


*Exploring Market Opportunities*

*Malaysia 2008/2009*

# International Business Malaysia

-Market Report 2008/2009





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## *- a unique student project*

International Business (IB) is an annual non-profit project carried out by a group of twelve students attending the Norwegian University of Science and Technology (NTNU), the Norwegian School of Economics and Business Administration (NHH) and the Norwegian School of Management (BI), in collaboration with Innovation Norway.

The main purpose of the project is to explore potential markets for international business ventures and support Norwegian companies considering entering these markets. Since the conception in 1984, IB has visited all continents, each year selecting a new country. In 2008-2009, IB's focus has been exploring the market opportunities for Norwegian companies in Malaysia.

IB Malaysia's primary goal is to provide information and insights into areas that are important for small and middle-sized Norwegian companies considering establishing in Malaysia. The information and conclusions of the report are based on IB's field research in Malaysia during January 2009 and extensive research conducted from Norway. The research in Malaysia included meetings with Norwegian and foreign companies established in the country, as well as local companies, institutions and Governmental bodies. During the stay, IB received extensive support from Innovation Norway's office in Kuala Lumpur, Malaysia.



## ACKNOWLEDGEMENTS

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*Gunn Ovesen*  
CEO

*Innovation Norway*

Malaysia is the 19th largest trading nation in the world. The Malaysian economy is expected to grow by more than six percent in 2008 with positive contribution from all sectors of the economy. A number of pro-business measures will be introduced to further enhance competitiveness of the economy. There are already 52 Norwegian companies in Malaysia, and the main reason for this is that Malaysia has an open economy and an investment climate that is conducive for growth and profit. Innovation Norway have identified three sectors with significant opportunities for Norwegian companies:

### *Oil & Gas*

The Malaysian oil & gas sector will experience rapid growth in the next five years, especially in deepwater exploration and production. It is believed that a major of Malaysia's undiscovered oil and gas reservoirs lies in deepwater and ultra deepwater areas with an estimate of eight billion barrels of oil equivalent. As Norwegian companies are in the forefront where it comes to deepwater E&P technology, we foresee opportunities for Norwegian companies. Growing interest can be seen from the presence of the oil & gas companies with Norwegian interest in Malaysia.

### *Aquaculture*

Malaysians are ranked second in terms of seafood consumers in Asia, after Japan. The aquaculture sector has a five percent annual growth in production volume. The Malaysian government is encouraging private sector participation in large scale food production; such as strategic alliances to increase investments in upstream production, as well as post harvest activities. The government also intensified the R&D efforts in fisheries such as developing new culture systems, fish disease prevention, fish nutrition, feed and fry production, treatment of water and effluents. Realizing the lack of technology know-how to develop its aquaculture industry, the Malaysian government is interested in attracting foreign capital and appropriate know-how to develop this sector through environmentally friendly technologies.

### *Shipping*

Malaysia is one of the three countries that control the Strait of Malacca, which is an 805km stretch of water between Malaysia and the Indonesian island of Sumatra. The strait is the main shipping channel between Indian Ocean and the Pacific Ocean, and connects the major Asian economies such as China, India and Japan. The logistics sector in Malaysia covers ports, airports, roads, railway and inland haulage services. However, 90% of international trade is seaborne. With the expected expansion of international trade during the period 2006 - 2020, total maritime cargo handled is expected to grow to 751 million tonnes by 2020. The deepwater oil and gas fields being developed in Malaysia will also spur the business of the shipping companies in Malaysia, as it requires a completely different type of vessels to support the O&G operations.

This organization, International Business, has chosen a market with great potentials for their 2008/2009 project. Their project will contribute with valuable information about the Malaysian market to Norwegian exporters and investors. We are confident that International Business will be an important contribution in developing bilateral industrial cooperation and trade for the years to come.

## ACKNOWLEDGEMENTS

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Malaysia is today a popular investment destination, and was recently ranked by UNCTAD as the 14th most attractive country in the world for foreign direct investments. A significant number of Norway's leading companies are already present in Malaysia. I believe that the already strong ties between Norway and Malaysia can be further deepened and developed in the upcoming years. This will undoubtedly benefit the business communities in both countries. In this context, I am pleased to welcome the annual student project International Business (IB), which in 2009 will focus on Malaysia.



