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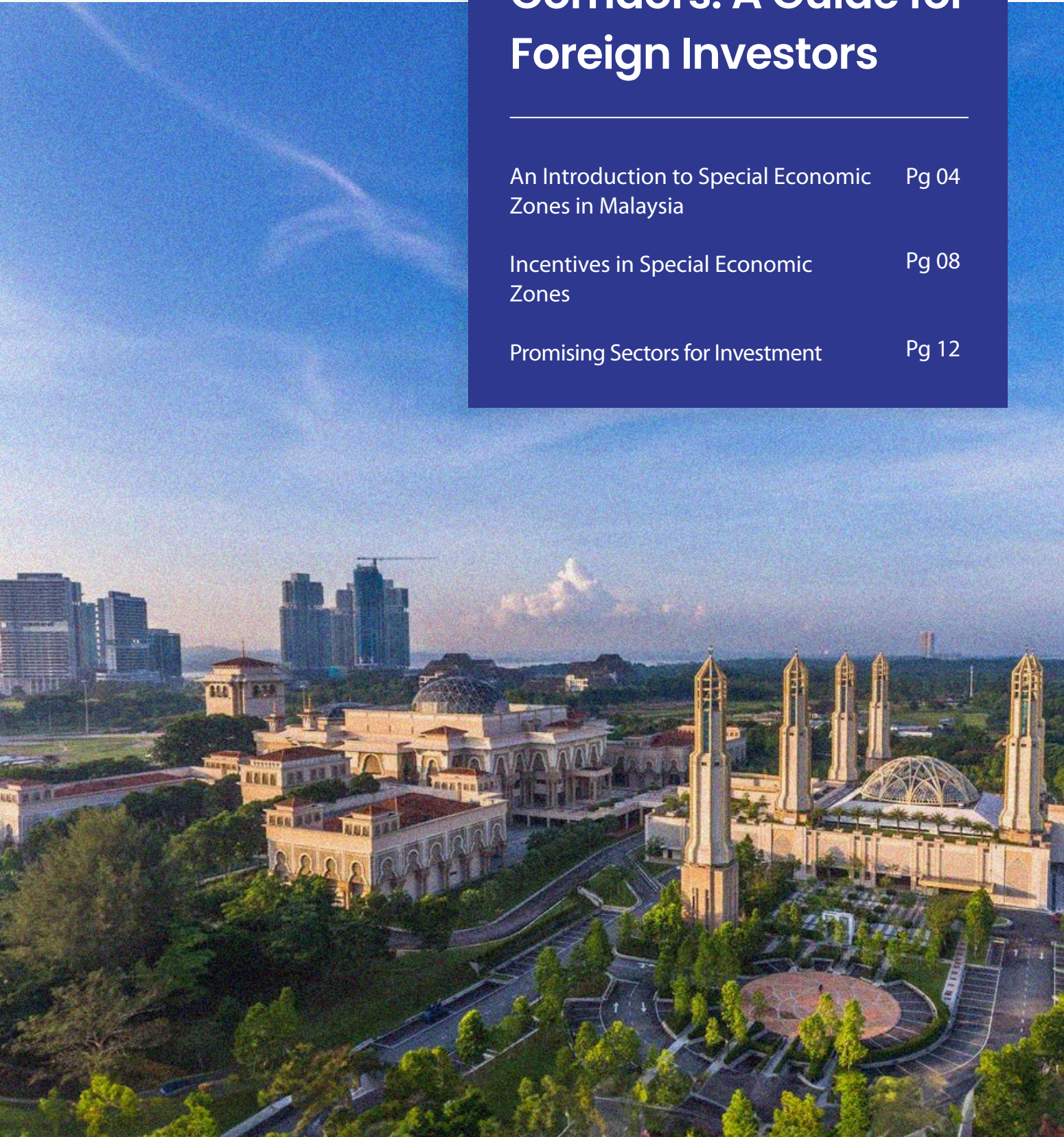
Issue 27 • December 2023 | www.aseanbriefing.com

Malaysia's Economic Corridors: A Guide for Foreign Investors

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Introduction



ALBERTO VETTORETTI

Partner
Dezan Shira & Associates

Malaysia's economic corridors, launched in 2006 as part of the Ninth Malaysia Plan, serve as strategic tools for fostering economic growth by attracting foreign investments into the country's manufacturing sector. Spanning approximately 70 percent of Malaysia's landmass, these corridors have successfully drawn investments from both domestic and multinational giants, including Petronas, Genting Group, Siemens, Temasek Holdings, Shell, and Samsung.

