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ECONOMIC REPORT 2019

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Followed by annexes

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

Exchange rate used is obtained from the average rate of the year from Central Bank of Malaysia.
Year 2018: USD 1 = MYR 4.035
Year 2019: USD 1 = MYR 4.143

0. Executive summary

Malaysia's **GDP grew by 4.3%** in 2019, a slight decrease from 4.7% in 2018. As a highly open economy, Malaysia was affected by the global unresolved trade tensions, as well as domestic political uncertainty. The growth marked the slowest pace in a decade since the global financial crisis in 2009 due to lower output of palm oil, crude oil and natural gas, along with a fall in exports amid the US-China trade war.

Malaysian **total trade contracted by 2.5%** to USD 434 bn in 2019.[1] Exports decreased marginally by 1.7% to USD 238 bn from the preceding year while imports declined by 3.5% to USD 205 bn. China remained as Malaysia's largest trading partner for the 11th consecutive year, and accounted for 17% of Malaysia's total trade in 2019.

The Malaysian economy was supported by **resilient private sector spending**, which **grew by 6.2%** amid a challenging external environment. However, weaker external demand has weighed on Malaysia's exports and investment activity. **Public investment declined by 10.8%**, mainly due to the rationalisation efforts by the previous Pakatan Harapan (PH) government as reflected in the reviewing of several large-scale infrastructure projects.

Headline **inflation averaged 0.7%** in 2019 (2018: 1.0%). The low inflation rate was due mainly to policies on retail fuel prices and festive price controls, as well as the changes in consumption tax policy in 2018, which resulted in lower price pressures. Despite financial market volatility, the ringgit ended the year with an appreciation against the **USD** by 1.1% to close at **MYR 4.0925**.

Over the past half-century, Malaysia has successfully transformed from being predominantly an agricultural-based economy to an open and industrialised economy with multiple sources of growth. The country's economic transformation in the past was supported by effective policies that focused on export-orientation, liberalising trade and investment as well as economic diversification. However, Malaysia's commendable rate of investment growth of the past has slowed evidently in recent years. This is compounded by a landscape of declining cross-border investment and increasing competition to attract global foreign direct investments (FDI), especially from neighbouring countries such as Indonesia and Vietnam. A **persistent slowdown in investment growth** poses a risk to Malaysia's future growth potential, with an adverse impact on technological progress and productivity growth.

FDI flows for 2019 **rose by 3.1%** to USD 7.7 bn. The foreign inflows were mainly channelled into the services sector, such as health, real estate and financial activities. The manufacturing sector was the second highest, mainly in refined petroleum and electrical & electronic (E&E) products, followed by the mining & quarrying sector. Major contributors for FDI flows in 2019 were **Japan, Hong Kong and the Netherlands**. The **U.S.A., China and Japan** accounted for 66% of total **FDI approved** by the Malaysian Investment Development Authority (MIDA) in the manufacturing, services and primary sectors.

In the results of the 2020 World Bank **Ease of Doing Business** report, Malaysia was placed **12th best** amongst the 190 surveyed economies, making it higher than all its ASEAN neighbours except Singapore. This is an improvement over its 2019 performance when it ranked 15th. Malaysia is particularly **adept at dealing with construction permits, providing electricity, and offering a legal regime that protects minority investors and shareholders**. However, it is **weak in helping entrepreneurs start new businesses, in collecting and administering taxes, and in facilitating cross-border trade.**

The Malaysian economy was tested by several external and domestic challenges from the beginning of 2020, with unprecedented **political turmoil and uncertainty** leading to a controversial new cabinet of Ministers. It started with political unrest which witnessed the end of PH coalition's 22-month administration in late February. Malaysians were then confronted with news of the coronavirus outbreak and a partial lockdown, introduced as the Movement Control Order (MCO), from March 18. Malaysia, a country that heavily relies on tourism as one of its key economic drivers, has received a heavy economic blow.

Malaysia's **GDP growth** is projected to be between **-2.0 to 0.5% in 2020** (2019: 4.3%) with risks emanating from a potential third wave of the virus, cautious spending behaviour, slow resumption of business activity, and supply chain disruption.

[1] The Edge Markets, 04.02.2020

Bilateral trade and economic relations

The bilateral Swiss - Malaysian trade in 2019 was CHF 2.14 bn[2]. The decline from 2018 (CHF 3.34 bn) was mainly due to reduced trade in precious stones and gold.

The ranking of locally-approved Swiss investments in Malaysia by MIDA dropped from no.16 (2018) to no. 17 (2019) as investment figures dropped by half to USD 31 m[3].

After a gap of three years, the delegation of EFTA (European Free Trade Association) met again with its counterparts in the Ministry of International Trade and Industry (MITI) in Kuala Lumpur in February 2020 for the ninth round of negotiations to achieve a Free Trade Agreement. Moving forward, both parties agreed to a new date for the next meeting, which will be held in Geneva in November 2020.

1. Economic problems and issues

The Malaysian economy appeared to be in a state of suspension in 2019. Although there was expectation of a burst of economic activity in line with promises made during PH coalition's ascent to power in 2018, the year delivered little in terms of economic growth. Long-standing issues regarding the high cost of living, the affordability of housing, healthcare financing, the state of education and the need for upskilling remain unanswered. Malaysia's internal problems remain as structural issues, such as implementation of policies and law enforcement, lack of engagement in developing new policies, as well as numerous policy inconsistencies.

In February 2020, Malaysia witnessed unprecedented political turmoil when Prime Minister Mahathir Mohammed resigned from his position, which was followed by the appointment of a new Prime Minister, Muhyiddin Yassin, by the King. The new coalition that has controlled the federal government since March 2020 is now operating with a very minimal and fragile majority. As Parliamentary approval is risky for the majority, processes are slowed down. Sentiments expressed by businesses continue to dwell on a number of issues. These include the difficulty of the government has in retaining a strong commitment to an open economy, maintaining the inflow of foreign direct investment, lack of clarity and stability in government policies, difficulties in upholding the rule of law, as well as variable outcomes from ongoing efforts to eliminate corruption. The business sector remains cautious, awaiting the policies which will emanate from the new administration even though no fundamental changes on trade and economic policies are expected by observers.

While income growth for the bottom 40% of wage-earners has outpaced the top 60% over much of the last decade, the absolute gap across income groups has increased, contributing to widespread perceptions of the poor being left behind. The youth unemployment rate remains high at 11%[4] which poses pressing domestic challenges. Structural problems deriving from deficiencies in education quality, skills mismatches, and low-quality jobs have placed stress on the labour market in recent years and are compounded by imminent recession.

In 2019, the Malaysian government introduced its idea of 5G technology and IR4.0, an initiative aimed at helping businesses grapple with transformative technologies. With scepticism around state-backed economic projects, the government has yet to show its understanding of the implications of the fourth industrial revolution and what this means for companies, as many businesses may not have fully realised the potential of the third industrial revolution, nor do they have the resources or willingness to invest in R&D.

Amidst weak demand conditions caused by the global trade war and the Covid-19 pandemic, the E&E and automotive industries in Malaysia were severely affected by supply disruption, while the tech cycle was on a downturn. One factor that explains Malaysia's lower share of machinery and equipment (M&E) is the availability of cheaper foreign labour, which has resulted in firms employing more labour instead of investing in new technology to expand production. The country is suffering from a high dependency on foreign labour, and unofficial figures estimate that up to six million foreign workers are in Malaysia (19% of the population)[5]. This is one of the main explanations for suppressed salary levels.

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[2] Federal Customs Administration, Switzerland

[3] Malaysian Investment Development Authority

[4] The World Bank

[5] Malay Mail, 27.11.2019

The following are some of the major economic developments and policy changes in Malaysia in 2019:

- The Central Bank undertook several steps to further enhance Malaysia's Anti-Money Laundering/ Combating the Financing of Terrorism framework. In January 2019, the threshold for reporting cash transactions was revised from MYR 50,000 to MYR 25,000 (USD 6,000). The lowering of the threshold reporting obligation improves the collection of data to support better identification of money laundering and terrorism financing risks associated with the use of cash, including fraud, tax evasion and corruption.
- Budget 2020 introduced the 'Digital Services Tax' with effect from 1 January 2020. The imposition of 6% service tax on imported digital services was intended to level the playing field between local and foreign suppliers of digital services.
- Section 17A of the Malaysian Anti-Corruption Commission Act 2009 ("MACC") entered into operation on 1 June 2020. This Section introduces direct liability for companies for any corrupt acts committed by employees or other persons associated with the company. The liability is extended to directors and other managers personally. Companies and managers can only protect themselves from this liability with a thorough anti-corruption control system and due diligence, as they must be able to show that they have taken all reasonable measures to prevent such practices. The sanctions against companies and managers for corrupt practices are a maximum fine of 10 times the sum of gratification involved, or MYR 1 million (USD 241'400), whichever is higher, and/or a maximum jail term of 20 years.
- The Government of Malaysia deposited its instrument of accession to the Madrid Protocol concerning the International Registration of Marks with the World Intellectual Property Organization (WIPO). The Protocol entered into force in Malaysia on 27 December 2019. With its straightforward designation process, foreign companies and trademark owners can now seek trademark protection through the Madrid System when selling their products and services in Malaysia.

