A754-Economic Report 2024

Malaysia

25 June 2024

Executive Summary

In 2023 Malaysia's GDP grew by 3.7%, lower than forecasted due to slower global growth and a global downcycle in the technology sector. Growth was mainly driven by private consumption. The services and construction sectors increased their output while the manufacturing sector barely grew. For 2024 GDP growth is forecasted to be 4-5%. Headline inflation decreased to 2.5% in 2023. Unemployment decreased to 3.4% with labour market conditions remaining favourable. Malaysia's fiscal deficit decreased to 5% and is forecasted to decrease further as the government aims for a 3% target by 2026. The government has taken first concrete steps to rationalize blanket subsidies and broaden the tax base.

With its ambitious "Ekonomi Madani" framework, the new government has expressed its vision for Malaysia to become a sustainable, prosperous and high-income nation. The Malaysian people should benefit from better jobs and higher salaries. Decarbonizing the economy has become a high priority. With the New Industrial Master Plan 2030 and the National Energy Transition Roadmap the government continues to use industrial policy to steer economic development and promote industrial sectors it deems promising, such as semiconductors, electric vehicles, information technology and renewable energy. It courts foreign direct investments to gain capital and knowledge in these sectors and counts on spill-over effects into the local economy.

Malaysia remained a relatively open economy. Total trade equaled 147% of GDP in 2022. Malaysia started negotiating a free trade agreement with the United Arab Emirates in 2023. 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. An updated bilateral air services agreement is expected to be signed in 2024.

Malaysia's total trade in goods decreased by 7% in 2023. Taken together, ASEAN countries were Malaysia's most important trading partners, followed by China, the US and the EU. With Switzerland, the bilateral trade in goods decreased by 10% to CHF 1.48 billion while trade in services increased by 25% to CHF 1.31 billion. Malaysian tourism to Switzerland continued to thrive with 66% more overnights compared to 2019.

Malaysia continued to attract foreign investors. The government approved a record USD 71.6 billion in foreign direct investments in 2023. Switzerland retained its position as 6th most important foreign direct investor with almost USD 9 billion in investment stock according to the latest IMF figures for 2022.

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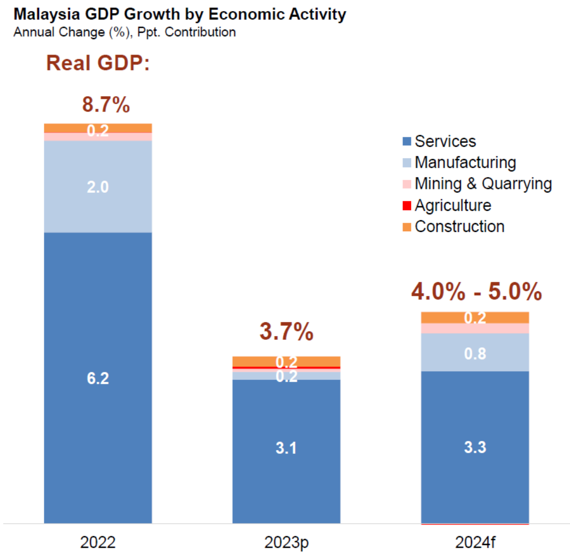
In 2023 the Malaysian **GDP expanded by 3.7%** (2022: 8.7%) to USD 415.6 billion[1], lower than projected due to slower global growth and a global downcycle in the technology sector. As a consequence, exports of goods and services recorded a decline of -7.9% (2022: +14.5%). The manufacturing sector grew by a mere 0.7% (2022: 8.1%). Growth was mainly driven by the services sector (5.3%). Services and manufacturing are the largest sectors accounting for 82.6% of GDP. While agriculture and mining only grew moderately, growth in the construction sector gained further momentum (6.1%).

GDP Growth by Economic Activity (Annual Change, %)	% Share (2023p)	2022	2023p	2024f
Real GDP	100.0[1]	8.7	3.7	4.0 - 5.0
Services	59.2	10.9	5.3	5.5
Manufacturing	23.4	8.1	0.7	3.5
Agriculture	6.4	0.1	0.7	-0.5
Mining & Quarrying	6.2	2.6	1.0	3.5
Construction	3.6	5.0	6.1	6.7

1/ Figures may not necessarily add up due to rounding and exclusion of import duties component
Note: p Preliminary, f Forecast
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates



Source: Bank Negara Malaysia, Annual Report 2023, Presentation slides, p 38

From the demand perspective, weak external demand was outweighed by domestic private consumption, which grew by 4.7% (2022: 11.2%). Despite the global economic slowdown, total investment in Malaysia remained resilient with a growth of 5.5%[2] (2022: 6.8%).

For **2024** Bank Negara Malaysia, the central bank forecasts a GDP growth of 4-5% driven by private consumption as household spending continues to expand with favourable labour market conditions and a recovery in external demand. Strong investment activities from new and ongoing multi-year projects as well as the implementation of national economic master plans will support economic growth. The outlook is subject to downside risks relating to ongoing wars, geopolitical tensions and high interest rates. While Asia Pacific is expected to drive growth, Malaysia's exposure to China can impact trading activities as the country faces multiple headwinds.

The **current account surplus** is projected to increase to 2.4%[3] (2023: 1.2%). Key drivers are the global trade rebound, the technology upcycle benefitting especially Asia Pacific and increasing inbound tourism.

The headline **inflation** rate in 2023 decreased to **2.5%** (2022: 3.3%) while the core inflation remained at 3%. This is due to lower global commodity prices as well as price controls and the provision of subsides for selected goods. The highest inflation was seen in the services sector of restaurants and hotels (5.6%) followed by food and beverages (4.8%). The government's plan to rationalise subsidies of various products progressively (see below) poses a potential

[1] IMF, World Economic Outlook, April 2024

[2] Central Bank of Malaysia, Annual Report 2023, Presentation slides, p 3: https://www.bnm.gov.my/documents/20124/12142010/ar2023_slides.pdf/

[3] IMF, World Economic Outlook, April 2024

upside risk on the forecasted headline inflation range of 2.0-3.5% for 2024 by the central bank. Core inflation is projected at 2-3%. Other risks relate to higher input costs due to unfavourable exchange rates, global supply chain disruptions and trade fragmentation with increasing geopolitical tensions. The **overnight policy rate of 3%** is foreseen to remain unchanged through 2024.

In 2023, increasing policy rates in the US, Europe and other countries have **weakened the local currency** and other currencies in the region. The central bank and the government undertook intervention measures in early 2024 to ease the pressure on the ringgit, which had fallen by close to 4% against the US dollar. The measures included encouraging repatriation and conversion of foreign investment income by government linked companies (GLCs) and government linked investment companies (GLICs). While they have resulted in some improvement, continued structural reforms and investment growth will be key in strengthening the currency.