Since their inception, the economic corridors have amassed an estimated investment of over 700 billion ringgit (US\$150 billion). Malaysia aims for these corridors to become hubs for high-tech industries like semiconductors, and establish the country as a key link in global supply chains.

However, before committing to any investment decisions, foreign companies are urged to conduct thorough market research and evaluate the specific incentives and opportunities offered within each economic corridor.

In this issue of the *ASEAN Briefing* magazine, we provide an overview of Malaysia's economic corridors and explore the incentives made available for investors. Finally we discuss the promising sectors that are ripe for investments through these economic corridors.

With offices located across Southeast Asia and years of experience helping foreign enterprises set up operations in Asia, Dezan Shira & Associates is well positioned to assist your company in entering ASEAN markets. For more information, please email us at asean@dezshira.com.

With kind regards,

Alberto Vettoretti



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Credits

Publisher - Asia Briefing
Media Ltd.

Lead Editor - Melissa Cyrill
Editor - Ayman Falak Medina

Designers - Aparajita Zadoo,
Miguel Enrico Anciano

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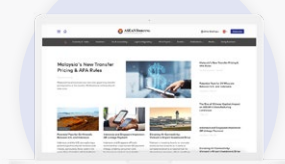
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An Introduction to Malaysia's Economic Corridors

Combining established infrastructure and legal and regulatory frameworks, Malaysia's economic corridors are a strategic tool to promote free trade and improve cross-border connectivity.



Ayman Falak Medina
Deputy Editor, ASEAN Briefing
Author



Marco Förster
Head of ASEAN Advisory
Contributor

Malaysia is home to five economic corridors (a type of special economic zone). These offer distinct investment roadmaps whose development is overseen by their individual governing bodies.

The corridors are:

- East Coast Economic Region (ECER);
- Northern Corridor Economic Region (NCER);
- Iskandar Malaysia (IM);
- Sabah Development Corridor (SDC); and
- Sarawak Corridor of Renewable Energy (SCORE).

Combining infrastructure and legal and regulatory framework, the investment corridors are a vehicle to promote free trade and improve cross-border connectivity. Supporting this business ecosystem are the distinct incentives provided by each investment corridor ranging from tax holidays to incentives for hiring local talent. This has resulted in the development of various sectors, such as oil and gas, manufacturing, agriculture, logistics, tourism, and biotechnology, among others.

East Coast Economic Region

The East Coast Economic Region was established in 2007 and covers half the size of Peninsular Malaysia. Its development is spearheaded by the East Coast Economic Region Development Council (ECERDC).

The ECER Master Plan (2018-2025), highlights the investment corridor's strategies for its next leap of growth, aiming to leverage its strategic location as the next gateway to ASEAN and the Asia Pacific.

In doing so, the ECER will focus on moving up the business value chain by focusing on becoming the Industry 4.0 hub for the region. The ECER has seven Key Development Areas (KDA), or Nodes, with each Node representing a population center or resource-rich area.

Node 1 - the ECER special economic zone (ECER SEZ) contains key projects, such as prominent industrial parks for automotive manufacturing as well as the Halal product industry.

Node 2 - focuses on cross-border development in areas stretching the coastal belt Terengganu to the Kelantan-Thai border in Tumpat, Rantau Panjang, and Bukit Bunga. The development of this Node will leverage on the improving synergy by the Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT).

Node 3 - a key initiative for Node 3 is the development of the Kuala Terengganu City Centre (KTCC), which is being transformed into a heritage waterfront city, complete with residential and commercial components.

Node 4 - agriculture and ecotourism projects stand at the core of Node 4 with several national parks and agro plantations already in development.

Node 5 - this Node focuses on spurring economic growth in the hinterlands from Gua Musang in Kelantan to Kuala Lipis in Pahang, through ecotourism initiatives.

Node 6 - tourism is the main focus under this Node, with attractions such as the Genting Highlands Theme Park, Bukit Tinggi Resort, Janda Baik, and the Kuala Gandah National Elephant Conservation Centre, serving as quick getaways for Kuala Lumpur residents.

Node 7 - this node aims to assist the development of rural and traditional areas through the implementation of strategic projects.