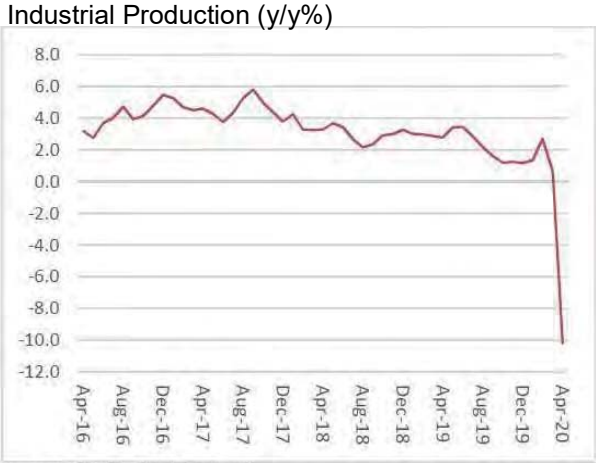
Economic consequences of Covid-19

Malaysians were placed under a Movement Control Order (MCO) from 18 Mar 2020, accompanied by the closure of all government and private premises except those involved in essential services. Malaysia is now undergoing a recovery phase under the Recovery Movement Control Order (RMCO) up to 31 Aug 2020. However, almost all businesses have been allowed to operate since 04 May 2020, with strict SOPs, in order to revive the economy.

During the period of MCO, large-scale disruption caused by measures to curb the spread of the Covid-19 outbreak severely impaired the economy in the first half of 2020. Industrial output was estimated to have reduced between 40% - 70% during MCO[6]. In the manufacturing sector, production disruption abroad also lowered demand for Malaysian-manufactured products, which are often used as input components in the affected economies' exports to the rest of the world. Overall, this compounded the effects of weaker final demand from affected countries, thus weighing further on Malaysia's manufacturing activity and exports performance. Additionally, palm oil exports shrank and the energy sector is being adversely affected by the oil price collapse, which will hamper exports further, and strain an already tight fiscal space.

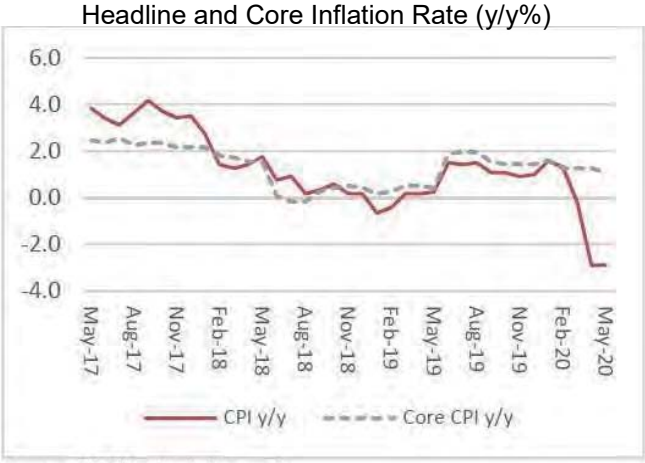
Broad-based restrictions and aversion to travel activities have had a substantial impact on Malaysia's tourism sector, which accounts for 12% of Malaysia's GDP.

Industrial Production (y/y%)



Source: CEIC/AmBank Research

Headline and Core Inflation Rate (y/y%)

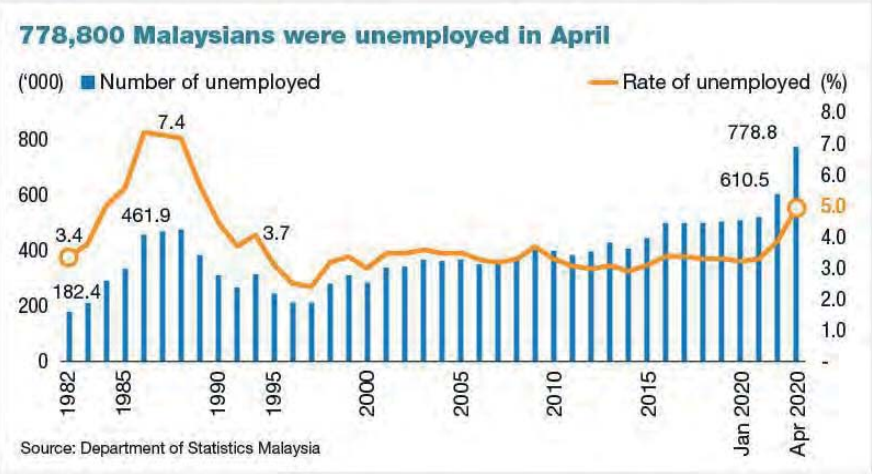


Source: CEIC/AmBank Research

[6] Malaysian Institute of Economic Research (MIER), 23.03.2020

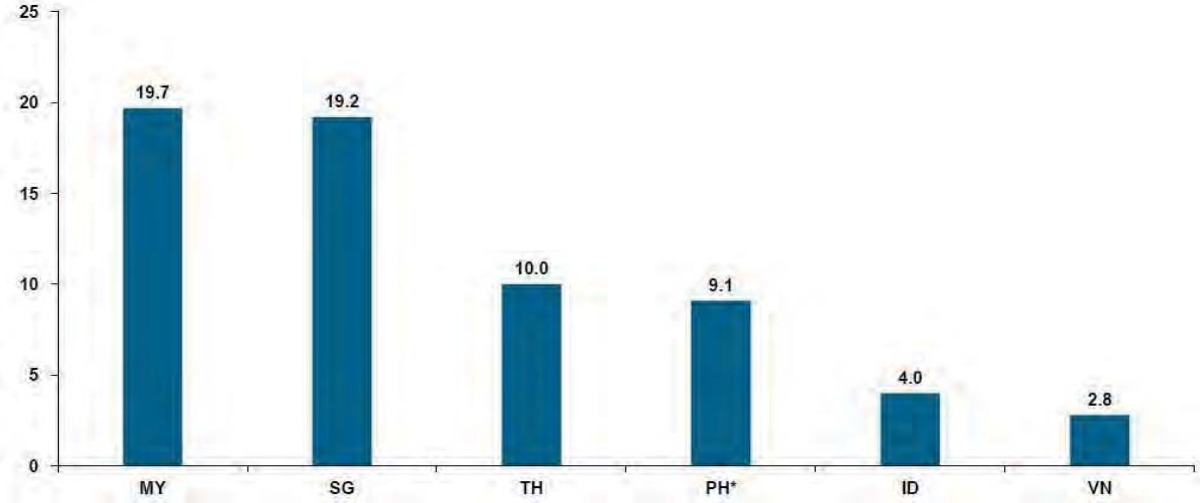
In Q12020, GDP growth slowed to 0.7%. Containment measures, rising unemployment and deterioration in business sentiment hampered domestic demand, while exports look set to shrink due to muted global demand, fragile commodity prices, and diminished tourism. The government estimated the country lost USD 580 m[7] daily during the MCO period.

Malaysia's labour market felt the brunt of the MCO implementation, with unemployment in April spiking to 5% (Mar: 3.9%), the highest since 1990. According to national projections, this figure is expected to rise to 5.5% for the year 2020[8].The most affected employed persons were in the manufacturing and services sectors, namely hospitality, arts, entertainment and retail. Although government incentives aimed at retaining employees and the gradual reactivation of the economy could ease some of the burden, it may not take the weight off immediately, especially considering the estimated 500,000 new entrants to the labour market this year.



The government announced a massive economic stimulus package worth USD 70 bn (20% of GDP)[9] which include fiscal and monetary measures to avert a deeper economic collapse. These aim to support household income and safeguard jobs, notably through programmes such as cash transfers to low income groups and a wage subsidy scheme for SMEs to retain workers. For the business community, measures such as a dedicated loan guarantee facility, lower utility costs and income tax deferments aim to ease problems of cash flow. The Monetary Policy Committee lowered the Overnight Policy Rate (OPR) by a total of 125bps since the start of the year to the lowest ever level of 1.75%. A 6-month moratorium has also been extended for loan and financing payments.

Estimated pledged government support amongst ASEAN countries in % of GDP:



Source: Standard Chartered Research
(The amount may not correspond directly to the rise in the fiscal deficit)

[7] The Star, 25.04.2020

[8] Malay Mail, 14.05.2020

[9] Bloomberg, 05.06.2020

The value of the stimulus package ranks among the highest rolled out by any government in the ASEAN region. It remains to be seen whether the stimulus package would have the cushioning impact on the economy. The stimulus package has been controversial, as economists and opposition leaders continue to question the sourcing of funds, and argue that it was announced without parliamentary approval[10].