Malaysia's labour market conditions have been good with an **unemployment rate of 3.4%** in 2023 that is forecasted to decrease further to 3.3% in 2024. The employment level in 2023 was projected at 16.2 million (+2.8%) and forecasted to grow to 16.5 million (+1.7%) in 2024. As part of Malaysia's economic policy to move towards high value high growth industries, the government takes measures such as upskilling and training initiatives including technical and vocational education and training (TVET) programmes and collaborations with educational institutions and industries to fix the skills mismatch and talent shortage in certain sectors. It also provides tax incentives among others for women returning to work as the government aims to increase women participation in the workforce from 56.3% at the end of 2023 to 60% in ten years.

In October 2023, the Malaysian parliament approved legislation aimed at improving the nation's fiscal sustainability called the Public Finance and Fiscal Responsibility Act. The legislation sets out a series of targets to be achieved in the medium term, including lowering the **fiscal deficit** to 3% of GDP by 2026 and keeping debt levels below 60% of GDP. The fiscal deficit target for 2024 is 4.3% of GDP[4] (2023: 5%). The legislation also requires annual development spending of at least 3% and government guarantees being capped at 25% of GDP.

Malaysia's **external debt** in 2023 increased to USD 279.9 billion, 66.9% of GDP[5], reflecting higher borrowing by corporates, higher external financing rates and significant depreciation of the ringgit against the US dollar. The debt-service ratio increased to 11.3% and is forecasted to increase to 11.9% in 2024. The international reserves in 2023 declined to USD 113.5 billion (2022: USD 114.7 billion) with a 4.5 months coverage of imports, or around 75% of short-term external debt. While the sizable external debt elevates Malaysia's external vulnerabilities especially to an exchange rate depreciation, the debt structure remains manageable. Malaysia is at a moderate overall risk of sovereign stress according to IMF debt sustainability analysis[6].

Spending on subsidies and social assistance was 3.9% of GDP in 2023 according to the World Bank[7]. With the ambition of improving the country's fiscal position, the Malaysian government is in the course of implementing fiscal reforms through **subsidy rationalization** and the expansion of the tax base. Measures undertaken include the rationalization of electricity subsidies in January 2024, the implementation of a capital gains tax in March and adjustments and expansions of the sales and services tax in April. In June 2024, the government removed the blanket subsidy for diesel in Peninsular Malaysia, and expects to save around USD 870 million annually. Further removal of blanket subsidies is to be expected, including on the critical good of petrol, for which Malaysia has some of the lowest prices in the world. The

[4] IMF, IMF Executive Board Concludes 2024 Article IV Consultation with Malaysia, 10 March 2024

[5] IMF, Article IV Consultation, 10 March 2024

[6] See footnote 5

[7] World Bank Group, Malaysia Economic Monitor, Bending Bamboo Shoots: Strengthening Foundational Skills, April 2024, p 13

government aims to reduce expenditure leakages (smuggling), enable the fiscal deficit to narrow and provide room for targeted provision of direct assistance to certain segments of the population. Climate considerations are not mentioned as a justification. So far, low energy cost has been one of the benefits of doing business in Malaysia. Companies should expect that to change.

With the goal of **broadening the tax base**, the Ministry of Finance is also in the course of engaging with relevant stakeholders to finalize details of the high-value goods tax (HVGT), including the scope of goods and the associated thresholds. The tax rate is expected to range between 5-10% and should cover at least jewellery and watches, but it is currently unclear what the value threshold is and what goods will be covered. Jewellers and retailers are concerned that a low threshold would damage the industry and Swiss exporters in the luxury goods sector will need to factor in the additional costs that will come to the fore for luxury goods sold in Malaysia.

In terms of business operations, the complicated tax system with its exemptions increases complexities in the supply chain and greater difficulties in the business handlings and operational costs. There are calls from industry players and stakeholders including an IMF recommendation for Malaysia to consider re-introducing the broad goods and services tax (GST) that was abolished in 2018 as a more comprehensive tax system.

2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

With its ambitious Ekonomi MADANI[8] framework, the current government has expressed its vision for Malaysia to become a sustainable, prosperous and high-income nation. The main beneficiaries will be the Malaysian people who should profit from better jobs and higher salaries. The government continues its tradition of using industrial policies to steer economic development and promote industrial sectors it deems promising. It relies on foreign direct investment to attract capital and knowledge in these sectors and counts on spill-over effects into the local economy.

Further substantiating its vision, the government laid out a **New Industrial Master Plan 2030**[9] for the manufacturing and related services sector. It defines four cross-cutting missions: advancing economic complexity; digitalization; push for net zero; and safeguarding economic security and inclusivity. The master plan encompasses 21 sectoral plans with sector-specific policies. Five sectors are defined as priority sectors: 1) aerospace; 2) chemical; 3) electrical and electronics (E&E); 4) pharmaceutical; and 5) medical devices. Additionally, four new growth sectors are defined: 6) advanced materials; 7) electric vehicles (EV); 8) renewable energy; and 9) carbon capture, utilization and storage (CCUS).

The administration has been introducing initiatives, policies and frameworks across various ministries that work as enablers for the implementation of high growth, high value investments that complement and extend existing capabilities and ecosystems within the country.

The manufacturing sector, making up 23% of GDP, is primarily driven by the **electrical and electronics** (E&E) sector. The semiconductor ecosystem around Penang, in which Swiss companies also participate, is embedded in global supply chains and makes up 40% of total exports in value.

Encouraged by global attention and increasing foreign investment, in May 2024, the

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[8] Prime Minister Anwar Ibrahim's Speech on Ekonomi Madani, 27 June 2024: https://malaysiamadani.gov.my/wp-content/uploads/2023/07/FINAL-ENGLISH-Translation-Ucapan-Kerangka-Ekonomi-MADANI-3.pdf

[9] The New Industrial Master Plan 2030 (NIMP): https://www.nimp2030.gov.my/nimp2030/modules_resources/bookshelf/NIMP_2030_Summary1/NIMP_2030_Summary1.pdf

government introduced the National **Semiconductor Strategy** (NSS)[10]. The aim is for Malaysia to move up the value chain in semiconductor manufacturing, going beyond the packaging and testing of microchips, which is Malaysia's core competency at the moment. While upgrading its packaging and testing industry, Malaysia aims to move into integrated circuit (IC) design before going into wafer fabrication. With the allocation of at least USD 5 billion in fiscal support for targeted incentives, the government aims to develop the country as a global research and development hub for semiconductors with renowned universities and corporate R&D; train and upskill 60'000 workers into high-skilled engineers; and attract USD 100 billion worth of investments in IC design, advanced packaging and wafer fabrication amongst other initiatives.