Northern Corridor Economic Region

The Northern Corridor Economic Region (NCER) was established to accelerate economic growth in the northern regions of Peninsular Malaysia.

The NCER has a strategic development plan for 2021-2025, which covers several priority sectors:

- Manufacturing;
 - » Aerospace;
 - » FMCG;
 - » Rubber products;
 - » Automotive;
 - » Medical devices;
- Agribusiness;
 - » Livestock;
 - » Aquaculture;
 - » Paddy;
 - » Cash crops;
- Services;
 - » Education;
 - » Digital economy;
 - » Logistics;
 - » Tourism;
 - » Petrochemicals;
 - » Green technology;
 - » Renewable energy; and
 - » Sustainable mining

The NCER is home to the third busiest airport and in Malaysia (Penang International Airport), as well as one of the busiest seaports (Penang Port), making it an important gateway to Southeast Asia. The government is currently channeling more infrastructure investments into the NCER to improve its regional and international connectivity.



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Further, the NCER is considered the ‘rice bowl’ of Malaysia as it produces one-third of the country’s paddy demand, thus showcasing the NCER’s role in fulfilling Malaysia’s food security program. The NCER is also implementing high-tech contract farming to modernize the region’s agriculture sector.

Iskandar Malaysia

Established in 2006, Iskandar Malaysia (IM) is the main development corridor in the state of Johor and is three times the size of Singapore. The corridor’s development is guided by the Iskandar Regional Development Authority (IRDA).

IM is targeting 383 billion-ringgit (US\$80 billion) worth of investments by 2025, prioritizing investments in the following promoted sectors:

- Tourism;
- Education
- Healthcare;
- Finance;
- Creative industry;
- Food and agro-processing;
- Petrochemicals and oleo-chemicals; and
- Electrical and electronics

Sabah Development Corridor

The Sabah Development Corridor (SDC) was launched in 2008 as a vehicle to enhance the growth of the economy of the state of Sabah, underpinned by three key principles:

- Capturing high-value economic activities;
- Promote balanced economic growth; and
- Ensure environmental conservation.

By 2025, the SDC aims to triple Sabah’s GDP per capita and create some 900,000 new jobs. To



RELATED READING

Opportunities in Indonesia’s Special Economic Zones



Buoyed by the success of its free trade zones, Indonesia prioritized developing special economic zones (SEZ) in 2014. As of 2022, there were 19 SEZs—12 operational and the rest under construction.

Indonesia targets attracting over US\$50 billion in foreign investment through these SEZs in the next decade.

In this ASEAN Briefing issue, we provide an overview of Indonesia’s SEZs, discuss available tax incentives, and highlight select zones for choosing the ideal setup location.