*Arild Braastad  
Ambassador  
Royal Norwegian  
Embassy  
Kuala Lumpur*

IB consists of students from the three leading academic institutions in Norway, and its main purpose is to explore international market opportunities for Norwegian companies. The project for 2009 will explore the Malaysian market and provide valuable information to Norwegian companies. It will also explore ethical issues and cultural discrepancies that may occur in the interaction between the Norwegian and Malaysian markets. The success of this important project will depend on the support of Norwegian companies, as well as the cooperation of Malaysian companies, organisations and the authorities.

The Royal Norwegian Embassy in Kuala Lumpur believes IB is an important source of research on market opportunities in Malaysia for Norwegian companies.

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NHO - The Confederation of Norwegian Enterprise welcomes the launch of the 2008/2009 International Business Malaysia, a project undertaken by students from three leading Norwegian academic institutions.

Malaysia is an exciting and fast-growing middle-income country, with a young but increasingly well-educated population. Since the 1970s, Malaysia has transformed itself from a producer of raw materials into an emerging multi-sector economy. Today, Malaysia is a major manufacturer and exporter of electronic equipment and a number of other manufactured goods, and is also an important regional producer of oil, natural gas and a number of other commodities and raw materials.



*Finn Bergesen jr.  
CEO  
The Confederation of  
Norwegian Enterprise  
(NHO)*

Although trade between Norway and Malaysia is still somewhat limited in volume, and total trade in 2006 amounted for less than 2.5 billion NOK, it has more than doubled in the last decade alone. Equipment to the offshore sector makes out an increasing share of Norwegian exports to Malaysia. The country is also an important market for Norwegian salmon. A number of Norwegian corporations are involved in various business activities in Malaysia, including Telenor, Jotun, Nera, Aker Kværner and DNV. Others might follow.

The annual International Business project has for more than two decades proven itself as a valuable provider of new knowledge about emerging markets around the world. NHO is positive to the initiative taken on by International Business, and believe that this year's project will contribute to spreading valuable insight about Malaysia to Norwegian investors and firms.

## KEY STATISTICS ABOUT MALAYSIA



Malaysia	
Capital	Kuala Lumpur
Areal	330 000 km <sup>2</sup> (≈ 85 % of Norway)
Establishment	Independence from UK 31 <sup>st</sup> August 1957 Federation of Malaya, Sabah, Sarawak and Singapore 16 <sup>th</sup> September 1963 Singapore became independent in 1965
Politics	
Government	Federal constitutional elective monarchy
Head of State	King Tuanku Mizan Zainal Abidin
Head of Parliament	Prime Minister Abdullah bin Ahmad Badawi (National Front)
Society	
Population	27 million <sup>1</sup> (≈ 5.5 times Norway)
Official language	Malay (Bahasa Melayu)
Ethnic groups	Malay (50%), Chinese (24%), Indigenous (11%), Indian (7%) <sup>4</sup>
Religions	Islam (60%), Buddhism (19%), Christianity (9%), Hinduism (6%) <sup>4</sup>
Economy	
GDP (nominal)	157 billion USD <sup>2</sup>
GDP (nominal) per capita	5 800 USD <sup>2</sup> (≈ 6% of Norway)
GDP growth	6.3 % in constant 2000 prices <sup>2</sup>
GDP per sector	Services (53%) manufacturing (30%), agriculture (7%), mining (8%) and construction (3%) <sup>2</sup>
Currency	Ringgit (RM). 1 RM ≈ 0.3 USD, 1 RM ≈ 2 NOK (Feb 2009)

Table 1. Key statistics

Sources: 1) Statistics Department Malaysia, 2) Innovation Norway Malaysia, 3) World Bank, 4) CIA World Factbook, 5) Transparency International



## NORWAY AND MALAYSIA – THE CURRENT SITUATION

*As of 2009, the trade between Norway and Malaysia is limited and there are relatively few Norwegian companies established in Malaysia. Both trade and establishment have however increased the latest decade, as more Norwegian companies find opportunities in the Malaysian market.*

### Trade between Norway and Malaysia

Malaysia is today the 19th largest trading nation in the world, with trade in excess of USD 306 billion. Still, trade between Norway and Malaysia is limited in volume, with total trade in 2007 amounting for less than 2.5 billion NOK. Goods for 1 620 million NOK was imported to Norway from Malaysia, while the export from Norway amounted to 830 million NOK according to Statistics Norway. The main articles for both import and export are equipment and machines of different types. Major import articles are telecommunications equipment, office machines and electrical equipment, while the main export articles are more advanced and specialized machines.