Leveraging on the existing and complementing ecosystems within the E&E sector, the growth roadmap ambitions branch out towards higher value-add activities such as **medical devices** and chips catered to the EV market.

Advanced materials being one of its defined new growth sectors, Malaysia identifies its natural resources as instrumental in the production materials that are of high importance in the global manufacturing industries (graphene, nitinol, rare earth, silicon carbide, etc.). The aim is to build the capabilities in applying advanced materials to provide solutions that cater to the growing markets (e.g. the EV market, renewable energy) in the global value chain by producing more sophisticated products. In the chemicals industry, potentials lie in the development of **chemicals** catered to the **pharmaceutical** industry.

In the defined focus areas, Swiss SMEs and research institutions seeking collaborations and expansion opportunities in Southeast Asia can explore partnership options with potential financial incentives and facilities supported by the Malaysian government. Intensifying geopolitical tensions and fragmentations have placed Malaysia and its neighbours in Southeast Asia in a favourable position for companies, in particular tech-related companies seeking to de-risk and diversify their supply chain operations. An operations base in the region also enables customer proximity and greater flexibility to address the needs in supply chain security.

At 60% of GDP, **services** is the biggest economic sector in Malaysia. The country provides attractive conditions for multinational companies to set up and run shared services centres. The IT sector is also growing rapidly (see below). Malaysia is the world's third-largest Islamic finance banking market according to Fitch Ratings[11] with growth outperforming that of conventional banking (2022: 13%). The digitization of the financial sector plays another important role. Thanks to its geographical location, Malaysia has traditionally been a trading and logistics hub. The sector's importance is expected to increase further due to ongoing supply chain reorganisations and the further improvement of the transport infrastructure.

The **agriculture** sector which makes up more than 6% of GDP, is part of the government's high growth, high value strategy prioritizing the adoption of smart farming technologies and the promotion of low carbon agriculture. Tech providers to the agriculture and agro-based industry will see rising interest and opportunities that enable the adoption of advanced technologies in farming.

The **construction** sector which forms less than 4% of GDP, sees increased expansion in the various subsectors (civil engineering, special trade, residential) and is expected to benefit from the continued progress of multi-year investment projects from both the public (transport infrastructure, flood mitigation projects) and private sector (data centres, manufacturing facilities).

The **digital economy** is with an average growth rate of 9%[12] one of the fastest-growing

[10] Prime Minister Anwar Ibrahim's Speech on the National Semiconductor Strategy, 28 May 2024: https://www.pmo.gov.my/wp-content/uploads/2024/05/YAB-PM-Speech-Semicon-SEA-28052024-Final-1.pdf

[11] Fitch Ratings, Malaysia's Islamic Financing Growth to Continue Outperforming Conventional Banks, 9 February 2024

[12] Malaysia Digital Investments Guide: https://mydigitalinvestment.gov.my/static/files/DIO%20Playbook-New.pdf

sectors in Malaysia and expected to reach 25.5% of GDP by 2025[13] (2020: 22.6%), taking on a key enabling role in Malaysia's growth ambition. The government established its National Strategic Initiative, Malaysia Digital[14], in July 2022, and set up a Digital Investment Office[15] to drive digital transformations in the country, aiming to promote the ecosystem of nine sectors: trade, agriculture, services, smart cities, healthcare, finance, content, tourism and Islamic digital economy. Key technologies include robotics, artificial intelligence (AI), blockchain, cloud technology, the Internet of Things (IoT), financial technology and cybersecurity. Public investments in large-scale digital infrastructure projects will see growth support. In April 2024, the Malaysian government rolled out a venture capital initiative[16] with the aim of growing Malaysia's startup ecosystem. The initiative comprises various measures that enable funding access, reduce regulatory barriers, attract setups and simplify talent access in Malaysia. The digital economy in Malaysia thus provides an array of opportunities for Swiss technology providers.

With the government's new focus on sustainability and green transition, the **green economy** receives much attention. The government launched the National Energy Transition Roadmap (NETR)[17], a policy framework to transform Malaysia's energy systems to renewable and sustainable energy. It addresses Malaysia's global commitments and areas of growth generated by the energy transition. Six energy transition levers are defined: energy efficiency; renewable energy; hydrogen; bioenergy; green mobility; and carbon capture, utilisation and storage. Some of these are defined as new growth sectors in the New Industrial Master Plan 2030 as mentioned above. The roadmap comes with cross-cutting enablers that include financing instruments, incentives and investments in green technologies and infrastructure developments. Malaysia aims to position itself as a leader in green solutions in the region. It thus provides opportunities for Swiss clean tech companies.

3 FOREIGN ECONOMIC POLICY

3.1 Host country's policy and priorities

Malaysia sees itself as an open economy and trading nation. Its ratio of total trade to GDP (2022: 147%) is relatively high and slightly higher than Switzerland's. Malaysia 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[18]. Out of the sixteen, seven 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 six regional FTAs namely with China, Korea, Japan, Australia and New Zealand, India and Hong Kong. ASEAN is currently negotiating an FTA with Canada. Since 2022, Malaysia is also member of the Regional Comprehensive Economic Partnership (**RCEP**) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (**CPTPP**)[19].

Trade with FTA partners was 67.4% of Malaysia's total trade in 2023. local companies in

[13] PM launches Malaysia Digital to replace MSC, The Malay Mail, 4 July 2022

[14] Malaysia Digital: https://mdec.my/malaysiadigital

[15] The Digital Investment Office: https://mydigitalinvestment.gov.my/

[16] Going beyond unicorns: How KL20 aims to turn Malaysia into a top regional startup hub, The Malay Mail, 22 April 2024

[17] The National Energy Transition Roadmap: https://www.ekonomi.gov.my/sites/default/files/2023-07/NETR_Part1_0.pdf

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

[19] Statement from the Minister of Investment, Trade and Industry on Malaysia's FTAs, 22 November 2023

Malaysia are still facing challenges in enhancing the utilisation of the RCEP and the CPTPP a year after ratification. According to the Ministry, local players are still relying on older free trade agreements, particularly regional FTAs with ASEAN, which offer the same or lower duty rates.

In June 2024, Malaysia and the **United Arab Emirates** reaffirmed their commitment to the signing of the Comprehensive Economic Partnership Agreement (CEPA) covering trade in goods and services, investments and economic cooperation by 2024[20].