As with other countries, Malaysia foresees a higher deficit following various economic stimulus measures. The Ministry of Finance warned that the country's debt level could hit the statutory limit of 55% of GDP at the end of the year from 52% currently following the implementation of measures to stimulate the economy. However, as 97% of the debt is domestic, this limits the exposure to foreign currency fluctuation risks. Malaysia's budget deficit is projected to rise to 5.8 - 6.0%. Prior to this, the 2020 Budget had projected a deficit of 3.4%. The government is said to be committed to fiscal discipline and to reducing the fiscal deficit to below 4% within the next three to four years.[11]

The International Monetary Fund (IMF) has projected Malaysia's GDP to grow at a rate of 6.3% in 2021, one of the fastest among the ASEAN countries.

2. International and Regional Economic Agreements

2.1 Country's Policy and Priorities

Malaysia continues to support the rule-based multilateral trading system under the World Trade Organisation and pursue trading arrangements to complement the multilateral approach to trade liberalisation. So far, Malaysia has implemented seven bilateral FTAs and six regional FTAs.

Bilateral FTAs	Entry into force	Regional FTAs	Entry into force
Malaysia-Japan Economic Partnership Agreement (MJEPA)	2006	ASEAN-China Free Trade Agreement (ACFTA)	2003
Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA)	2008	ASEAN-Korea Free Trade Agreement (AKFTA)	2006
Malaysia-New Zealand Free Trade Agreement (MNZFTA)	2010	ASEAN-Japan Comprehensive Economic Partnership (AJCEP)	2009
Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA)	2011	ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)	2010
Malaysia-Chile Free Trade Agreement (MCFTA)	2012	ASEAN-India Free Trade Agreement (AIFTA)	2010
Malaysia-Australia Free Trade Agreement (MAFTA)	2013	ASEAN Trade In Goods Agreement (ATIGA)	2010
Malaysia-Turkey Free Trade Agreement (MTFTA)	2015		

Malaysia is currently undertaking four FTA negotiations, namely:

1. Regional Comprehensive Economic Partnership (RCEP)
2. Malaysia-Iran Preferential Trade Agreement (MIPTA)
3. Malaysia-European Free Trade Area Economic Partnership Agreement (MEEPA)
4. Malaysia-EU Free Trade Agreement (MEUFTA) – currently being put on hold.

FTAs signed but pending ratification and entry into force are:

1. ASEAN-Hong Kong Free Trade Agreement (AHKFTA)
2. Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

While Malaysia wants to expedite the RCEP conclusion, a shift in focus to domestic coronavirus issues and diverging interest is distracting RCEP's negotiations, which may prevent the agreement from being concluded by year-end as envisioned. India's absence during recent negotiations had stalled the discussions, while Japan has stated that it may not sign the deal without India's participation. Malaysia is determined to pursue the RCEP agreement regardless of India's subsequent decision[12].

[10] Malaysiakini, 05.06.2020

[11] The Edge, 24.06.2020

[12] The Edge, 24.06.2020

Meanwhile, Malaysia is still evaluating the ratification of the CPTPP Agreement and has not committed to a specific date. The new Government has yet to decide whether or not Malaysia will ratify the agreement.[13] There has been a vocal lobby against the CPTPP, arguing that the country would lose policy flexibility, while government-linked companies would be restricted in the preferences that they can give to local SMEs under the trade pact.[14]

Even though the FTA negotiations between the EU and Malaysia are on hold, a Sustainability Impact Assessment (SIA) was launched in support of FTA negotiations between the two parties. The SIA seeks to assess how trade and trade-related provisions in the proposed FTA could potentially impact economic, social and environmental elements, as well as human rights, for each trading partner and for other relevant countries.

2.2 Outlook for Switzerland (potential for discrimination)

The Malaysia - European Free Trade Association Partnership between Malaysia and the bloc of Iceland, Liechtenstein, Norway and Switzerland has undergone nine rounds of negotiations since March 2014. Round ninth was hosted by Kuala Lumpur in February 2020 after talks had been suspended for three years.

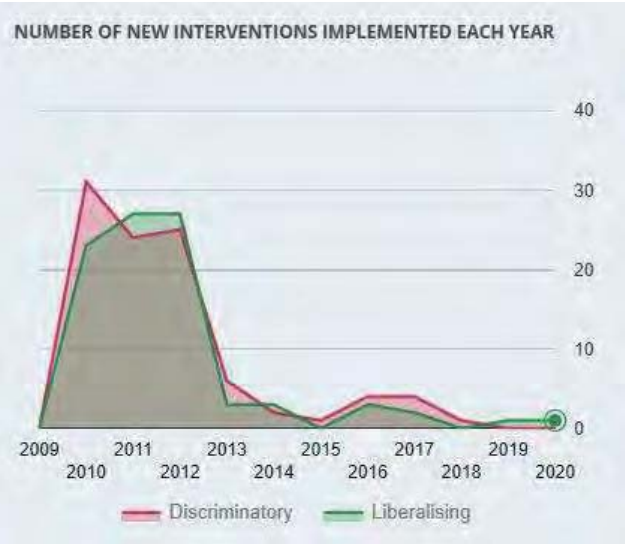
The fact that import duties are much lower for countries that have signed an FTA with Malaysia disadvantages Swiss businesses that wish to export to Malaysia. The FTA between Malaysia and EFTA will therefore be instrumental to improve the competitiveness of Swiss exports to Malaysia. Swiss companies could benefit by using Malaysia as a 'springboard' to countries in the region. Moving forward, both parties agreed to a new date for the next meeting to be held in Geneva in November 2020.

The Double Taxation Agreement of 30th December 1974 and the Investment Guarantee Agreement of 1st March 1978 (currently intended to be up-dated) between Switzerland and Malaysia have paved the way for the development of bilateral trade between both countries. There are no specific discriminative policies being implemented against Switzerland.

In an evaluation conducted by KOF Swiss Economic Institute of ETH Zürich, which analysed market size, potential of export volume, market entry and country risks for Swiss companies, Malaysia ranks 19th in 2019, an improvement from 21st in 2018, and behind only Singapore amongst ASEAN countries.

In the pharmaceutical industry, Switzerland has been recognised by the Malaysian authorities as a reference country for Certificate of Pharmaceutical Product (CPPs), along with other countries such as the USA, Australia, Japan, Canada and a number of European states.[15]

State interventions of Malaysia affecting Switzerland:



Source: Global Trade Alert

[13] Ministry of International Trade and Industry

[14] Channel News Asia 18.01.2019

[15] Ministry of Health, Malaysia

3. Foreign Trade

3.1 Development and general outlook

3.1.1 Trade in goods

In view of lower global demand amid trade tensions, and unfavourable external economic conditions, total trade contracted by 2.5% to USD 434 bn. Exports decreased marginally by 1.7% to USD 238 bn from the preceding year, while imports declined by 3.5% to USD 205 bn.

In 2019, Malaysia's trade surplus continued to register double-digit growth for a third consecutive year, increasing by 11% to USD 33 bn. This was the largest trade surplus since 2009, representing Malaysia's achievement of 22 consecutive years of trade surplus.

China has remained Malaysia's largest trading partner for 11 consecutive years and accounted for 17% of Malaysia's total trade in 2019.

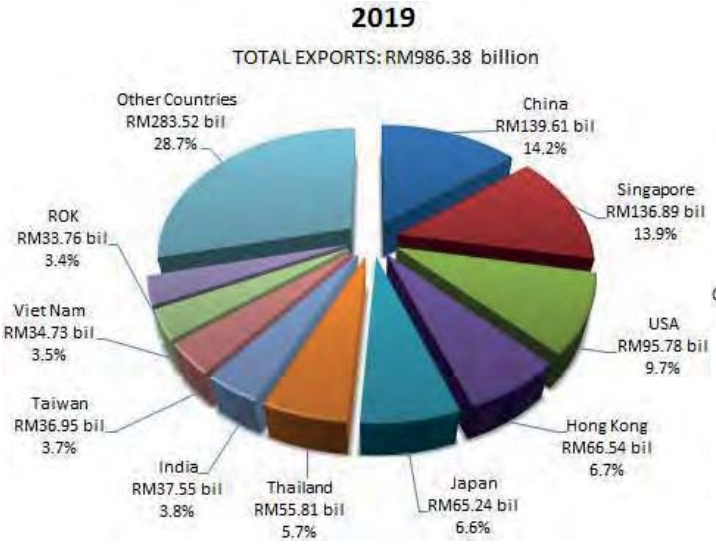
Export

China surpassed Singapore as Malaysia's largest export destination, having being the second largest export destination since 2012. Exports to China grew by 0.3% with higher exports of broad-based products, particularly iron and steel products, LNG, paper and pulp products, palm oil and palm oil-based agricultural products, manufactures of metal, optical and scientific equipment as well as processed food. Exports of palm oil and palm oil-based agricultural products to China rebounded by 18%, after declining for seven consecutive years.