### Norwegian companies in Malaysia

As of 2009, there are currently 52 Norwegian companies established in Malaysia, including large companies such as Telenor, Jotun, Aker Kværner, Wilh. Wilhelmsen and DNV. Based on International Business' interviews with these companies and other Norwegian and local businesses in Malaysia, we have identified several advantages and challenges of establishing in Malaysia. An overview of the main advantages and challenges a Norwegian company might face in Malaysia is presented in table 2, and these will be elaborated further throughout the report.



Figure 1. Trade between Norway and Malaysia  
Source: Statistics Norway

Advantages	Challenges
<ul style="list-style-type: none"><li>• One of the fastest growing economies in South-East Asia with 6% growth per year</li><li>• Low costs level compared to Norway<ul style="list-style-type: none"><li>- Average monthly salary in manufacturing sector at 4200 NOK</li></ul></li><li>• English as the business language</li><li>• Educated workforce</li><li>• Politically stable</li><li>• Developed infrastructure</li><li>• High technology standards</li><li>• Attractive tax and incentive systems</li><li>• Ranked 20th out of 181 countries in ease of doing business in 2009 by the World Bank</li></ul>	<ul style="list-style-type: none"><li>• Regulations<ul style="list-style-type: none"><li>- Foreign ownership limitation of 70% and Bumiputra requirements</li></ul></li><li>• Different Business Culture</li><li>• Different Corporate Social Responsibility practices</li><li>• Corruption<ul style="list-style-type: none"><li>- Ranks 47 on Transparency International's corruption Index (Norway is 14)</li></ul></li></ul>

Table 2. Overview of main advantages and challenges for Norwegian companies in Malaysia

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## PREFACE

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The IB Malaysia report is divided into three parts, covering various aspects that are relevant for Norwegian companies interested in establishing in Malaysia.

The first part of the report provides an introduction to the country, including general aspects of the Malaysian economy and society. The first chapter provides an overview of the economy, while the second chapter introduces the Malaysian population, culture and politics as well as some important legal issues and regulations. These chapters provide background information that is considered highly relevant for Norwegians interested in understanding the country.

The second part considers aspects related to establishing and doing business in Malaysia, written from a Norwegian point of view. Chapter three elaborates on certain advantages of establishing business in Malaysia that will be relevant for Norwegian companies regardless of industry, such as ease of setting up a business, technology, infrastructure and attractive tax systems and incentives. The fourth chapter provides information on two aspects that are important for Norwegian companies to be aware of when doing business in Malaysia, namely business culture and corporate social responsibility and corruption.

The third part of the report provides in-depth information on three sectors that are considered to be especially interesting for Norwegian companies in Malaysia: (1) Oil and gas, (2) Shipping and (3) Aquaculture. For each sector there is presented an overview of the sector and opportunities for Norwegian companies. This is followed by a discussion of challenges Norwegian companies might face and recommendations on how to enter the Malaysian market.

# PART 1: INTRODUCTION TO MALAYSIA



This part provides an introduction to Malaysia, covering general aspects of the economy and society. The background information is relevant for gaining an understanding of Malaysia.

