 2022 private investments in Malaysia grew by 7.2% (2021: +2.6%),[26] lifted by services and higher capital spending particularly in machinery and equipment. This was due to capacity expansion by export-oriented manufacturers to meet the resurgence in global demand. Improved investments were accordingly recorded in the high-value added electrical & electronics (E&E) as well as in the mining industry.

Public investment rebounded at 5.3% (2021: -11.3%),[27] supported by full resumption in construction activity and continuation of large-scale infrastructure projects such as the East Coast Rail Link (ECRL) connecting the west to the east coast of Peninsular Malaysia, the Light Rail Transit 3 (LRT3) connecting suburbs of the capital Kuala Lumpur, the Johor Bahru-Singapore Transit Link, MyDIGITAL 5G infrastructure network and the Pan Borneo Highway that runs along the coastlines of Sarawak to Sabah state in east Malaysia.

Malaysia's net FDI inflows increased significantly to USD 16.7 billion (2021: USD 11.6 billion).[28] Encouraged by global and domestic economic recovery, multinational corporations (MNCs) expanded their capacity and undertook new investments in Malaysia. The E&E sector played a particular role in this regard.

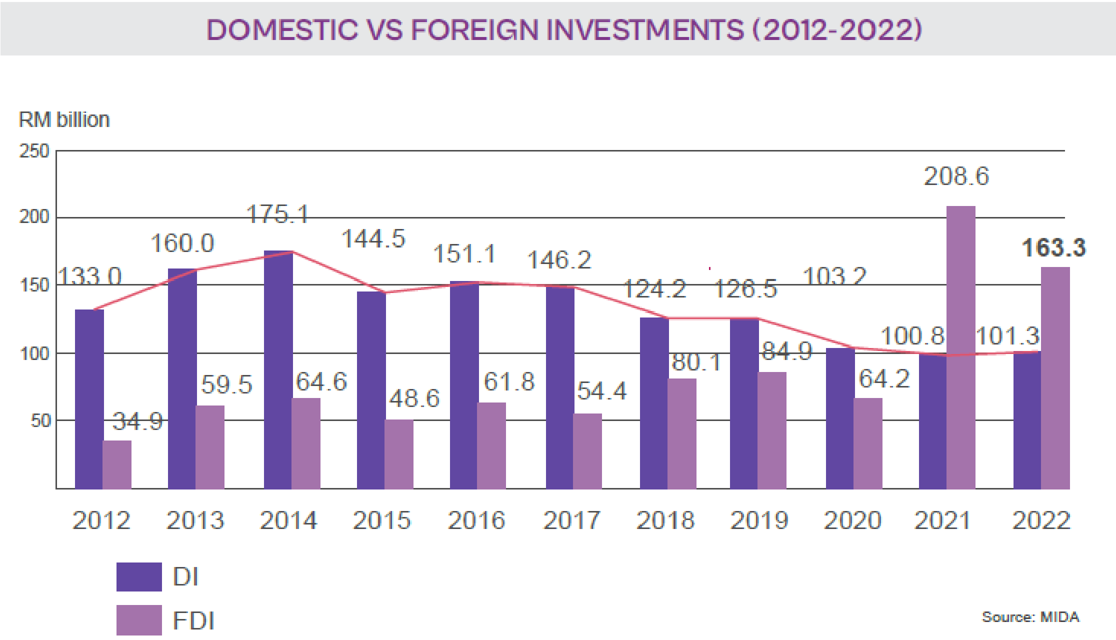

Figure 20. Source: MIDA Investment Performance Report 2022

According to the Malaysian Investment Development Authority (MIDA), Malaysia approved investments worth RM 264.6 billion (USD 59.3 billion) in the manufacturing, services and primary sectors in 2022, a drop of 14% from the record RM 309.4 billion in 2021. Malaysia's economy is transforming across the board, with the manufacturing sector moving up the value chain by emphasizing investments that bring in new technology and create highly skilled jobs. 2022 saw 801 projects approved for the sector worth RM84.3 billion compared with 702 approvals worth RM195.1 billion in 2021.