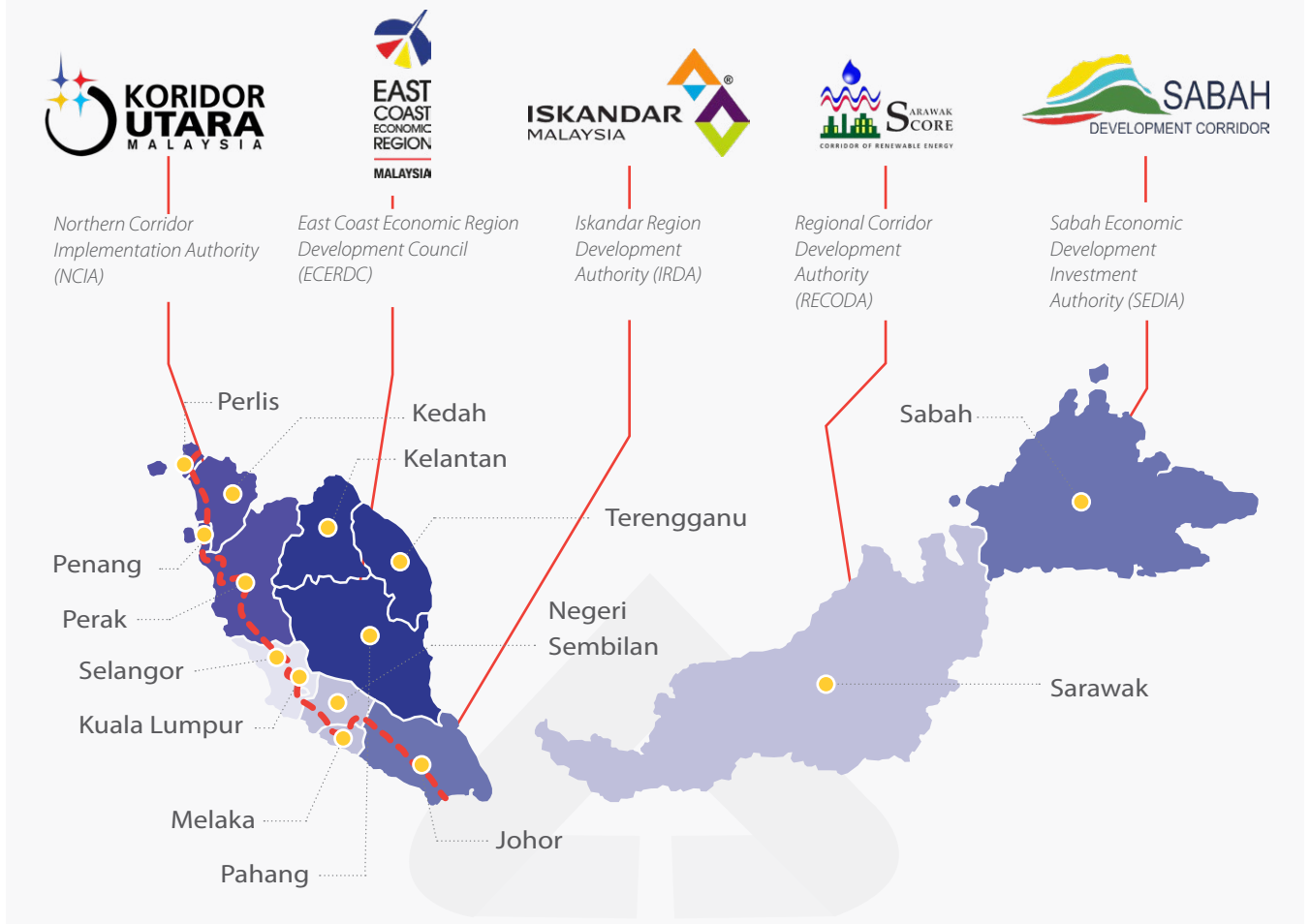
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achieve this target, the SDC has several specific programs, which are mainly focused on agriculture and manufacturing.

Some of the established programs are:

- Development of the Interior Food Valley: commercial rice, fruits, and livestock production;
- Development of Kinabalu Harbor Front and Gold Coast Enclave;
- Promoting new sources of growth via the application of pioneering technology in SDC, such as ICT, biotech, and nanotechnology; and
- Establishing a One-Stop Service Centre for SDC and Business Desk for SMEs.

Malaysia's Economic Corridors



Sarawak Corridor of Renewable Energy

The Sarawak Corridor of Renewable Energy (SCRE) is the second largest investment corridor in Malaysia, and its 2030 development plan focuses on growing the energy sector in 10 high-impact priority industries.

These industries are:

- Palm oil;
- Aquaculture;
- Timber;
- Aluminum;
- Steel;

- Marine engineering;
- Tourism;
- Livestock;
- Oil and gas; and
- Solar energy.

Palm oil is a vital industry for Malaysia, being the world's second-largest producer of the commodity behind Indonesia. Palm oil is a ubiquitous ingredient in processed foods, cosmetics, and biodiesels. By 2030, SCRE has targeted 334 billion ringgit (US\$1.6 billion) in investments for industrial projects, physical infrastructure, and human capital development. 🇲🇾



Reasons to Invest in Malaysia

Malaysia is ideal for international investors seeking a strategic foothold in one of the world's most dynamic economies. The country has undergone a remarkable transformation, evolving into a powerhouse driving Southeast Asia's economic landscape.