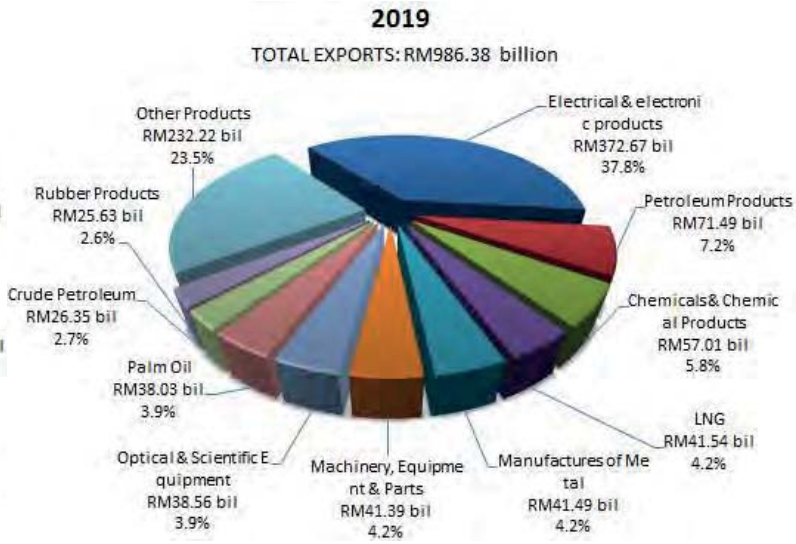
Exports to the US continued to grow for a sixth consecutive year, rising by 5.5% to USD 23 bn, the highest value since 2007. This was supported by higher exports of E&E products, wood products, manufactures of plastics and processed food.

Singapore, Thailand and Vietnam remained as Malaysia's top three export destinations, accounting for 80% of Malaysia's exports to ASEAN.

Exports to the EU which represented 10% of total exports, declined by 2.9% to USD 23 bn due to lower exports of manufactures of metal, palm oil and palm oil-based agricultural products, chemicals and chemical products, as well as iron and steel products. However, improved export performance was evident in exports of machinery, equipment and parts, petroleum products, transport equipment, palm oil-based manufactured products and processed food.



Major export trade partners



Major export by products

Source: MATRADE, Malaysia

Import

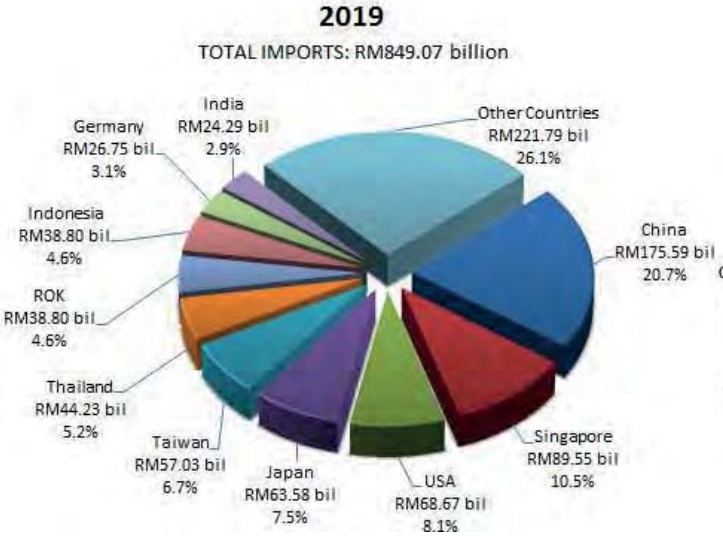
China has remained the largest import source since 2011 (accounting for 21% of total imports in 2019), followed by Singapore, the US, Japan and Taiwan. These countries represented 54% of total imports. Imports from ASEAN amounted to a 24% share of Malaysia's total imports, while the EU accounted for a 9% share.

Imports from China increased by 0.1%, aided by higher imports of petroleum products, transport equipment and manufactures of plastics.

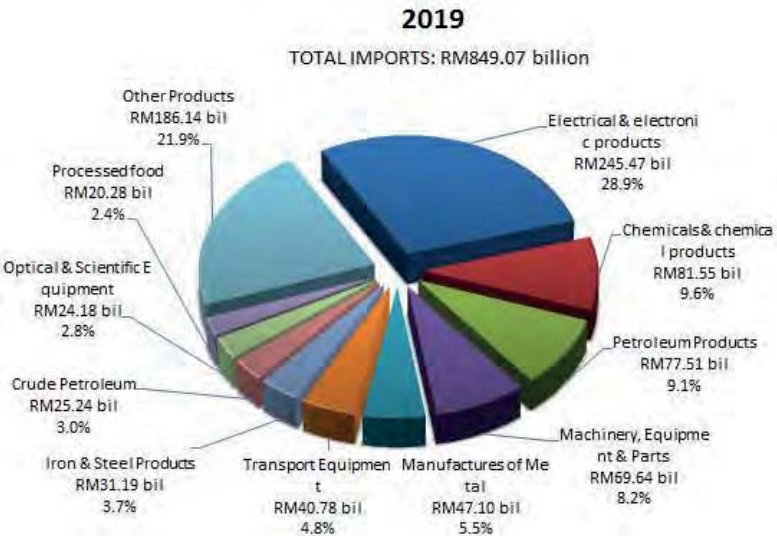
Imports from the US grew by 5.7%, the main imports being E&E products, chemicals and chemical products, as well as machinery, equipment and parts.

Imports from ASEAN decreased by 8.8%. The main imports were E&E products and petroleum products, as well as chemicals and chemical products.

Imports from the EU represented 9.3% of total imports, dropped by 7% to USD 19 bn. The main imports were E&E products, machinery, equipment and parts, as well as transport equipment led by Germany, France and United Kingdom.



Major import trade partners



Major import by products

Source: MATRADE, Malaysia

Covid-19 consequences on trade

The Covid-19 pandemic, which has caused major disruption to the global supply chain, caused Malaysia to record a trade deficit of USD 845 m in April 2020, ending a streak of 269 consecutive months of surplus (the last trade deficit recorded was in October 1997).[16]

Exports fell by 23.8% to USD 16 bn while imports decreased by 8.0% to USD 16.5 bn in April 2020. The poor results from both exports and imports was to be expected as most countries were under some form of lockdown to contain the spread of Covid-19. This has caused major disruption to manufacturing activities and to the global movement of goods.

Exports' Performance of Major Sectors YoY (%) in Malaysia:

	Apr'19	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr
E&E	3.9	0.6	-6.5	4.5	-7.4	-12.2	-3.2	-11.6	-5.4	-5.5	-2.7	-13.9	-21.7
Petroleum Products	22.3	-15.5	6.9	3.2	7.7	-14.7	-27.2	-19.0	34.9	62.0	21.7	44.3	-22.2
LNG	23.6	-10.0	6.1	31.3	-11.2	-1.8	-17.1	-35.9	-21.3	-22.8	7.1	-13.4	-20.5
Palm Oil & Palm Oil Based	-16.8	19.0	4.1	-15.6	26.8	-9.8	-9.5	-2.7	34.6	0.1	16.5	-2.4	-2.5
Crude Petroleum	-37.4	-23.7	30.6	-45.0	-34.2	-38.1	-40.8	-5.7	-23.2	-22.0	-19.1	2.0	-10.0

Source: CEIC/AmBank Research

[16] New Straits Times, 05.06.2020

Looking ahead, there are signs that exports will improve. This is partly due to the government having allowed more industries to resume operations, with some at full operating capacity since 4 May 2020. At the same time, companies in other countries are also ramping up their business operations.

3.1.2 Trade in services

The service industry accounts for 58% of the national economy. It expanded 6.1% last year against 6.8% in 2018.

Performance of Services Sector at constant 2015 Prices[17]

Table	Annual Change %		Share to GDP %	
Year	**2018**	**2019p**	**2018**	**2019p**
Services	**6.8**	**6.1**	**56.7**	**57.7**
Intermediate services	**7.0**	**6.3**	**20.7**	**21.1**
• Finance and insurance	5.7	4.7	6.6	6.6
• Real estate and business services	7.6	7.8	4.7	4.8
• Transport and storage	6.4	6.8	3.7	3.8
• Information and communication	8.3	6.6	5.8	5.9
Final services	**6.7**	**6.0**	**36.0**	**36.6**
• Wholesale and retail trade	8.1	6.7	16.7	17.0
• Food and beverages and accommodation	8.9	9.6	3.3	3.5
• Utilities	4.9	6.0	2.6	2.7
• Government services	4.5	3.7	8.4	8.3
• Other services	5.5	5.5	4.9	5.0

p Preliminary
Note: Numbers may not necessarily add up due to rounding

The Eleventh Malaysia Plan, 2016-2020 sets the services sector as an eminent focus for the future, and is expected to remain as the main driver for the nation's economic growth. The services sector is estimated to grow at a rate of 6% per annum, driven by wholesale and retail trade sub-sectors which are supported by strong consumer spending. Greater focus will also be given to the modern and knowledge-based industries, including halal products, ecotourism and information, communication and technology (ICT).