Contrary to the previous year, for 2022, the manufacturing sector came in second, contributing to 31.9% of the total approved investments in the country, surpassed by the services sector. The services sector was the largest contributor of approved investments for the year, accounting for 58.2% of total approved

[26] See Figure 1

[27] See Figure 1

[28] Bank Negara Malaysia, Economic and Monetary Review 2022, p.32

investments worth RM154 billion; an increase of RM57 billion as compared to 2021. The main contributors for the sector came from the information and communications sub-sector with overall five data centre and cloud computing services projects totaling RM72.4 billion. Other top services sub-sectors were real estate, financial services, utilities and distributive trade. The primary sector contributed to 9.9% of approved investments, with 72 projects worth RM26.3 billion, an increase of 52% from the approved investments of RM17.3 billion in 2021. Out of the three primary sub-sectors, namely plantation and commodities, agriculture and mining, mining contributed 91% of total investments in the primary sector in 2022.

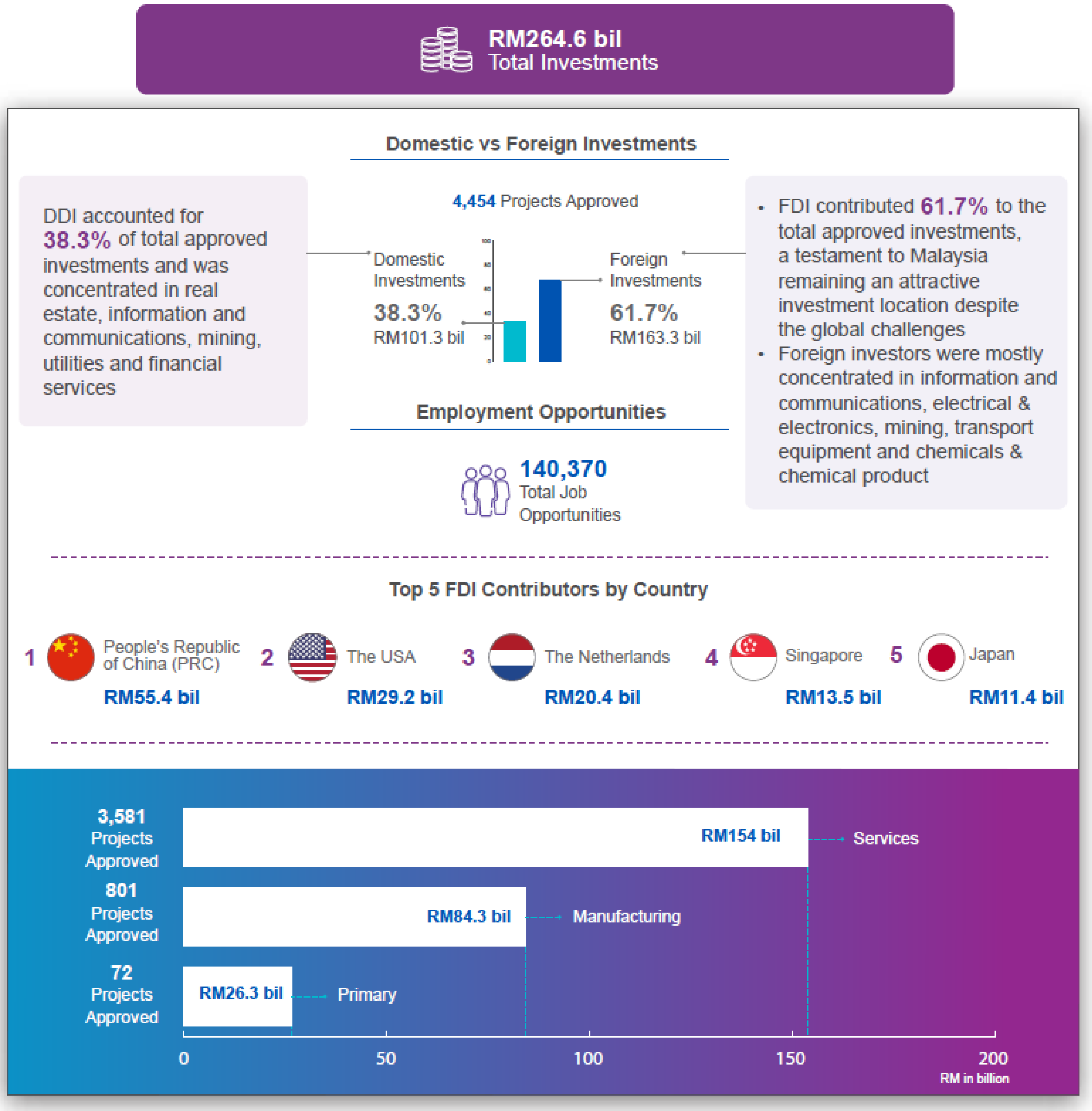

Figure 21. Source: MIDA Investment Performance Report 2022

To foster a conductive environment in attracting FDI, Malaysia's Central Bank had introduced further liberalization of its foreign exchange policy in March 2021. These measures include the removal of the export conversion rule, allowing resident exporters to manage the conversion of export proceeds according to their foreign currency cash flow needs. Also, resident exporters can settle domestic trade in foreign currencies with other residents involved in the global supply chain. In addition, resident corporates may undertake commodity derivatives hedging directly with non-resident counterparties.

In the World Bank's last Doing Business report from 2020[29] – it was discontinued thereafter – Malaysia moved up three places to be the 12th best amongst the 190 surveyed economies, ranking second in

[29] World Bank's Doing Business 2020: https://archive.doingbusiness.org/en/doingbusiness

ASEAN behind Singapore. Malaysia is particularly adept at processing construction permits to build warehouses, processing permanent commercial electricity connection for business that is cheaper and faster than the regional average, and offering a legal framework that protects minority investors and shareholders. However, there is space for potential reform in helping entrepreneurs start new businesses, domestic companies complying with paying taxes, and legal rights and enforcing contracts. Malaysia also jumped 15 spots to the 26th