1. **Strategic location:** Positioned at the heart of Southeast Asia, Malaysia serves as a gateway to the region's market of over 600 million people.
2. **Strong economic growth:** Malaysia has maintained consistent economic growth at an average rate of five percent per year bolstered by diverse industries such as manufacturing, services, and tourism.
3. **Pro-business environment:** The government has implemented investor-friendly policies, offering incentives, tax breaks, and a conducive business environment for foreign investors.
4. **Robust infrastructure:** Well-developed infrastructure, including modern transportation networks, ports, and communication systems, supports business operations and logistics.
5. **Skilled workforce:** Malaysia boasts a well-educated and multilingual workforce of approximately 15 million, providing a competitive advantage for various industries, especially technology and services.
6. **Political stability:** The country enjoys political stability, creating a secure environment for businesses and investments.
7. **Innovation and technology:** Malaysia actively encourages innovation, research, and development across sectors, fostering a culture of technological advancement.
8. **Low operational costs:** Competitive operational costs in terms of labor, utilities, and real estate contribute to higher profit margins for businesses.
9. **Trade connectivity:** The country's extensive network of trade agreements facilitates global trade and business expansion.
10. **Strong financial sector:** Malaysia's stable and growing financial sector, including Islamic finance, presents attractive investment prospects.
11. **Rich natural resources:** Abundant natural resources, including oil and gas reserves, contribute to diverse investment opportunities in energy and related sectors.
12. **Thriving industries:** Diverse sectors such as electronics, manufacturing, healthcare, renewable energy, and Islamic finance offer abundant investment opportunities.
13. **Green initiatives:** Malaysia is increasingly focused on sustainability and green initiatives, offering opportunities in renewable energy and eco-friendly ventures.



Incentives in Special Economic Zones

Malaysia's special economic zones are attractive due to incentives like tax benefits, enhanced infrastructure, a business-friendly regulatory environment, focus on specific industries, and improved market access backed by strong government support.



Ayman Falak Medina
Deputy Editor, ASEAN Briefing
Author



Pritesh Samuel
Head of the Business Intelligence
Contributor

Malaysia's economic corridors offer a range of fiscal incentives, primarily in the form of tax relief, with some tailored to each specific corridor. Additionally, these corridors provide sector-specific incentives, such as those for manufacturing, tourism, and energy. These incentives, coupled with their well-integrated infrastructure, make the economic corridors key hubs for growth and development in Malaysia.

Since their establishment, the three major economic corridors—IM, ECER, and NCER—have collectively attracted investments totaling 759 billion ringgit (US\$162 billion). In this chapter, we highlight examples of the available incentives available in each economic corridor.

East Coast Economic Region (ECER)

Incentives for manufacturing activities

The ECER offers income tax exemption of between 70 and 100 percent for 10 or 15 years commencing

from when the company derives statutory income for selected manufacturing services. There is also an investment tax allowance equivalent of 100 percent of total expenditure for five years in addition to stamp duty exemption for land or buildings acquired for the approved activity.

Incentives for oil, gas, and petrochemical activities

The ECER offers income tax exemption of between 70 and 100 percent for 10 or 15 years commencing from when the company derives statutory income for selected oil, gas, and petrochemical activities. There is also an investment tax allowance equivalent of 100 percent of total expenditure for five years in addition to stamp duty exemption for land or buildings acquired for the approved activity.

Incentives for tourism activities

The ECER offers income tax exemption of between 70 and 100 percent for 10 or 15 years commencing

from when the company derives statutory income for the following tourism activities:

- Island tourism;
- Eco-tourism;
- Medical tourism;
- Theme park and amusement parks;
- Mainland coastal tourism;
- Integrated resorts; and
- Cultural, and exhibition centers.

There is also an investment tax allowance equivalent of 100 percent of total expenditure for five years in addition to stamp duty exemption for land or buildings acquired for the approved activity.

Incentives for agriculture related activities

As with the previous activities, there is income tax exemption of between 70 and 100 percent for 10 or 15 years, commencing from when the company derives statutory income for selected agriculture related activities. These are:

- Cultivation of kenaf, vegetables, fruits, herbs spices or cocoa;
- Rearing of cattle, buffalos, goats, sheep, ostriches, turkeys or quails;
- Aquaculture;
- Plantation of crops for energy generation;
- Inland fishing or deep-sea fishing; and
- Floriculture including ornamental flowers.

There is also an investment tax allowance equivalent of 100 percent of total expenditure for five years in addition to stamp duty exemption for land or buildings acquired for the approved activity.

Incentives for education and ICT activities

Investors that establish universities, ICT related

services, training centers, colleges, and service centers can receive income tax exemption of between 70 and 100 percent for 10 or 15 years commencing from when the company derives statutory income.

There is also an investment tax allowance equivalent of 100 percent of total expenditure for five years in addition to stamp duty exemption for land or buildings acquired for the approved activity.