Unfortunately, the Visit Malaysia Year 2020 had to be postponed due to the unprecedented pandemic that affected countries across the world.

The top five countries contributing to the exports of services were Singapore, USA, China, Indonesia and India. The leading markets for travel were Singapore, China and Indonesia, while exports of manufacturing services was mainly to USA. As for India, the exports were predominantly on transport activities.

Imports of services were mainly from Singapore, China, USA, United Kingdom and Thailand. The payments to Singapore, China and Thailand were mostly for travel while payments to USA and United Kingdom were primarily on business services.

Exports, Imports and Percentage Share by Major Services Components, 2019[18]

Exports USD 41 bn	Travel	Business Services*	Transport	Telecommunications, computer and information	Other services*
	48.4%	17.2%	12.8%	7.3%	14.3%
Imports USD 44 bn	Travel	Transport	Business Services*	Telecommunications, computer and information	Other services*
	28.4%	26.3%	18.2%	8.1%	19.0%

* Business services comprise technical trade related services, professional and management consulting, research and development. Other services include maintenance & repair services, insurance & pension services, financial services and charges for the use of intellectual property.

[17] Central Bank Annual Report 2019

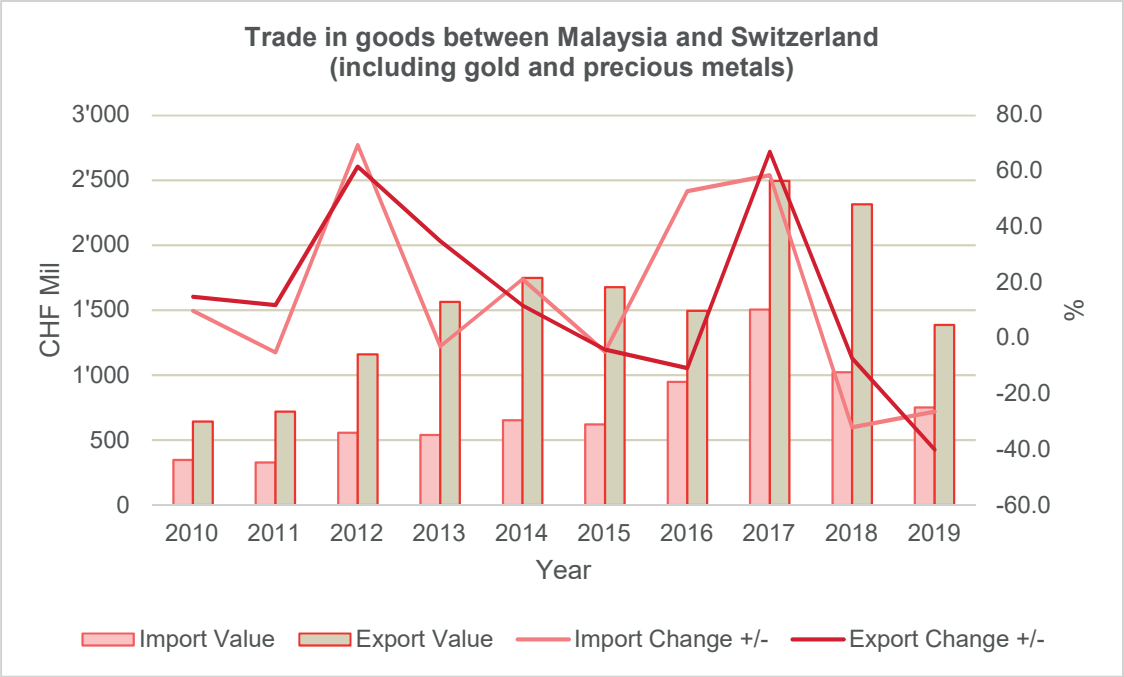
[18] Department of Statistics, Malaysia

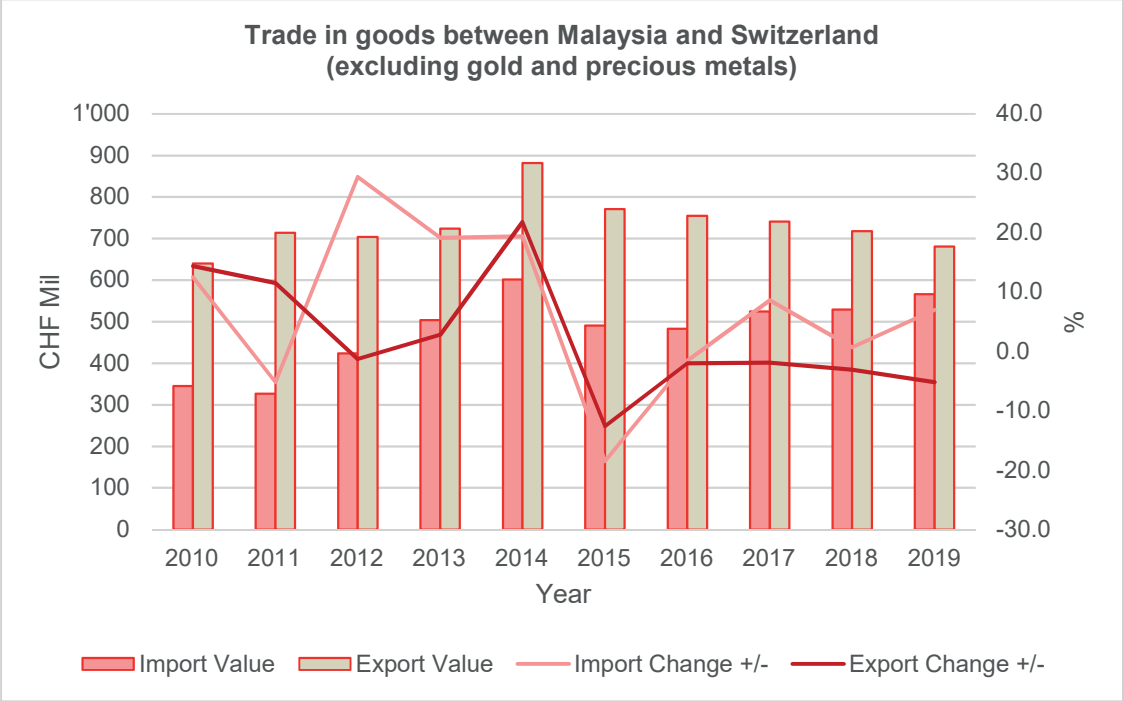
3.2 Bilateral Trade

3.2.1 Trade in goods

Total trade between Switzerland and Malaysia in 2019 equalled CHF 2.14 bn. Switzerland continues to maintain a trade surplus against Malaysia, amounting to CHF 636 m in 2019 despite a decrease in both exports (-40%) and imports (-26%).

As precious metals constitute the biggest share of trading activity, the significant drop in exports and imports are mainly due to the decrease in the export of precious metals, with a reduction of 56%, as well as fall in imports of the same at 62%. Other notable changes in exports include a decrease of machinery 19% and an increase of 2% in pharmaceutical products.

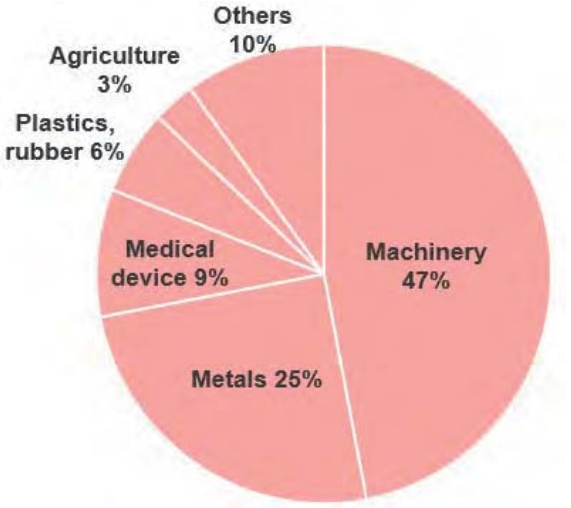




Source: Swiss Customs Administration

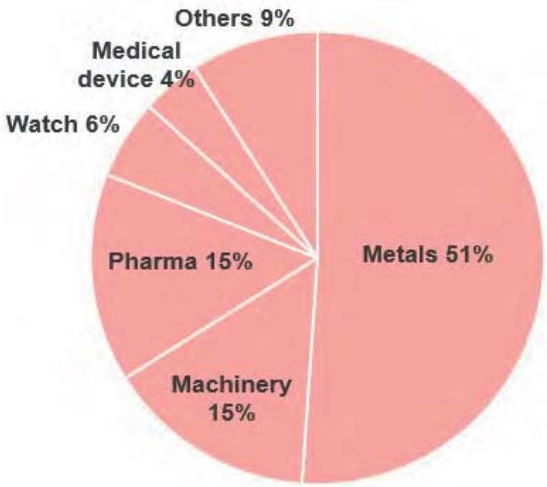
The sectors from Switzerland that continue to be of strong interest for Malaysian companies are MEM, pharmaceutical, and watches. In the last ten years, the three main sectors for both exports and imports remained unchanged. It is forecast that for the near future this situation will remain similar. The comparative advantage in those sectors for Swiss products remains high quality, precision and reliability.