Negotiations for an FTA between the **EU** and Malaysia (MEUFTA) were launched in 2010 and put on hold after seven rounds in 2012 at the request of Malaysia. Since 2023, the partners have been conducting a scoping exercise to determine gaps and positions.[21] In March 2024, Prime Minister Anwar Ibrahim expressed strong sentiments towards rekindling discussions regarding the MEUFTA during his trip to Germany. Since last year, Malaysia has been taking a more proactive approach towards the EU's deforestation regulation (EUDR) and works towards its implementation. An Ad Hoc Joint Task Force (JTF) on the EUDR between the EU, Indonesia and Malaysia was created in 2023 as a collaborative platform to support the implementation and regulation of the EUDR[22]. On 5 March 2024, the World Trade Organization (WTO) decided on Malaysia's challenge against measures taken by the EU under its Renewable Energy Directive (RED II) concerning palm oil and oil palm crop-based biofuels. The ruling on substantive claims confirmed the EU's ability to take environmental and climate-based action under RED II whilst finding that certain implementation and design aspects of an EU Delegated Act under the Directive were inconsistent with WTO commitments[23].

Malaysia had 62 **bilateral investment guarantee agreements** in place as of November 2023, according to the minister of trade.

For its **ASEAN Chairmanship in 2025**, Malaysia is foreseen to place its focus on economic integration and cooperation. Topics such as digitalisation and green economy will be high on the agenda.

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

Negotiations for a **Malaysia-EFTA Economic Partnership Agreement** (MEEPA) have been ongoing since 2012. The latest round in May 2024 saw further progress and an additional chapter and annexes agreed. Headway was made on pending issues in the legal texts as well as in market access negotiations, with trade in goods and government procurement progressing to an advanced stage[24].

The Double Taxation Agreement of 1974 and the Investment Guarantee Agreement of 1978 between Switzerland and Malaysia continue to provide a foundation for bilateral economic relations. Negotiations for a new **investment protection agreement** have been underway since 2021, and the fifth round took place in May 2023. An updated air services agreement is scheduled for signature in 2024.

There are no specific discriminatory policies being implemented against Swiss economic actors. According to the Global Trade Alert, in 2023, Malaysia implemented two new harmful trade interventions that had an effect on Switzerland, mainly involving import bans on polymyxin for animal food production. At the same time Malaysia undertook five liberalising interventions[25]. Swiss companies producing in Malaysia for other markets benefit from Malaysia's free trade agreements, especially with ASEAN, RCEP and CPTPP countries.

[20] Commitment between Malaysia and UAE to sign the CEPA by 2024, 4 June 2024

[21] PM Anwar: Time for Malaysia-EU free trade agreement

[22] EU Directorate-General for Environment: The European Commission, Indonesia and Malaysia agree to a Joint Task Force to implement the EU Deforestation Regulation

[23] WTO Dispute Summary between the EU and certain Member States – Palm Oil (Malaysia)

[24] EFTA Delegation Report on the 15th Round of Negotiations

[25] Global Trade Alert, Implementing Country Malaysia and affected country Switzerland

4 FOREIGN TRADE

4.1 Developments and general outlook

4.1.1 Trade in goods

Malaysia’s total trade in goods in 2023 decreased by 7.3% to USD 574 billion compared to 2022 in tandem with slower global demand, lower commodity prices, geopolitical uncertainties, high inflation, a downcycle in the semiconductor sector and a high base effect from last year.[26] While exports contracted by 8%, imports decreased by 6.4%. Malaysia still had a trade surplus of USD 47 billion.

Manufactured goods (incl. petroleum products and palm oil-based manufactured products) made up the biggest portion of exported goods (85%), followed by mining goods (7%) and agriculture goods (7%). The export value of all the major export goods declined (electronics and electrical products, petroleum products, chemical products, palm oil and palm-oil-based agriculture products, liquified natural gas).[27] Despite the overall slump in the electrical and electronics sector due to a downcycle in the global semiconductor market, Malaysia's exports of semiconductor devices and integrated circuits (ICs) saw a slight growth of 0.03%, reaching USD 85.66 billion.

China remained Malaysia's largest trading partner for the 15th consecutive year, accounting for 17% of Malaysia’s total trade and 21% of total imports. Singapore and the US continued to be the second and third largest trading partners. Exports to the top ten export trade partners of Malaysia decreased except for the Republic of Korea (+1.8%) and Australia (+3.8%). Imports from the top ten import trade partners also decreased except for Singapore (+6.5%) and Saudi Arabia (+14.4%). Imports from the EU countries in total increased by 4%.

4.1.2 Trade in services

Analysis for trade in services is based on 2022 figures as the data for the year 2023 has not been made available at the time of writing. In 2022, total trade in services increased by 39.4% to USD 76.6 billion[28] with the deficit narrowing for the first time since 2019 to USD 12.8 billion, according to the Department of Statistics Malaysia. The favourable growth of exports was spearheaded by a significant travel recovery post COVID-19 pandemic. Tourism is usually the third-largest contributor to Malaysia’s GDP after the manufacturing and commodities sectors. In 2019, the sector had contributed about 16% to the total GDP.

Total trade in services to the GDP at current prices accounted for 18.8% in 2022, according to the Department of Statistics Malaysia. Asia remained the leading market for Malaysia’s services exports constituting 55% of total services and valued at USD 17.6 billion. Top service export **destinations** in 2022 were, in a descending order, the US, Singapore and Hong Kong. Top service import destinations were the US, Singapore and China.

The 2023 OECD Services **Trade Restrictiveness** Index (STRI) reveals that Malaysia's regulatory environment for trade in services is more restrictive than the OECD average. Despite this, there was a slight improvement in Malaysia's overall index from 2022 to 2023. Most sectors maintained their 2022 STRI levels with the exception of telecommunications, which saw a reduction in restrictiveness due to new regulations aimed at enhancing competition. Commercial banking is the most open sector in Malaysia while legal services is the most restricted, relative to the sectoral average[29].

[26] Trade Performance for Year 2023 and December 2023, Ministry of Investment, Trade and Industry Media Statement

[27] See footnote 26

[28] 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

[29] https://www.oecd.org/countries/malaysia/oecd-stri-country-note-mys.pdf

4.2 Bilateral trade

4.2.1 Trade in goods

The total bilateral Swiss-Malaysian trade without gold reduced by 10.3% to CHF 1.44 billion in 2023. Exports from Switzerland decreased by 12.3% while imports from Malaysia decreased by 12.9%. Switzerland continues to maintain a trade surplus with Malaysia.