place[30] in the World Bank's Logistics Performance Index (LPI) 2023[31], and took the second spot behind Singapore among its ASEAN peers. The report covered 139 countries and measures the ease of establishing reliable supply chain connections and the structural factors that make it possible, such as the quality of logistics services, trade and transport-related infrastructure, and border controls. Malaysia's score improved in all areas (customs, infrastructure. international shipment, logistics competence, quality and timeliness, tracking and tracing).

The Central Bank forecasts private investments to further expand by 5.8% in 2023, supported by the continued expansion in global demand and the implementation of new and ongoing investment projects. Public investment is projected to resurge 7% in 2023, driven by continued capital spending by both the government and public corporations.

5.2 Bilateral investment

Swiss investment in Malaysia began in the early 1900s with the establishment of Nestlé (1912) and DKSH (1923). Over the years, FDI from Switzerland has continued to make its presence felt in manufacturing, financial services and through the establishment of regional offices for Southeast Asia and Oceania. Most companies produce for the domestic and international markets.

Table of Approved Investments in Various Economic Sectors with Foreign Participation by Source, 2022 and 2021

COUNTRY ***	2022			2021		
	NO.	EMPLOYMENT	FOREIGN INVESTMENT (RM MILLION)*	NO.	EMPLOYMENT	FOREIGN INVESTMENT (RM MILLION)*
The People's Republic of China	91	11,545	55,431.9	75	14,960	31,341.5
USA	51	12,717	29,160.0	42	2,216	4,876.0
The Netherlands	44	4,775	20,368.1	40	4,618	78,020.3
Singapore	250	24,905	13,466.8	411	15,838	47,307.2
Japan	174	17,218	11,396.3	180	5,664	9,939.1
Germany	41	2,599	9,560.3	38	1,185	1,534.5
Korea, Rep.	39	2,323	6,406.7	81	1,636	7,579.3
Hong Kong SAR, China	50	8,769	5,130.6	101	2,018	539.0
United Kingdom	36	3,071	1,462.1	17	1,302	194.5
Switzerland	26	1,102	1,378.2	27	521	307.3
Taipei	42	2,472	1,344.5	35	1,671	667.8
France	15	1,726	969.7	16	42	222.9
Ireland	2	780	711.9	4	72	9.5
British Virgin Islands	10	703	570.7	17	418	3,326.1
Thailand	13	364	386.8	20	748	424.7

Figure 22. Source: MIDA Investment Performance Report 2022

Between 1980 and 2022, 244 manufacturing projects from Switzerland, with total investments of USD 4.29 billion, were approved by the Malaysian Investment Development Authority (MIDA), and are expected to have created a total of 26,146 potential jobs.[32] These manufacturing investments are mostly centred on the electrical and electronics, machinery and equipment, food manufacturing and chemical industries.