Switzerland's top import from Malaysia



Total import: CHF 752 m

Switzerland's top export to Malaysia

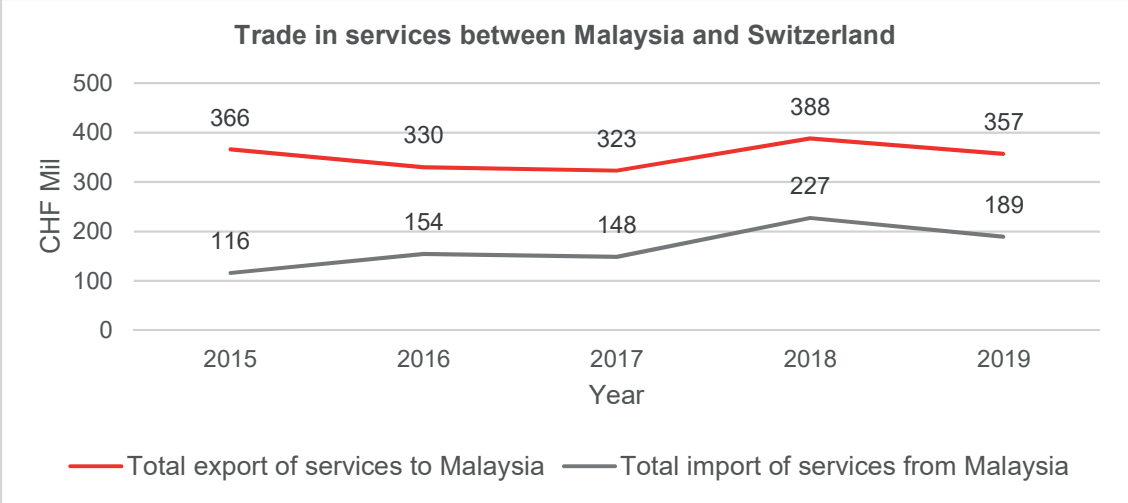


Total export: CHF 1'387 m

Source: Swiss Customs Administration

As Malaysia is moving towards an upper middle income nation, more than half the population (60%) are in the middle to high income groups with growing purchasing power. Lifestyles are becoming more sophisticated and modern leading to greater consumption of imported consumer products from western countries. When making purchase decisions for 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.

3.2.2 Trade in services



Source: Department of Statistics Malaysia

The data on trade in services with details in sub-sectors between Switzerland and Malaysia remains relatively scarce and is not provided by the national database or the central bank of Malaysia. In general, Malaysians continue to be interested in tourism in Switzerland, which showed a growth of 8% y.o.y., as well as higher education, especially on hospitality courses, and the financial services of Switzerland.

4. Direct Investments

4.1 Development and general outlook

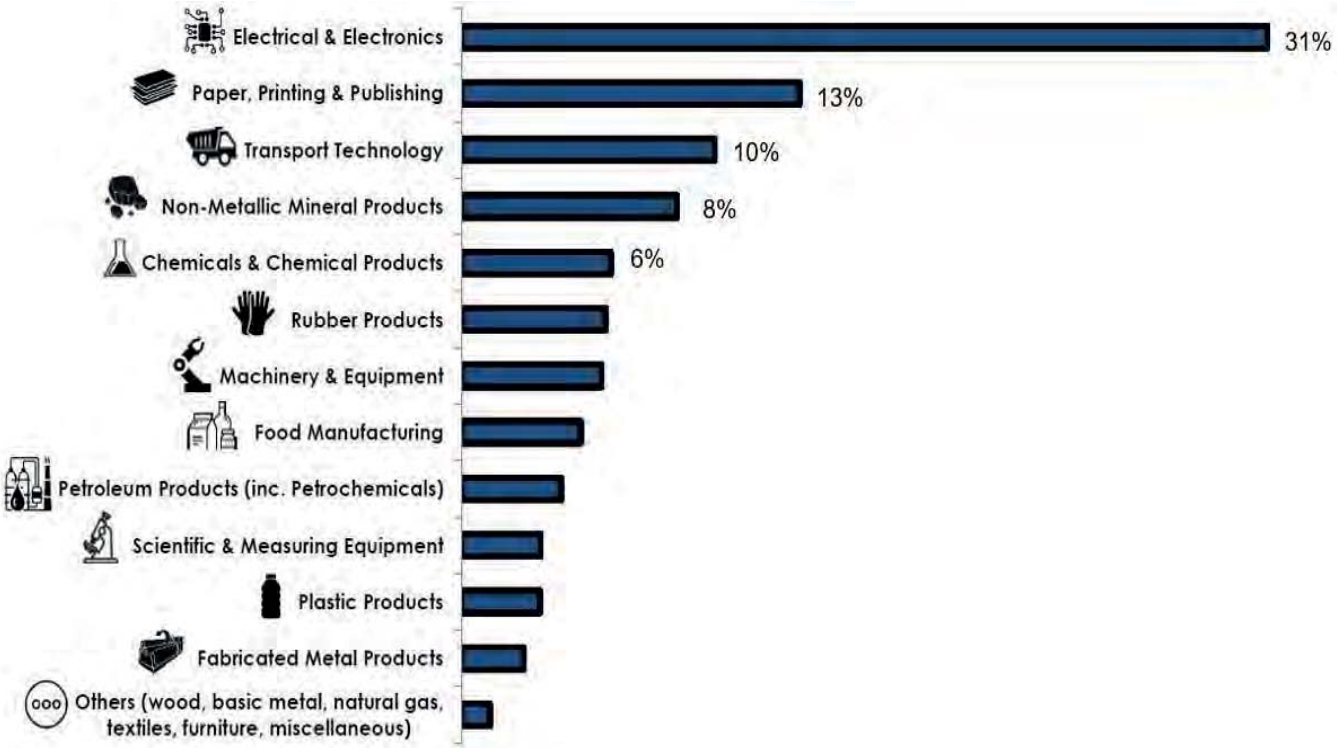
Against the backdrop of a challenging external environment and declining global FDI inflows, Malaysia remains resilient and attracted a total of USD 50 bn of approved investments by MIDA in the manufacturing, services and primary sectors in 2019, a 1.7% increase compared to 2018. With a contribution of 60%, domestic direct investment (DDI) accounted for the bulk of the total approved investments. Although FDI comprised 40% of the total, the value of FDI in 2019 had increased by 2.9% from the previous year.

The U.S. - China trade war has resulted in trade diversions and investment relocations to Malaysia. The U.S. (USD 6.5 bn), China (USD 3.8 bn) and Japan (USD 2.9 bn) accounted for 66% of total FDI approved in the manufacturing, services and primary sectors. These investment approvals are likely to be translated into actual activity, particularly in the second half of 2020 when economic conditions should be more stable, barring any potential negative impact of the global Covid-19 outbreak.

The approved projects in services increased by 11% from 2018 and led the way for total investments approved, amounting to 57% of the country's approved investments in 2019. Collectively, the top five contributors of approved investments in the services sector are real estate, global establishments, distributive trade and support services, which altogether represent 87% of approved investments in this sector. The approved investments for global establishments saw an increase of 57%. A total of 169 projects proposing to make Malaysia their regional or global operations hubs were approved last year. These activities, which are expected to create new jobs for 884 knowledge-based or highly technically skilled workers, will also position Malaysia on a course for greater integration into the global supply chain.

Malaysia continued to attract a healthy level of investments into the manufacturing sector, with a 37% increase in the number of projects, from 721 recorded in 2018 to 988 in 2019. FDI made up nearly two-thirds of the total investments in manufacturing. The top five industries contributed 68% of total approved investments in the manufacturing sector.