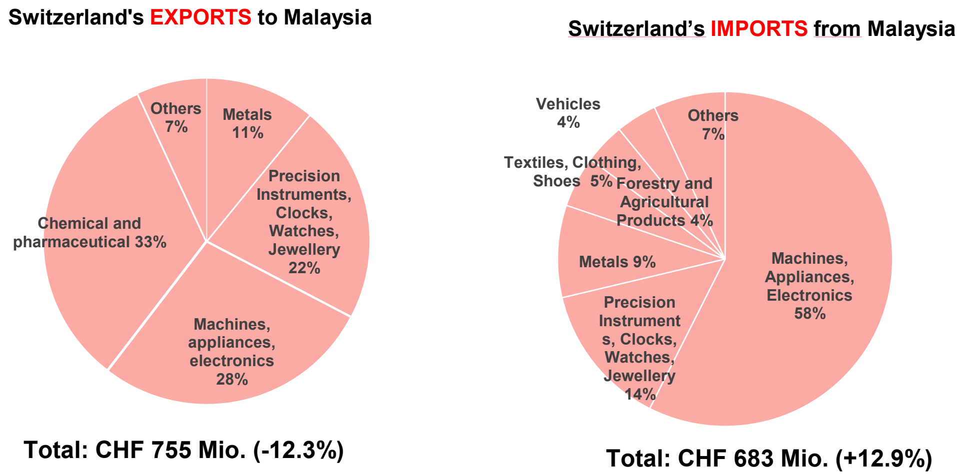
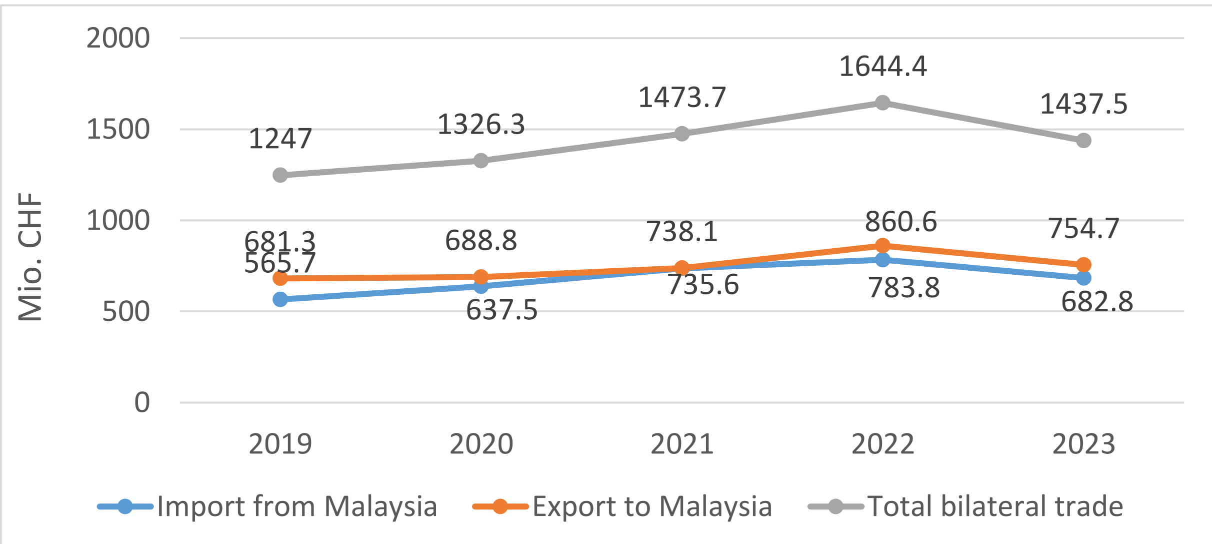


Figure: Switzerland's Top Exports to Malaysia and Switzerland's Top Imports from Malaysia (without gold)
Source: Swiss-Impex, Federal Office for Customs and Border Security

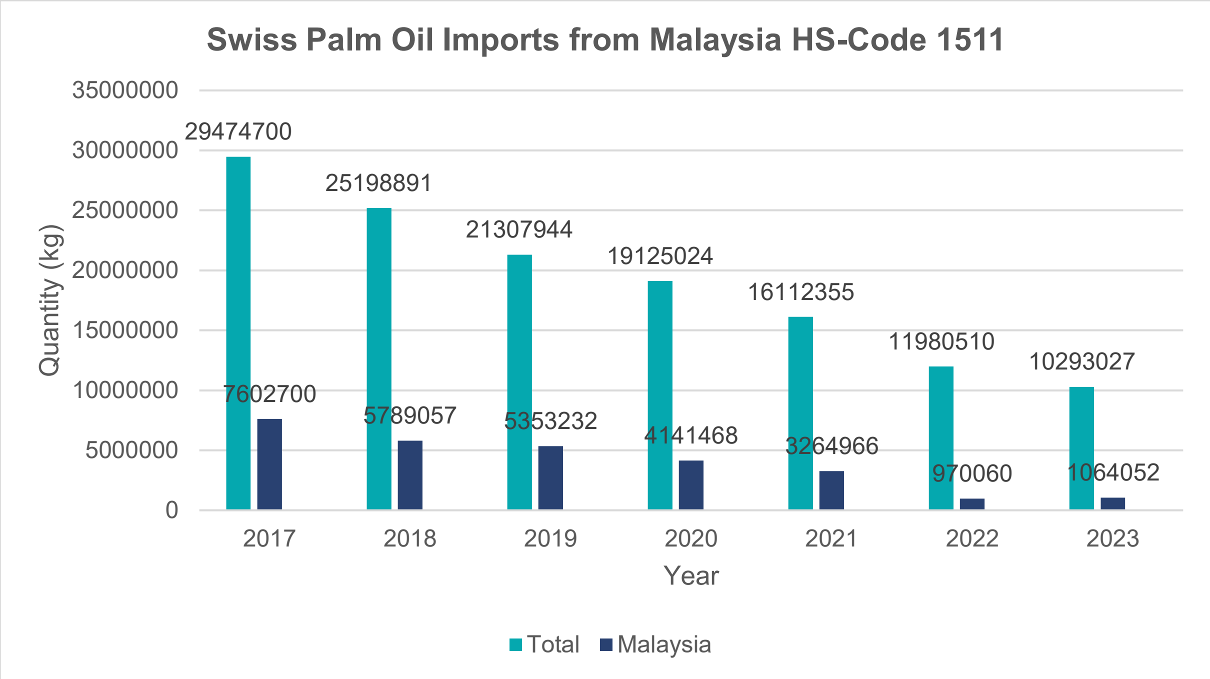
Main export and import goods remained the same with chemical and pharmaceutical products continuing to be the main export from Switzerland to Malaysia, and machines, appliances and electronics being the main import goods from Malaysia to Switzerland. Whilst imports of machines and electronics decreased by 18.6%, exports to Malaysia of this same category increased by 10.9%, likely attributable to an increase in investment to expand production capacity in Malaysia. Although Swiss purchases of metal globally declined by 14.7% against 2022 levels, imports of metals from Malaysia nearly doubled in 2023. All other major export categories experienced consolidations.