[30] Switzerland is ranked 3rd

[31] World Bank's Logistics Performance Index (LIP) 2023: https://lpi.worldbank.org/

[32] Malaysian Investment Development Authority (MIDA)

After some significant investments in 2020 that declined in 2021, FDI from Switzerland rebounded in 2022, according to MIDA. In regards to the manufacturing sector, Switzerland was ranked 9th amongst foreign investors with thirteen approved projects by MIDA, totalling USD 288 million worth of investment (2021: USD 50.5 million), with the creation of 735 new jobs.[33]

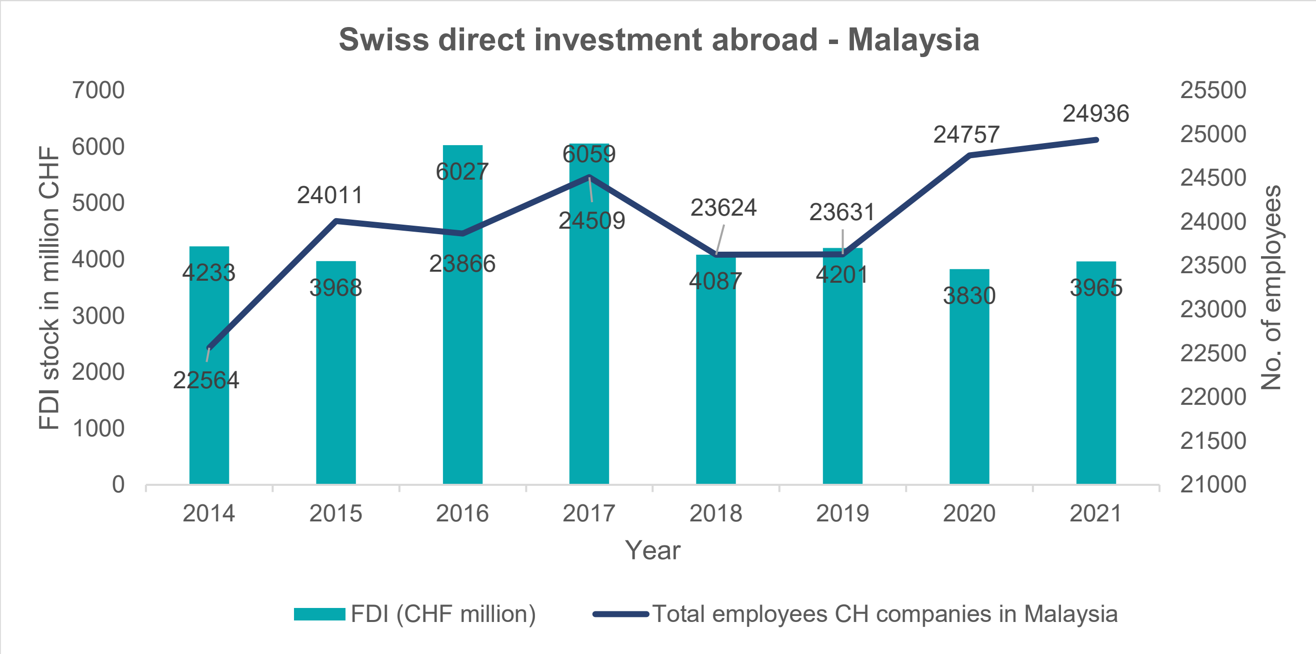

Figure 23. Source: Swiss National Bank (SNB)

According to the Swiss National Bank (SNB), Switzerland had CHF 3.97 billion in direct investment in Malaysia as of end-2021, placing Malaysia as Switzerland's second-largest investment destination in ASEAN after Singapore and ahead of Philippines, Thailand, Indonesia and Vietnam.