Approved investments in the manufacturing sector by industry:



Source: Malaysian Investment Development Authority (MIDA)

FDI flows for 2019 rose by 3.1% to USD 7.7 bn. The foreign inflows were mainly channelled into the services sector, particularly in health, real estate and financial activities. The manufacturing sector was the second highest, mainly in refined petroleum and E&E products, followed by the mining & quarrying sector. Major contributors by country for FDI flows in 2019 were Japan, Hong Kong and the Netherlands.

Malaysia will focus on the digital economy, aerospace, chemicals and chemical products, machinery and equipment, medical devices and electrical and electronics industries in the following years.

In a bid to attract FDI, the Malaysian government introduced several tax benefits and incentives in 2019/ 2020 such as:

- Tax exemption of 10 or 15 years and 100% investment tax allowance will be given to companies in the manufacturing sector, with new investments in fixed assets between MYR 300 m (USD 72.5 m) and MYR 500 m (USD 120.5 m) to attract foreign companies in the manufacturing sector to relocate their businesses to Malaysia.
- Grants and incentives to encourage private sector R&D. Innovation, automation and increased productivity are strategic goals in Malaysia's national roadmap "Industry4WRD" incentives, launched in 2018.[19]
- The setting up of funds to accelerate digitalisation efforts and the Technology Innovation Sandbox to encourage innovation and creativity.
- Packaged investment incentives annually over a period of 5 years targeted at 'Fortune 500 companies and global unicorns in high technology, manufacturing, creative and new economic sectors'.[20] The companies must each invest at least MYR 5 bn (USD 1.2 bn) in Malaysia to spur additional economic activities.
- Budget 2020 proposes that income tax exemption of 100% up to 10 years be given on qualifying intellectual property income derived from patent and copyright software of qualifying activities to enhance the R&D framework in Malaysia.
- The establishment of a 'Special Channel' to attract FDI from China. This initiative will be spearheaded by InvestKL to enable businesses originally located in China to undertake high-value activities in Malaysia. Since 2016, China has been Malaysia largest source of FDI in the manufacturing sector. At least 21 Chinese companies of Fortune Global 500 and 54 Chinese Companies of Fortune China 500 have established operations in Malaysia.

4.2 Bilateral investment

Swiss investment in Malaysia began in the early 1900s with establishment of Nestlé and DKSH. Over the years, FDI from Switzerland continued to make its presence felt in the manufacturing sector, financial services and the setting up of regional offices for countries in South East Asia and Oceania.

For the period 1980 to 2019, 218 manufacturing projects with total investments of USD 3.27 billion from Switzerland were approved by the Malaysian Investment Development Authority (MIDA), and are expected to have created a total of 22,538 potential jobs.[21] These manufacturing investments are mostly centred on the electrical and electronics, machinery and equipment, food manufacturing and chemical industries.

In 2019, two Swiss investments were approved in the manufacturing sector by MIDA, namely in equipment for semiconductor manufacturing and another company in the civil engineering industry. Switzerland is ranked number 17 amongst foreign investors in 2019, totalling USD 31 million dollars' worth of investment, with the creation of 113 new job opportunities in Malaysia (2018: seven manufacturing projects approved/ USD 63 million).

There were five projects with the participation of Swiss companies in 2019, worth a total of USD 3.8 m (2018: USD 0.8 m), in the services industry under the MIDA's purview which are mostly global establishments or support services for regional offices.

The strong regional competition to attract FDI has started to reduce the desire of Swiss firms to come to Malaysia due to competitive incentives and the larger market size offered by some other ASEAN member countries, especially Indonesia and Vietnam.

In the 2019 report by the Department of Statistics Malaysia related to FDI position in the form of financial instruments, namely equity & investment fund shares and debt instruments, Switzerland ranks sixth of the top investors in Malaysia's, amounted USD 10 bn, second behind the Netherlands (USD 14 bn) among European countries .

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[19] Industry4WRD, Ministry of International Trade and Industry (MITI)

[20] The Edge Markets, 11.10.2019

[21] Malaysian Investment Development Authority (MIDA)

There are more than 130 Swiss-linked companies in Malaysia. Among them, three companies are listed in the Malaysian stock exchange: Nestlé, DKSH and Zurich Insurance.

The attractive features Malaysia continues to offer include well-developed infrastructure, good supporting industries, the relatively low cost of doing business (e.g. low rental, low yearly incremental expenses), a well-educated workforce and a good command of English.

5. Trade, Economic and Tourism Promotion "Country Advertising"

5.1 Foreign economic promotion instruments

Switzerland Global Enterprise (S-GE) with its mandate from the Swiss Parliament, is the key promotion agency related to exports, imports and investments for Switzerland and Liechtenstein. Its focus is very much to support small and medium enterprises. In view of its limited human resources, an agreement was formulated to share resources from the Embassy personnel; 50% of the local trade officer's time is dedicated to S-GE's activities.

To achieve maximum cooperation, especially for market information and business opportunities with the ASEAN member countries, the Swiss Business HUB (SBH) ASEAN, with its regional head office in Singapore, was set up in 2005. The three Swiss Embassies participating under the SBH ASEAN are Malaysia, Singapore (which also covers Brunei) and Vietnam. Indonesia became a new independent hub in 2017. The remaining ASEAN countries continue to co-operate with S-GE on a case-by-case basis.

In 2019, SBH ASEAN-Malaysia supported a number of Swiss companies in the sectors of engineering, automotive, energy, construction, consumer products and education, in order to expand operations within Malaysia or to explore potential activities in Malaysia. It achieved this by providing market entry information, advice related to relocation of investment and distribution partner searches. It also provided initial links with the government agencies, opening doors to future cooperation.

On the local front, the Swiss Malaysian Business Association (SMBA), established in 2000, and with 79 members (62 company members and 17 individual / honorary members) in 2019, also played a role in promoting trade and investment activities. Swiss businesspeople planning to establish businesses in the country stand to benefit from receiving first-hand information from the established Swiss representatives and fellow members.

The Embassy collaborated with the SMBA to share information from various platforms and organise events such as the Swiss Breakfast Talks with the purpose of networking and exchanging information for the members. So far, two series of Swiss Breakfast Talks have been organised since the beginning of 2020.

To provide a stronger position for advocacy activities, SMBA members have endorsed the change to its new name to Swiss Malaysian Chamber of Commerce (SMCC) during its Annual General Meeting in June 2020. This will also align with SwissChams in neighboring countries such as Singapore, Indonesia, Thailand, China and Australia. SMCC will remain as a non-profit organization.

5.2 The host country's Interest in Switzerland

Switzerland is still deemed one of the 'must visit' or 'dream' destinations for Malaysians. In 2019, Malaysian tourists to Switzerland recorded a total of 90,675 overnights; a growth of 7.9% from 2018 and 49,895 visitors. This number represents a new peak in the history of the Malaysian market.

Despite the strength of the CHF, the demand for and interest in Switzerland continues to rise. Instead of promoting mass-market multi-city Europe packages, more players in the leisure market showed interest and confidence in expanding their product range by moving towards creation of packages that incorporate more overnights in Switzerland or mono Switzerland packages.

The free individual travellers (FIT) market has also shown substantial growth due to the improved awareness of Switzerland's infrastructure, public transport, languages spoken, safety and emerging lifestyle trend, in particular with younger travellers. M.I.C.E industry continues to be one of the key markets as Switzerland has maintained its position as a very frequently selected 'premium' destination.

With the active presence of Switzerland Tourism in the Malaysia market, activities with trade partners and the media have increased. Major events such as the Switzerland Travel Experience roadshow in Kuala Lumpur and Penang, as well as the Switzerland Convention and Incentive Bureau (SCIB) roadshow, have raised and provided consistent product awareness in the travel trade. Developing new tours as products, promoting e-learning platforms, participating in joint marketing collaboration and organising familiarisation trips were some of the activities held in partnership with local travel agencies.

In the media, collaboration with local newspapers, magazines and bloggers/influencers has also improved Switzerland's visibility via mainstream publications and social media in Bahasa Malaysia, English and Mandarin.

Although there is no direct flight from Malaysia to Switzerland, the current outbound air capacity is supported by the competitive and strong presence of Middle Eastern airlines such as Emirates, Qatar Airways, Etihad Airways and Turkish Airlines, together with KLM.

Malaysia recorded a total of 25,660 tourist arrivals from Switzerland in 2019 with no significant changes from the 25,680 Swiss tourists recorded in 2018.

Economic Structure

Gross Domestic Product (GDP) by type of economic activity at constant 2015 prices:[22]

Sectors	**2019p**	**2018**	**2019p**
Distribution of GDP	**% of GDP**	**Annual change %**	
Services	57.7	6.8	6.1
Manufacturing	22.3	5.0	3.8
Mining & Quarrying	7.1	-2.6	-1.5
Agriculture	7.1	0.1	1.8
Construction	4.7	4.2	0.1
Real GDP	**100***	**4.7**	**4.3**

p= preliminary
* Figures may not necessarily add up due to rounding and exclusion of the import duties component.