5-Year Trade in Goods (without Gold) between Switzerland and Malaysia



Source: Swiss-Impex, Federal Office for Customs and Border Security

Switzerland continued to reduce the quantity of its palm oil imports from the world in 2023 (-26.2%). However, amongst the top four import destinations for palm oil, Malaysia was the only country exhibiting growing imports (+7.7%) in 2023, a break from the trend of declining demand from 2017 to 2022. Malaysian palm oil imports made up 11.9% of total imports of palm oil from the world, retaining the same position as 2022 behind Ivory Coast, Solomon Islands and Papua. As a percentage of total goods imports from Malaysia to Switzerland in *value* terms, palm oil only accounted for 0.3%.



Source: Swiss-Impex, Federal Office for Customs and Border Security

4.2.2 Trade in services

The total bilateral Swiss-Malaysian trade in services in 2023 increased by 25% to CHF 1.3 billion (2022: CHF 1.01 billion). Exports from Switzerland to Malaysia increased by 10% while imports from Malaysia increased by 77.3%.

Figure: Trade in Services between Switzerland and Malaysia
Source: SECO Services Trade Cockpit

“Other services” surpassed license fees as the largest export service category at CHF 353 million as it increased by 51% compared to 2022. License fees exports dropped by 23% to CHF 207.1 million, whilst transport also reduced by 32% to CHF 37 million in 2023. Increases were seen in information and communications technology by 77% to CHF 42.6 million and by 48% for technical, trade-related and other business services to CHF 40 million. Meanwhile, import growth was spurred by large increases in the “other services” category which went up nearly fifteenfold from CHF 8 million in 2022 to CHF 119 million in 2023. Switzerland continues to import technical, trade-related and other business services (+54%, CHF 114 million), transport (+113% CHF 102 million), information and communications technology (-5%, CHF 93.1 million) and licensing fees (+119%, CHF 80 million). Tourism imports however declined in 2023, still in the negative from CHF -6.0 million in 2022 to CHF -28.7 million in 2023.

5 DIRECT INVESTMENTS

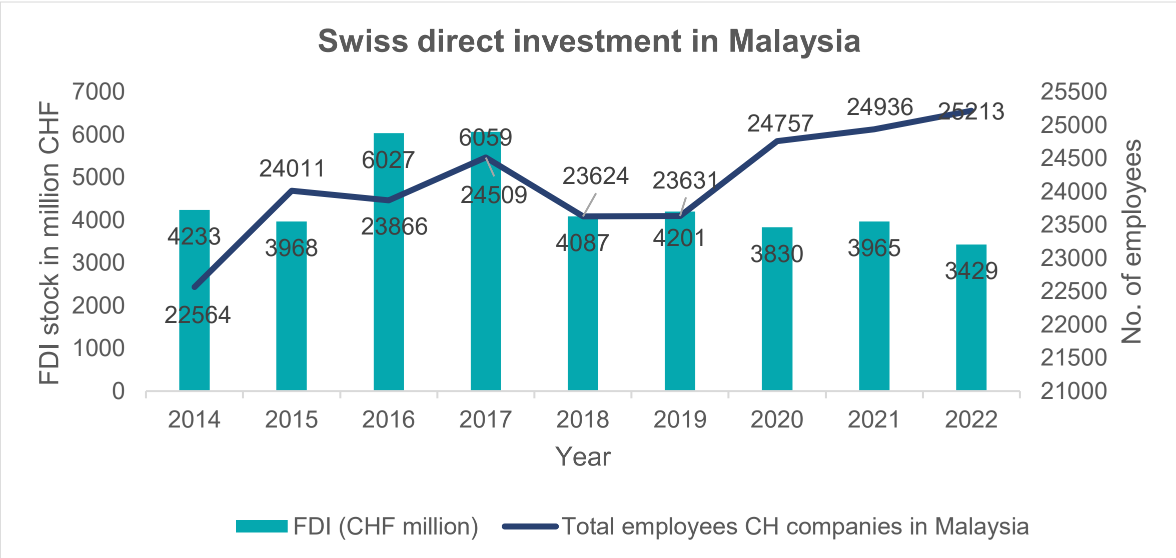
5.1 Developments and general outlook

In 2023, private investments increased by 4.6% (2022: +7.2%) spurred by the implementation of large multi-year projects in the services and manufacturing sectors. Amidst a trend of weak global foreign direct investments (FDI), Malaysia maintained a positive net FDI inflow at USD 8.6 billion (2022: USD 17 billion), attracting investment projects primarily in information and communications technology (ICT), electrical and electronics, and chemical and chemical product industries. Investment activity was also stimulated by the recovery of labour supply and sustained growth in capital spending by firms on machinery and equipment[30]. For 2024, the central bank expects private investment to increase by 6.1%.

Public investment spending continued on an upward trend, increasing by 8.6% in 2023 (2022: +5.3%) supported by the expansion of public corporations in the oil and gas as well as transportation industry[31]. In line with the aspirations of the National Energy Transition Roadmap, catalytic investments into renewable energy, green mobility, and carbon capture, utilization and storage (CCUS) are in progress and are aimed at fostering further growth.

According to the Malaysian Investment Development Authority (MIDA), Malaysia approved new investments worth USD 71.6 billion in 2023, an increase of 23% from the 2022 figure and surpassing the previous record of USD 67.3 billion in 2021[32]. The government estimates that around 75% of approved investments will eventually materialise.

5.2 Bilateral investment



Source: Swiss National Bank

Between 1980 and 2023, 254 manufacturing projects from Switzerland with total investments of USD 4.35 billion were approved by the MIDA.[33] These manufacturing investments are mostly centred on the electrical and electronics, machinery and equipment, food manufacturing and chemical industries. 2023 saw a reduction in the number of newly approved investment projects from 26 in 2022 to 10 with one large manufacturing project worth USD 49 million making up

[30] Bank Negara Malaysia Economic and Monetary Review 2023

[31] See footnote 30

[32] Investment Performance Report 2023, Malaysian Investment Development Authority (MIDA)

[33] See footnote 32

77% of the value of all projects.