According to the IMF, Switzerland had USD 7.713 billion in FDI stock in Malaysia as of end-2021. It was ranked 6th after Singapore, Hong Kong, Japan, the US and the Netherlands.[34]

There are approximately 150 Switzerland-linked companies in Malaysia. Among them, three companies are listed in the Malaysian stock exchange: Nestlé, DKSH and Zurich Insurance.

Attractive features that Malaysia continues to offer to Swiss companies include a well-developed infrastructure, an ecosystem of supporting industries, relatively low business costs (e.g. low labour costs, rental costs, and annual incremental costs), a pool of well-educated workers, good English language skills and a reliable legal framework for business and investment.

6 ECONOMIC AND TOURISM PROMOTION

6.1 Swiss foreign economic promotion instruments

The **Embassy of Switzerland in Malaysia** represents Swiss economic interests in the country with instruments of commercial diplomacy and export promotion.

The **Swiss Business Hub (SBH) ASEAN**, headquartered in Singapore, has a small satellite office at the Embassy of Switzerland in Malaysia. It supports small and medium-sized enterprises (SMEs) from Switzerland and Liechtenstein in developing their business in Malaysia and provides Malaysian companies with information on Switzerland as a business location. The Swiss Business Hub also represents Switzerland Global Enterprise (S-GE), the official Swiss agency for export and investment promotion. It has access to in depth market knowledge through a local network of experts in all sectors of the economy. SBH ASEAN-Malaysia supports a number of Swiss companies every year, in various

[33] See appendix No. 5

[34] IMF Coordinated Direct Investment Survey

sectors such as energy, laboratory, medical device, pharmaceutical, mechanical and electrical engineering (MEM), education, nanotechnology and consumer products, in order to expand operations or to explore potential activities in Malaysia. The SBH provides market entry information, advice related to the relocation of investment and distribution partner searches. The agency also provides initial links with government entities, opening doors to future cooperation.

Switzerland Tourism, the tourism promotion agency mandated by the Swiss Federal Government, has a representative at the Embassy of Switzerland in Malaysia.

The **Swiss Malaysian Chamber of Commerce (SMCC)**, previously known as the Swiss Malaysian Business Association (SMBA), was established in 2000. With 74 members,[35] the SMCC also plays a role in promoting trade and investment activities. Swiss entrepreneurs planning to establish companies in the country or expanding their business stand to benefit from receiving first-hand information from the established Swiss representatives and fellow members. The Embassy collaborates with the SMCC to share information and organise events for the purpose of networking, exchanging information and pursuing common interests. In the reporting period the Embassy collaborated with the SMCC on a consultation on business and human rights, a workshop with the International Labour Organization (ILO) on forced labour and a seminar with ILO on vocational education.

6.2 The host country's interest in Switzerland

The demand of Malaysian students studying in Switzerland is not as high as for English-speaking countries such as the United Kingdom, the United States of America and Australia. Switzerland is better known in Malaysia for its **hospitality schools**. There is a significant number of schools and twinning programmes that have been established in the field of hospitality and tourism education locally in recent years which resulted in a decrease in intake of Malaysian students in Switzerland.

Switzerland remains an important **financial centre** for Malaysia and the recent indictment by the Office of the Attorney General of Switzerland (OAG) in April 2023 against two PetroSaudi officials that were involved in misappropriating at least USD 1.8 billion of funds from 1Malaysia Development Bhd (1MDB) was widely covered by local press. The emergency takeover of Credit Suisse by UBS also got wide coverage.

Malaysia External Trade Development Corporation (MATRADE), which supports Malaysian companies going abroad, covers Switzerland from the Consulate General of Malaysia in Frankfurt, Germany. The **Malaysian Investment Development Authority** (MIDA), which facilitates overseas companies' investment in Malaysia, covers Switzerland from the Consulate of Malaysia in Milan, Italy. **InvestKL**, which does investment promotion under the **Ministry of Investment, Trade and Industry** (MITI) for the greater Kuala Lumpur region maintains relations with Switzerland too.