Northern Corridor Economic Region (NCER)

Businesses that invest in the priority sectors of the NCER can qualify for the following incentives:

- Income tax exemption of up to 100 percent for up to 15 years;
- Income tax allowance of up to 100 percent for a period of 10 years;
- A 50 percent reduction in stamp duty on the lease of land; and
- Import duty exemptions on the import of raw materials, machinery, spare parts, and equipment.



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The priority sectors in the NCER include:

- a) Manufacturing;
- b) Agriculture and bio-industries;
- c) Tourism;
- d) Logistics; and
- e) Medical science.

Iskandar Malaysia

Iskandar Malaysia is anchored around nine promoted sectors. These are:

1. Healthcare services;
2. Creative industries;
3. Electrical and electronics;
4. Petrochemical and oleochemicals;
5. Logistics;
6. Financial and business services;
7. Education;
8. Tourism; and
9. Food and agro-processing.

Investors engaging in these promoted activities in Iskandar Malaysia can receive:

- A 100 percent tax exemption of up to 10 years on statutory income; or
- A 200 percent tax deduction of up to 10 years on investment activities.

Incentives for companies in Medini

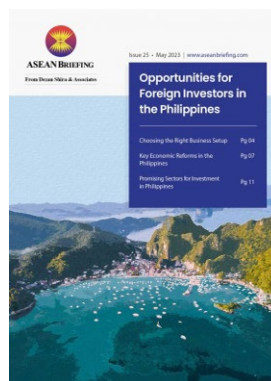
Medini Iskandar Malaysia (MIM) is a mixed-used neighborhood within the Iskandar Malaysia Economic Corridor. MIM is the site of Legoland Malaysia, residential and office buildings, retail centers, and eco-parks.

Approved developers in MIM can receive income tax exemption from statutory income derived from



RELATED READING

Opportunities for Foreign Investors in the Philippines



The Philippines was among the world's fastest growing emerging markets in 2022, recording a GDP of 7.6 percent. This also represented the country's fastest growth since 1976.

The Southeast Asian nation is working to reduce its reliance on overseas remittances and has gradually developed its domestic industries to move up global value chains in select industries thereby presenting foreign investors with newfound opportunities. Some of the most dynamic sectors in Philippines are business process outsourcing and semiconductor manufacturing, which are slowly contributing to a larger portion of the GDP.

The latest issue of ASEAN Briefing magazine features an overview of the incorporation process in the Philippines, along with a discussion of the key economic reforms initiated by the government to enhance the business climate for foreign investors. The magazine also highlights the investment prospects in key industries in the country.

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the rental or disposal of a building located in an approved area in MIM until 2025.

Further, approved development managers (businesses that provide the management, supervisory, or marketing services at MIM) can receive income tax exemption until 2024. 🇵🇭



Promising Sectors for Investment

Attractive incentives in Malaysia's economic corridors have resulted in the high quality growth of several manufacturing and service industries, propelling the country to become a prominent economic force in Southeast Asia.



Ayman Falak Medina
Deputy Editor, ASEAN Briefing
Author

Malaysia's economic corridors offer foreign businesses ample opportunities to invest in sectors that have transformed the country into a leading economic power in Southeast Asia.

Further, a well-educated workforce, good infrastructure, and business friendly policies have turned Malaysia into one of the reliable investment destinations in recent decades.

The country is also gaining increasing importance in global supply chains—particularly due to trade tensions between the U.S. and China—such as a location for semiconductor producers looking to diversify their business risks.

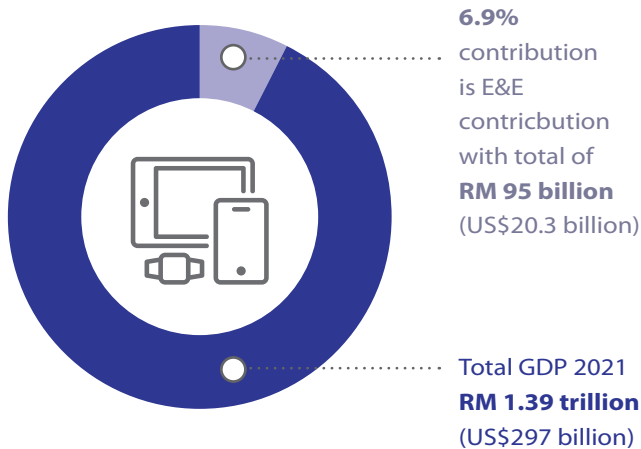
Moreover, Malaysia has a well-established industrial sector and thus presents opportunities in the fields of healthcare, electronics, the digital economy, and Islamic finance, among many others.