According to the Swiss National Bank (SNB), Switzerland had a stock of CHF 3.429 billion in direct investment in Malaysia as of end 2022, placing Malaysia as Switzerland's second-largest investment destination in Southeast Asia after Singapore. According to the IMF, Switzerland had USD 8.981 billion in FDI stock in Malaysia as of end 2022. It was ranked 6th after Singapore, the US, Hong Kong, Japan and the Netherlands[34].

There are approximately 150 Switzerland-linked companies in Malaysia. Two are listed in the Malaysian stock exchange: Nestlé and DKSH. 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. 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. It is expected that Swiss companies will continue to invest in Malaysia as the market grows with the E&E industry expanding and companies diversifying their supply chains. The political and economic situation can be expected to remain stable and conducive to investments.

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 economic and commercial diplomacy and export promotion.

The **Swiss Business Hub Southeast Asia + Pacific** is headquartered at the Embassy of Switzerland in Indonesia and maintains 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 represents Switzerland Global Enterprise (S-GE), the official Swiss agency for export and investment promotion.

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)** was established in 1999. With 87 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 and the Ministry of Investment, Trade and Industry (MITI) on an awareness event on ESG practice in the supply chain, bringing together Swiss investors and Malaysian SMEs.

6.2 The host country's interest in Switzerland

Switzerland is primarily known in Malaysia as a tourist destination (see below). Related to that, **Swiss hospitality and tourism schools** remain attractive for Malaysian students. There is a significant number of Swiss schools and twinning programmes that have been established locally in recent years, which resulted in a decrease in intake of Malaysian students in Switzerland. Apart from hospitality, interest in Swiss education is limited and Malaysians

[34] IMF Coordinated Direct Investment Survey (CDIS)

[35] As of SMCC AGM on 12 April 2023

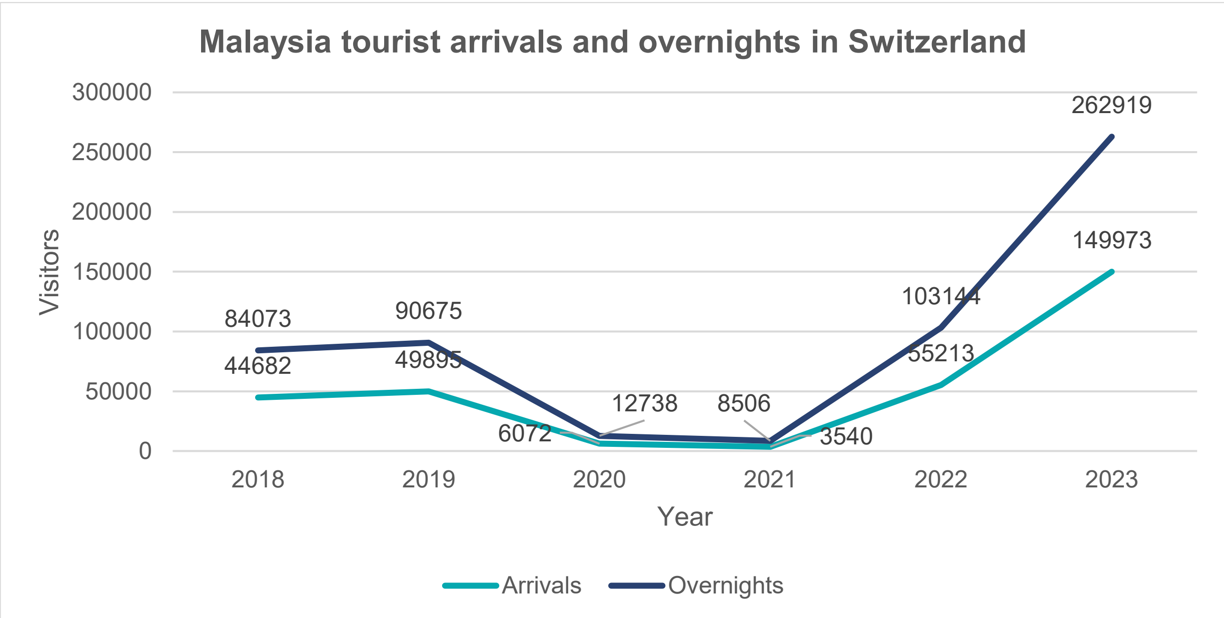
prefer to study in English-speaking countries. Switzerland is also known for its **financial sector**. The fate of Credit Suisse and its takeover by UBS prompted considerable attention in Malaysia.

There were 10 multinational service[36] **companies from Malaysia** with a presence in Switzerland in 2022, according to the latest information published by the Swiss Federal Office for Statistics. All Malaysian companies together (services and manufacturing) employed 316 persons in Switzerland. In addition, there were 66 natural persons from Malaysia who provided services in Switzerland in 2022.[37]

The **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.

In 2023, **tourism** from Southeast Asia to Switzerland surged, reaching a record-breaking 833,966 overnight stays, a 29% increase over pre-pandemic levels. Malaysia achieved 150,444 overnights, reflecting a growth of 66% compared to 2019 and 46% compared to 2022. Switzerland remains a 'must visit' or 'dream' destination for Malaysians. The visa-free policy for Malaysians travelling to the Schengen area makes visiting Switzerland comparatively easy. Malaysia's growth is expected to continue, despite the weakening of the Malaysian ringgit and the strengthening of the Swiss franc, particularly with the developing potential of the Muslim market. The demand for 'mono Swiss tours' also continues to grow, indicating rising awareness and interest in Switzerland as a tourist destination. Looking forward, Switzerland Tourism projects maintaining this elevated level throughout 2024 with an anticipated modest growth of 3% by year-end. This projection considers the increased Malaysian tourist visits to China, facilitated by visa-free entry in celebration of the 50th anniversary of bilateral relations between China and Malaysia in 2024.

As for Swiss tourists to Malaysia, there was an increase of 65% compared to 2022 with Malaysia recording a total of 17,258 tourist arrivals from Switzerland from January to September 2023.



Source: Federal Statistical Office (FSO)

[36] Information on the number of manufacturing companies is not available.