A recovery in the growth rate of overnight stays of **Malaysian tourists in Switzerland** was expected for 2022 when international travel resumed, as interest in the leisure market and incentive market had shown positive demand from consumers and trade partners. For 2022, the number of Malaysian tourists in Switzerland registered a new record high at 55,213 visitors, with a total of 103,144 overnights, marking the best year in the history with a growth rate of 13.8% compared to 2019.[36]

The travel trends gradually returned to how it was before the pandemic: serial travel offers, big incentive groups and multi-country tours. The demand in “mono Swiss tours” continues to grow despite other Western European countries opening up, which shows a positive sign in Malaysian's rising awareness and interests of Switzerland as a tourism destination.

Switzerland is still deemed one of the ‘must visit’ or ’dream’ destinations for Malaysians. The desire to travel to Switzerland is stronger and has shown a great demand since the international border reopened. Switzerland Tourism actively engages with travel trade and media partners to keep Switzerland at the forefront of long-haul travel and keeps the stakeholders updated on the latest offers and attractions in Switzerland.

In Malaysia, international travel resumed in November 2021, with an International Travel Bubble initiated on the island of Langkawi. Subsequently, Malaysia recorded 10,486 **tourist arrivals from Switzerland**

[35] As of SMCC AGM on April 12, 2023

[36] Federal Statistical Office (FSO): https://www.bfs.admin.ch/bfs/en/home/statistics/tourism.assetdetail.24247465.html

in 2022, compared with only 197 in 2021, 5,263 in 2020 and 25,659 in 2019.[37] Malaysia's international borders were closed on 18 March 2020 to curb the spread of Covid-19.

Malaysia's international borders were reopened to fully-vaccinated visitors without quarantine on April 1, 2022, more than two years after the government imposed a Movement Control Order (MCO) with traveling restrictions to curb the spread of Covid-19.

Air travel capacity has gradually increased. Although there is no direct flight from Malaysia to Switzerland, the current outbound air capacity is supported by the strong presence of Middle Eastern airlines such as Emirates, Qatar Airways, Etihad Airways and Turkish Airlines, together with KLM and Singapore Airlines (which has a code share with Swiss International Airlines).

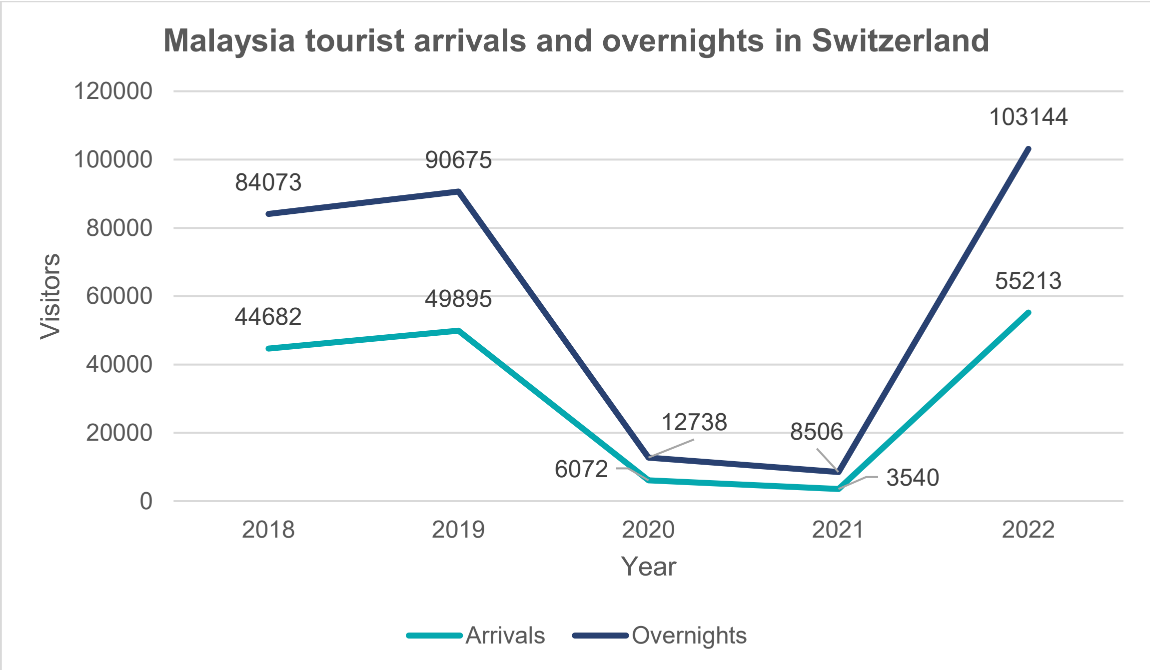

Figure 24. Source: Federal Statistical Office (FSO)