Manufacturing

Manufacturing plays a vital role in Malaysia's economy, contributing an estimated 23 percent of GDP and is the second largest sector of the economy behind services. Malaysia produces a large range of goods which are predominantly exported from electrical and electronics (E&E) to chemicals to rubber products. Electronics are the biggest contributors to the sector with approximately 4.9 percent of GDP. Intel, Hewlett Packard, Bosch, and Hitachi are just a few of the multinational firms that have production hubs in Malaysia for E&E products.

The government is encouraging industry players to move towards Industry 4.0 by providing incentives such as tax breaks for businesses that incorporate automation and data informatics in their manufacturing process and migrate to high value manufacturing. To achieve this, the country needs to upskill the labor force. Opportunities thus also exists for businesses that engage in upgrading and upskilling the local workforce.

E&E and Malaysia's Economy



E&E and semiconductors

Malaysia is a prominent player in the global E&E industry, with the country responsible for 13 percent of global chip production, testing, and packaging, in addition to seven percent of global semiconductor production. Malaysia's main export destinations for its E&E products include Singapore, the U.S., China, Japan, as well as countries in Europe.

In 2022, Malaysia exported approximately 593 billion ringgit (US\$126 billion) of E&E products or 38 percent of the country's total exports and an increase from 455 billion ringgit (US\$97 billion) from the previous year. Also in 2022, the country was the ninth largest exporter of E&E products and the sixth largest exporter for semiconductors.

With global E&E and semiconductor demand set to grow, Malaysia offers new opportunities for businesses that are looking to expand their production capacities to meet this demand.

Further, Malaysia's E&E industry will be pivotal in assisting the country's goal of becoming a high-technology nation by 2030 with research and development targeted to reach 3.5 percent of GDP.

Medical devices and tourism

Malaysia is becoming a hub for medical devices manufacturing in the region and over 90 percent of the medical devices manufactured in the country are exported. Revenue from the medical devices is expected to reach over US\$3.3 billion by the end of 2023.

Malaysia's medical devices industry comprises of more than 200 manufacturers, of which 30 are multinationals that have made Malaysia their manufacturing base. These include reputable names, such as Abbott, Toshiba Medical Systems, and Braun.

The government views this industry, alongside electrical and electronics, chemicals, aerospace, and machinery and equipment subsectors, as high potential growth areas that can revitalize the country's manufacturing sector.

Other medical devices produced in Malaysia are:

- Surgical tools;
- Syringes and needles;
- Orthopedic products;
- Optical lenses;
- Hospital furniture;
- Blood transfusion sets;
- Dental dams; and
- First aid kits.

Businesses are looking to shift production into more value-added products and services, through embracing technology and enhancing research and development methods. New areas of growth lie in the production of medical imaging devices, such as the components or part of components of magnetic resonance imaging (MRI) machines, x-rays, computed tomography (CT) scanners, and nuclear imaging systems.

Malaysia is also on track to become the preferred destination for medical tourism in Southeast Asia. The Malaysia Healthcare Travel Council revealed that some 800,000 medical tourists arrived in 2022 and revenue from the industry is expected to reach US\$225 million by the end of 2023. Although this is still lower than revenue recorded in 2019 (US\$433 million), the country did only reopen its borders following the COVID-19 pandemic in April 2022.

In 2005, the Ministry of Health established an agency called the Malaysia Healthcare Travel Council (MHTC), designated to facilitate and promote the country's healthcare travel industry by establishing public-private partnerships at home and abroad.

The MHTC provides an all-encompassing service to foreign clients, such as providing localized outreach through representative offices in Indonesia, Vietnam, and Myanmar. Their services also extend to assisting the procurement of medical visas in conjunction with the Immigration Department of Malaysia.

Medical tourists are not limited to specific hospitals, and the MHTC has partnered with 79 hospitals and clinics – of which 21 are 'elite' and 58 are 'ordinary'. Elite hospitals have been accredited by international healthcare agencies, such as the Australian Council on Healthcare Standards (ACHS), Accreditations Canada, and the CHKS Accreditation Unit (UK).