[37] SECO Services Trade Cockpit

ANNEX 1 – Economic structure

Economic structure of the host country

	2018	2023
Distribution of GDP		
Services sector	**56.7%**	**59.2%**
Manufacturing sector	**22.4%**	**23.4%**
Mining & quarrying sector	**7.6%**	**6.2%**
Agriculture sector	**7.3%**	**6.4%**
Construction sector	**4.9%**	**3.6%**
Distribution of employment		
Services sector	**51.7%**	**51.8%**
Manufacturing sector	**26.3%**	**27.6%**
Mining & quarrying sector	**0.9%**	**0.9%**
Agriculture sector	**5.6%**	**5.5%**
Construction sector	**15.5%**	**14.2%**

Source: Department of Statistics Malaysia, Gross Domestic Product 2015-2023

- https://www.dosm.gov.my/uploads/release-content/file_20240531160555.pdf

Source: Department of Statistics Malaysia, Employment Statistics, Fourth Quarter 2023

- https://www.dosm.gov.my/uploads/release-content/file_20240215115441.pdf

Source: Department of Statistics Malaysia, Employment Statistics, First Quarter 2019

- https://www.dosm.gov.my/portal-main/release-content/employment-statistics-first-quarter-2019

ANNEX 2 – Main economic data

Host country's main economic data

	2022	2023	2024
GDP (USD bn)*	**407.0**	**415.6**	**445.5**
GDP per capita (USD)*	**12,466**	**12,570**	**13,315**
Growth rate (% of GDP)*	**8.7**	**3.7**	**4.4**
Inflation rate (%)*	**3.4**	**2.5**	**2.8**
Unemployment rate (%)*	**3.8**	**3.6**	**3.5**
Fiscal balance (% of GDP)*	**-4.8**	**-4.4**	**-3.5**
Current account balance (% of GDP)*	**3.1**	**1.2**	**2.4**
Total external debt (% of GDP)**	**63.8**	**66.9**	**66.7**
Debt-service ratio (% of exports)**	**9.7**	**11.3**	**11.9**
Reserves (months of imports)**	**5.2**	**4.5**	**4.5**

* Source: IMF, World Economic Outlook, April 2024
- https://www.imf.org/en/Publications/WEO/weo-database/2024/April

** Source: IMF, Article IV Consultation, March 2024
- https://www.imf.org/en/Publications/CR/Issues/2024/03/08/Malaysia-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-546087

ANNEX 3 – Trade partners

Trade partners of the host country Year: 2023

Rank	Country	Exports *from the host country* (USD million)	Share	Change [38]	Rank	Country	Imports *to the host country* (USD million)	Share	Change [10]
1	Singapore	47,680.8	15.4%	-5.7%	1	China	56,233.6	21.4%	-6.2%
2	China	41,784.4	13.5%	-8.7%	2	Singapore	31,261.1	11.9%	6.5%
3	USA	35,064.8	11.3%	-3.5%	3	USA	19,338.5	7.3%	-11.4%
4	Hong Kong	19,529.6	6.3%	-6.1%	4	Taiwan RoC	18,216.5	6.9%	-20.9%
5	Japan	18,630.2	6.0%	-13.1%	5	Japan	15,422.5	5.9%	-14.6%
6	Thailand	12,763.5	4.1%	-10.7%	6	Indonesia	13,108.9	5.0%	-18.5%
7	ROK	12,347.1	3.9%	1.8%	7	ROK	11,998.7	4.6%	-6.7%
8	Viet Nam	11,307.0	3.6%	-3.0%	8	Thailand	11,838.5	4.5%	-3.1%
9	Indonesia	11,067.0	3.6%	-8.7%	9	Saudi Arabia	9,490.8	3.6%	14.4%
10	Australia	11,048.0	3.5%	3.8%	10	Australia	7,552.0	2.9%	-14.5%
	Switzerland	763.2	0.2%	-12.3%		*Switzerland*	844.6	0.3%	-12.9%
	EU	24,539.1	7.9%	-10.5%		EU	20,393.5	7.7%	4.0%
	Total	309,929.8	100%	-8.0%		Total	263,385.3	100%	-6.4%

Source(s):

Department of Statistics Malaysia (DOSM), tabulated by Malaysia External Trade Development Corporation (MATRADE)
* Swiss numbers taken from Federal Office for Customs and Border Security

Average exchange rate in 2023: 1 USD = 4.6 MYR

[38] 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)
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
2023*	**755**	**-12.3**	**683**	**-12.9**	**72**	**1,483**

*) 'Economic' total (total 1): 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** (% of total)	**2023** (% of total)
1. Precious metals and gemstones	37	35
2. Products of the chemical and pharmaceutical industry	20	22
3. Machines, appliances, electronics	14	18
4. Precision instruments, clocks and watches and jewellery	14	14
5. Metals	8	7
6. Forestry and agricultural products	2	1
7. Leather, rubber, plastics	1	1
8. Vehicles	1	1
9. Textiles, clothing, shoes	<1	<1
10. Paper, articles of paper and products of the printing industry	3	<1
11. Energy Source	<1	<1
12. Stones and earth	<1	<1
13. Various goods such as music instruments, home furnishings, toys, sports equipment, etc.	<1	<1
14. Works of art and antiques	<1	<1

Imports	**2022** (% of total)	**2023** (% of total)
1. Machines, appliances, electronics	54	40
2. Precious metals and gemstones	13	30
3. Precision instruments, clocks and watches and jewellery	10	10
4. Metals	3	6
5. Textiles, clothing, shoes	7	3
6. Vehicles	4	3
7. Forestry and agricultural products, fisheries	3	3
8. Products of chemical and pharmaceutical industry	3	2
9. Various goods such as music instruments, home furnishings, toys, sports equipment, etc.	2	1
10. Leather, rubber, plastics	<1	1
11. Paper, articles of paper and products of the printing industry	<1	<1
12. Stones and earth	<1	<1
13. Energy Source	<1	<1
14. Works of art and antiques	<1	<1

Source: Swiss-Impex, Federal Office for Customs and Border Security (FOCBS)

ANNEX 5 – Main investing countries

Main investing countries in the host country **Year: 2022**

Rank	Country	**Direct investment** (USD, stock end-2022, USD million) [39]	Share	**Variation** (stock end 2022 compared to end-2021) [40]	**Inflows over past year** (2023, USD million) [41]
1	Singapore	41, 058	20.6%	+1.7%	9498
2	United States	22,833	11.5%	+12.8%	4680
3	China, P.R.: Hong Kong	20,944	10.5%	+2.02%	1141
4	Japan	20,124	10.1%	+4.2%	2967
5	The Netherlands	13,670	6.9%	-9.7%	7720
6	Switzerland	8,961	4.5%	-11.3%	63
7	British Virgin Islands	7,682	3.9%	+12.8%	1600
8	China, P:R.: Mainland	6,721	3.4%	+10.2%	3145
9	United Kingdom	6,630	3.3%	-8.9%	269
10	Korea, Rep. of	5,391	2.7%	+14.2%	828
	Total	199,206	100%	+6.4%	40,949

[39] End-2022, IMF Coordinated Direct Investment Survey (CDIS)

[40] IMF Coordinated Direct Investment Survey (CDIS)

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