Exchange Rate: USD / MYR
2015: 3.905
2016: 4.148
2017: 4.300
2018: 4.035
2019: 4.143

[22] Annual Report of Central Bank of Malaysia 2019

ANNEX 2

Main economic data

	2018	2019	2020
GDP (USD bn)*	359	364	378
GDP per capita (USD)**	11'080	11'173	11'667
Growth rate (% of GDP)**	4.7	4.5	- 3.8***
Inflation rate (%) **	1.0	0.7	2.1
Unemployment rate (%) **	3.3	3.4	3.4
Fiscal balance (% of GDP)**	-3.7	-3.4	-3.2
Current account balance (% of GDP)**	2.1	3.5	2.7
Total external debt (% of GDP)**	62.4	62.4	58.7
Debt-service ratio (% of exports)**	10.6	10.9	10.7
Reserves (months of imports)**	5.8	5.7	5.6

** Source: IMF, Article IV Consultation February 2020. Figures in projection for 2020's GDP of MYR 1'617 bn converted to USD using 25 June 2020 exchange rate of 4.2790 by Central Bank of Malaysia.*

*** Source: IMF, Article IV Consultation February 2020*

**** In June 2020, IMF revised Malaysia's GDP projection in its World Economic Outlook Update as -3.8% for 2020 and +6.3% for 2021.*

P = Preliminary
F = Forecast

Trade Partners: 2019

Malaysia (MY)

Rank	Country	Exports from MY (USD million)	Share %	Change %	Rank	Country	Imports to MY (USD million)	Share %	Change %
1	China	33’707	14.2	-2	1	China	42’395	20.7	-2
2	Singapore	33’051	13.9	-4	2	Singapore	21’621	10.5	-15
3	United States	23’146	9.7	3	3	United States	16’585	8.1	3
4	Hong Kong	16’067	6.7	-13	4	Japan	15’352	7.5	-3
5	Japan	15’754	6.6	-8	5	Taiwan	13’769	6.7	-13
6	Thailand	13’475	5.7	-4	6	Thailand	10’664	5.2	-12
7	India	9’066	3.8	1	7	Korea, Rep.	9’369	4.6	-3
8	Taiwan	8’920	3.7	11	8	Indonesia	9’367	4.6	-6
9	Vietnam	8’385	3.5	-1	9	Germany	6’458	3.2	-1
10	Korea, Rep.	8’152	3.4	-2	10	India	5’863	2.9	-11
					21	Switzerland	1’573	0.8	-41
37	Switzerland	518	0.2	-33					
Total		238’161	100	-4		Total	204’988	100	-6

Source: Trade Map, International Trade Center: https://www.trademap.org/Index.aspx

Bilateral Trade

Entwicklung des bilateralen Warenhandels (Total 2)[23]

Jahr	*Exporte (CHF in Mio.)*	*Jährliche Veränderung (%)*	*Importe (CHF in Mio.)*	*Jährliche Veränderung (%)*	*Saldo (CHF in Mio.)*	*Volumen (CHF in Mio.)*	*Jährliche Verände-rung (%)*
1990	230.6	-6.0	84.7	12.5	145.9	315.3	-
1995	643.1	29.3	182.1	32.1	461.0	825.2	-
2000	569.7	25.1	294.8	32.6	274.9	864.5	-
2005	580 .7	-7.6	209.9	8.4	370.8	790.6	-
2010	642.8	14.8	345.4	9.8	296.8	988.8	13.0
2011	713.5	11.0	327.5	-5.2	386.0	1046.4	5.3
2012	704.2	-1.3	423.6	29.3	280.6	1'127.8	8.3
2013	724.1	2.8	504.4	19.1	219.7	1'228.5	8.9
2014	882.3	21.8	602.5	19.5	279.8	1'484.8	1.2
2015	770.8	-12.6	491.1	-18.5	279.7	1'261.9	-15.0
2016	755.5	-2.0	483.5	-1.5	272.0	1'239	-1.8
2017	741.3	-1.9	525.0	8.6	216.3	1'266	2.2
*(Total 1**)*							
2012*	1'160	-	555.8	-	604.2	1'716	-
2013	1'564	34.8	538.9	69.4	1'025	2'103	22.5
2014	1'748	11.7	653.0	21.2	1'095	2'401	14.1
2015	1'677	-4.1	621.1	-4.9	1'055.6	2'298	-4.3
2016	1'495	-10.9	949.3	52.8	545.7	2'444	6.3
2017	2'497	67.0	1'505	58.5	992	4'002	63.8
2018	2'316	-7.3	1'022	-32.1	1'294	3'338	-16.6
2019	1'387	-40.1	751.8	-26.4	635.6	2'139	-35.9

*) Ab dem 01.01.2012 hat die EZV die Berechnungsmethode für die Importe und Exporte geändert. Infolgedessen sind Vergleiche zwischen 2012 und den vorhergehenden Jahren nicht mehr möglich.[24]

**) Total "Konjunktursicht" (Total 1): ohne Gold in Barren und andere Edelmetalle, Münzen, Edel- und Schmucksteinen sowie Kunstgegenständen und Antiquitäten

***) Variation (%) gegenüber Vorjahresperiode

[23] Quelle: Eidgenössische Zollverwaltung EZV, Gesamttotal (Total 2): mit Gold in Barren und anderen Edelmetallen, Münzen, Edel- und Schmucksteinen sowie Kunstgegenständen und Antiquitäten.

[24] *Importe:* Verwendung des „**Ursprungslandprinzips**" anstelle des „Erzeugungslandprinzips". Das *Ursprungsland* bezeichnet jenes Land, in dem die Ware vollständig gewonnen oder überwiegend hergestellt wurde. Das *Erzeugungsland* bezeichnete hingegen das Land, in welchem ein Produkt vor der Einfuhr in der Schweiz im freien Verkehr war.

Exporte/Importe: Die **Aussenhandelszahlen werden mit Gold, Silber und Münzen** nach Ländern aufgeschlüsselt und als Bestandteil der Schweizer Aussenhandelsstatistik (Gesamttotal) in der online Datenbank *Swiss-Impex* integriert.

Aufteilung nach Produkten (Total 2)[25]

Exporte	2018		2019		
	Anteil	in Mio. CHF	Anteil	in Mio. CHF	*Var. in %. 2019/2018*
1. Edelsteine, Bijouterie	69.5	1'608.6	51.4	713.3	*-55.7*
2. Maschinen	10.0	232.9	15.1	209.4	*-18.8*
3. Pharmazeutische Erzeugnisse	8.4	195.4	14.4	199.9	*2.3*
4. Uhren	4.0	93.4	5.7	78.5	*-15.9*
5. Opt./ medizin. Instrumente	2.4	54.8	4.2	58.9	*7.4*
6. Papier und Papierwaren	0.8	19.7	1.7	23.4	*18.9*

Importe	2018		2019		
	Anteil	in Mio. CHF	Anteil	in Mio. CHF	*Var. in % 2019/2018*
1. Maschinen	30.7	313.4	47.3	356.1	*19.0*
2. Edelsteine, Bijouterie	48.4	494.4	25.1	188.4	*-61.9*
3. Opt./medizin. Instrumente	6.1	62.8	8.9	67.1	*6.8*
4. Kunststoffe, Kautschuk	5.3	54.6	6.3	47.3	*-13.4*
5. Landwirtschaftliche Produkte	2.0	20.8	2.6	19.8	*-5.8*
6. Unedle Metalle und Waren daraus	1.6	16.4	2.3	17.3	*5.9*

[25] Gesamttotal (Total 2): mit Gold in Barren und anderen Edelmetallen, Münzen, Edel- und Schmucksteinen sowie Kunstgegenständen und Antiquitäten (Eidgenössische Zollverwaltung)

Main Investing Countries in Malaysia

Year: 2019

Rank	Country	Manufacturing Investment Approved (USD million)*	Share %	Change %	Rank	Country	FDI Inflows Position (USD million)**
1	China	3'741	28.4	-21	1	Singapore	34’658
2	USA	3'478	26.4	356	2	Hong Kong	21’177
3	Singapore	1'373	10.4	210	3	Japan	18’158
4	Taiwan	1'280	9.7	680	4	Netherlands	14’053
5	Japan	927	7.0	-7	5	USA	10’271
6	United Kingdom	432	3.3	311	6	Switzerland	10’025
7	British Virgin Islands	339	2.6	-50	7	Germany	6’108
8	Hong Kong	290	2.2	-4	8	United Kingdom	5’621
9	Netherlands	244	1.8	-88	9	British Virgin Islands	4’897
10	Korea, Rep.	223	1.7	-63	10	China	4’483
17	Switzerland	31	0.2	-51			
Total		13’177	100	6	Total		166’921

** Source: Malaysian Investment Development Authority (MIDA)*
*** Source: Department of Statistics, Malaysia*