[37] Tourism Malaysia with cooperation of the Immigration Department data: https://www.tourism.gov.my/statistics

ANNEX 1 – Economic structure

Economic structure of the host country

	2017	2022
Distribution of GDP		
Services sector	**54.5%**	**58.2%**
Manufacturing sector	**23.0%**	**24.2%**
Mining & quarrying sector	**8.4%**	**6.4%**
Agriculture sector	**8.2%**	**6.6%**
Construction sector	**4.6%**	**3.5%**

Distribution of employment	**2017**[38]	**2022**[39]
Services	**59.4%**	**66.0%**
Industry (manufacturing, mining, construction)	**27.8%**	**24.8%**
Agriculture	**12.8%**	**9.1%**

Source: Economic Planning Unit and Department of Statistics Malaysia

[38] Source: Ministry of Economy: Malaysian Economy in Figures 2019, p. 44, based on Department of Statistics Malaysia and IMD World Competitiveness Yearbook 2018: https://www.epu.gov.my/sites/default/files/2020-08/MEIF2019.pdf

[39] Source: Ministry of Finance: Economic & Fiscal Outlook and Revenue Estimates 2023, p. 103: https://budget.mof.gov.my/en/budget2023/fiscal/

ANNEX 2 – Main economic data

Host country's main economic data

	2021	2022	2023
GDP (USD bn)*	**373.0**	**407.9**	**447.0**
GDP per capita (USD)*	**11,450**	**12,364**	**13,382**
Growth rate (% of GDP)*	**3.1**	**8.7**	**4.5**
Inflation rate (%)*	**2.5**	**3.4**	**2.9**
Unemployment rate (%)*	**4.7**	**3.8**	**3.6**
Fiscal balance (% of GDP)*	**-4.9**	**-5.5**	**-5.1**
Current account balance (% of GDP)*	**3.8**	**2.6**	**2.6**
Total external debt (% of GDP)**	**69.6**	**63.9**	**62.2**
Debt-service ratio (% of exports)**	**10.7**	**10.1**	**10.6**
Reserves (months of imports)**	**5.2**	**5.0**	**4.8**

* Source: IMF, World Economic Outlook (April 2023)

- www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023

** Source: IMF, Article IV Consultation (June 1, 2023)

- https://www.imf.org/en/Publications/CR/Issues/2023/05/31/Malaysia-2023-Article-IV-Consultation-Press-Release-and-Staff-Report-533968

ANNEX 3 – Trade partners

Trade partners of the host country Year: 2022

Rank	Country	Exports *from the host country* (USD billion)	Share	Change[40]	Rank	Country	Imports *to the host country* (USD billion)	Share	Change
1	Singapore	52.9	15.0%	34%	1	China	62.8	23.2%	21%
2	China	47.9	13.6%	9%	2	Singapore	30.8	9.5%	45%
3	USA	38.0	10.8%	18%	3	Taiwan	24.1	7.6%	41%
4	Japan	22.3	6.3%	30%	4	USA	22.8	7.6%	34%
5	Hong Kong	21.7	6.2%	25%	5	Japan	18.9	7.6%	13%
6	Thailand	15.0	4.2%	26%	6	Indonesia	16.9	5.7%	32%
7	Indonesia	12.7	3.6%	43%	7	South Korea	13.6	5.1%	19%
8	South Korea	12.5	3.5%	43%	8	Thailand	12.8	4.6%	24%
9	India	12.4	3.5%	21%	9	Australia	9.1	2.6%	77%
10	Vietnam	12.2	3.4%	18%	10	Saudi Arabia	8.7	2.5%	206%
41	Switzerland*	0.6	0.2%	31%	24	Switzerland*	1.8	0.8%	-3%
	EU	28.7	8.1%	22%		EU	20.5	8.6%	18%
	Total	352.7	100%	25%		Total	238.2	100%	31%