Malaysia is carving itself as a provider of specialized treatments, carving a niche for fertility and cardiology treatments, enabling the country to compete with world-class medical centers across Asia. The country has over 30 advanced heart treatment centers, which includes the renowned National Heart Institute that has a reputation of being among the best in the continent.

Halal industry

The Halal industry in Malaysia is one of the most robust and contributes to some 10 percent of GDP. The industry is projected to grow to over US\$113 billion by 2030 and encompasses a wide range of industries from food and beverages to pharmaceuticals to banking to travel, among others. Malaysia exports over 60 billion ringgit (US\$12.8 billion) of Halal products in 2022, a 64 percent increase from 2021.

Malaysia was among the first Muslim countries to have a documented Halal assurance and certification system in the year 2000. This prompted the government to expand the mandate of the Department of Islamic Development (JAKIM) to include the regulation of Malaysia's Halal Industry.

As a result, JAKIM was able to develop stringent Halal standards which are recognized worldwide. This offers an important guardrail for foreign companies seeking to be Halal accredited in Malaysia and the region.

With the global Halal market valued at an estimated US\$3 trillion, Malaysia stands to benefit as a leader not only for Halal manufacturing but also Halal certification. JAKIM's Halal certification is

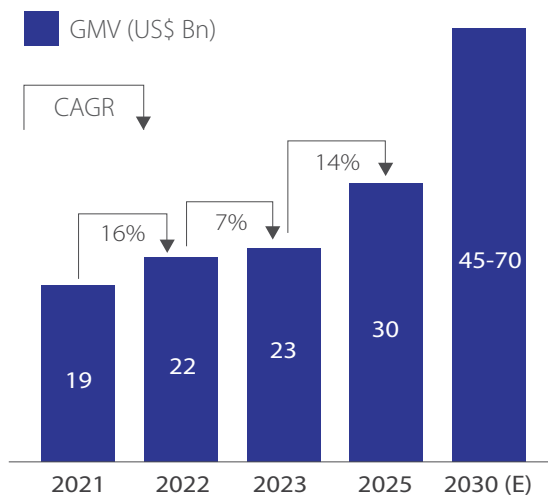


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Value of Malaysia's Digital Economy



Source: Google, Temasek, and Bains & Company

recognized in more than 47 countries and more than 80 certification bodies worldwide.

In addition to Halal manufacturing, Malaysia also has a well-developed Islamic finance ecosystem and is currently the world's third-largest Islamic banking market. Islamic bank loans constituted some 40 percent of local banking system loans in 2022.

Moreover, Malaysia controls 20 percent of the global Islamic banking assets and 62 percent of the Asia Pacific's Islamic banking assets. Malaysia also offers the opportunity to act as a base to cater to the untapped demand and market potential in Indonesia, Bangladesh, and Pakistan for Islamic finance products.

Digital economy

In 2022, Malaysia's digital economy accounted for 22 percent of GDP, and it is projected to reach 25 percent by 2025, positioning it as one of the country's fastest-growing sectors. According to the e-Conomy 2023 report by Google, Temasek, and Bains & Company, Malaysia's digital economy

is expected to achieve a gross merchandise value (GMV) of US\$23 billion in 2023, with estimates rising to a range of US\$45-US\$70 billion by 2030. E-commerce presents lucrative investment opportunities, with a projected GMV of US\$13 billion in 2023, potentially increasing to US\$25 billion by 2030. Other growth segments include online travel (US\$10 billion), transport and food (US\$5 billion), and online media (US\$5 billion).

The government has identified nine priority sectors for digital transformation, encompassing trade, agriculture, smart cities, healthcare, finance, tourism, content, services, and the Islamic digital economy. Malaysia's thriving data center industry has attracted major players such as Amazon Web Services, Google Cloud, Alibaba, and Microsoft. With competitive land costs and proximity to Singapore, Malaysia experienced substantial growth in new data center uptake, securing 113 MW in 2022—four times more than Indonesia and Thailand combined.

The government's Digital Ecosystem Acceleration scheme, initiated in 2022, provides tax waivers for qualifying data center investments, aiming to achieve a revenue target of US\$800 million by 2025, doubling the current figure of US\$400 million. 🇲🇾



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hanoi@dezshira.com

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Jakarta

indonesia@dezshira.com

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