Source: Department of Statistics Malaysia (DOSM)
Tabulated by: Malaysia External Trade Development Corporation (MATRADE)
* Swiss numbers taken from IMF Direction of Trade Statistics (DOTS)

Average exchange rate in 2022: 1 USD = 4.4 MYR

[40] Change from the previous year in %

ANNEX 4 – Bilateral trade

Bilateral trade between Switzerland and the host country

	Export (CHF million)	*Change (%)***	**Import** (CHF million)	*Change (%)***	**Balance** (in million)	**Volume** (in million)
2017	2'497	67	1'505	58.6	992	4'002
2018	2'316	-7.2	1'022	-32.1	1'294	3'338
2019	1'387	-40.1	752	-26.4	636	2'139
2020	1'173	-15.5	749	-0.3	423	1'922
2021	1'349	15	820	9.4	529	2'169
2022*	**1'376**	**2**	**902**	**10**	**474**	**2'278**

*) 'Economic' total: including gold bars and other precious metals, currencies, previous stones and gems, works of art and antiques

**) Change (%) from the previous year

	Export (CHF million)	*Change (%)***	**Import** (CHF million)	*Change (%)***	**Balance** (in million)	**Volume** (in million)
2017	741	-1.9	525	8.6	216	1'266
2018	718	-3.1	529	0.7	190	1'247
2019	681	-5.2	566	7	116	1'247
2020	689	1.1	637	12.7	51	1'326
2021	738	7.2	736	15.4	2	1'474
2022*	**861**	**16.6**	**784**	**6.5**	**77**	**1'645**

*) 'Economic' total: **not** including gold bars and other precious metals, currencies, previous stones and gems, works of art and antiques

**) Change (%) from the previous year

Exports	**2022**		**2021**	
	% of total	CHF million	% of total	CHF million
1. Precious metals and gemstones	37	513.8	45	610.6
2. Chemical and pharmaceutical products	20	272.1	17	234.7
3. Machines, appliances, electronics	14	188.7	13	175.4
4. Watches and jewellery	14	195.8	10	137.7
5. Paper and printing industry products	3	41.7	5	65.6
6. Forestry and agricultural products	2	24.9	2	28.2

Imports	**2022**		**2021**	
	% of total	CHF million	% of total	CHF million
1. Machines, appliances, electronics	44	400.3	53	435.2
2. Precious metals and gemstones	13	118.1	10	84.4
3. Watches and jewellery	10	92.6	9	74.3
4. Textiles, shoes and clothing	7	62.3	15	124.1
5. Vehicles	4	32.6	2	13.1
6. Forestry and agricultural products	3	27.7	3	23.2
7. Chemical and pharmaceutical products	3	26	3	21.3

Source: Federal Office for Customs and Border Security (FOCBS)

ANNEX 5 – Main investing countries

Main investing countries in the host country **Year: 2021**

Rank	Country	Direct investment (stock end-2021, USD million)[41]	Share	Variation (stock end-2021 compared to end-2020)[42]	Inflows over past year (2022, USD million)[43]
1	Singapore	40'472	21.4%	7.0%	3'060
2	China, P.R.: Hong Kong	20'530	10.9%	-1.2%	1'166
3	Japan	19'882	10.5%	5.7%	2,590
4	United States	18'383	9.7%	84.3%	6'627
5	Netherlands, The	14'659	7.8%	10.8%	4'629
6	Switzerland	7'713	4.1%	-18.0%	313
7	United Kingdom	7'185	3.8%	64.6%	332
8	British Virgin Islands	6'785	3.6%	20.3%	129
9	China, P.R.: Mainland	6'103	3.2%	8.7%	12'598
10	Korea, Rep. of	4'726	2.5%	32.3%	1'456
	World	188'878	100%	10.7%	37'122

[41] End-2021, IMF Coordinated Direct Investment Survey (CDIS)

[42] IMF Coordinated Direct Investment Survey (CDIS)

[43] "Approved investments" 2022, MIDA: Malaysia Investment Performance Report 2022, p. 136, https://www.mida.gov.my/wp-content/uploads/2023/03/MIPR-2022.pdf