## Outline of Part 1

- **1.0 Economy**
  - *1.1 Overview of the Malaysian economy*
  - *1.2 Business Areas*
  - *1.3 Global relations and trade*
- **2.0 Society**
  - *2.1 Population and Culture*
  - *2.2 Politics*
  - *2.3 Legal issues and regulations*





# 1.0 ECONOMY

*This part will present an overview of the Malaysian economy, main industries, and Malaysia's initiatives related to trade and global relations.*

## 1.1 OVERVIEW OF THE MALAYSIAN ECONOMY

*Over the last fifty years Malaysia has undergone a structural transformation from being a producer of raw materials and primary commodities into a multi-industrial, export driven economy spurred on by technology, knowledge-based and capital-intensive industries.*

New foreign and domestic investment has played a significant role in the transformation of Malaysia's economy. During the Asian financial crisis of 1997-98 there was a slowdown in the economy, and the Government was forced to cut spending and defer several large infrastructure projects. The economy began to recover in 1999, and the growth continued into the early 21<sup>st</sup> century. Today, Malaysia has a broad and diversified economy and the population enjoys one of the highest standards of living in South-East Asia.

Category	Value	Year
GDP ranking (world)	33	(2007 est.) <sup>2</sup>
GDP (PPP)	341 billion USD	(2007 est.) <sup>3</sup>
GDP PPP per capita	12 700 USD	(2008 est.) <sup>3</sup>
GDP growth (constant 2000 prices)	6.3 %	(2007 est.) <sup>1</sup>
GDP (nominal)	157 billion USD	(2007 est.) <sup>2</sup>
GDP nominal per capita	5 800 USD	(2007 est.) <sup>2</sup>
Inflation	3.9%	(2008/2009) <sup>1</sup>
Labor force	11.2 million	(2008 est.) <sup>1</sup>
Unemployment	3,1 %	(3 <sup>rd</sup> quarter 2008) <sup>1</sup>
Average salary per month in manufacturing sector	2 100 RM ≈ 560 USD	(Dec. 2008 est.) <sup>4</sup>
Population below poverty line	3.5 %	(2007 est.) <sup>3</sup>

Table 3. Key statistics of the Malaysian economy  
Sources: 1) Statistics Department Malaysia, 2) Innovation Norway Malaysia, 3) International Monetary Fund, 4) Central Bank of Malaysia

### GDP size and growth

In 2007, the Malaysian economy was the 33rd largest in the world by purchasing power parity with gross domestic product (PPP) estimated to be 341 billion USD with a growth rate around 6 percent (International Monetary Fund). Furthermore, the country ranks 76th in the world in terms of GDP PPP per capita with approximately 12 700 USD per capita. This is significantly above neighboring countries such as Indonesia, Thailand and China, but far behind Singapore and Norway. The country's labor force is 11.2 million, of 27 million in total, and the unemployment rate was 3.1 percent the 3rd quarter of 2008, according to Statistics Department Malaysia.

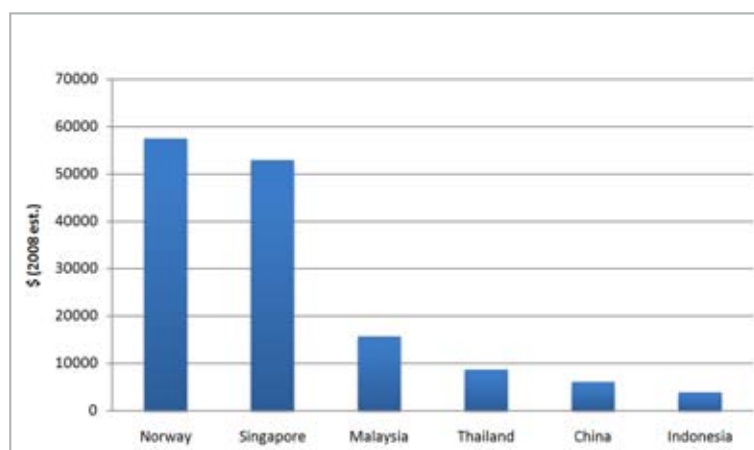


Figure 2. Comparison of GDP PPP pr capita (in USD)  
Source: CIA World Factbook

### Main economic sectors

The main sectors of the Malaysian economy are services (52 percent of GDP) and manufacturing (30 percent of GDP). While agriculture and mining jointly had accounted for 42.7 percent of GCP in 1970, these sectors only contributed to 7 percent and 8 percent respectively, in 2007.

Malaysia's economic growth is largely due to the expanding industrial sector, which has contributed to an 8-9 percent annual growth rate from 1987 to 1997. Growth in the service sector is driven by wholesale and retail trade and finance and insurance, while the manufacturing sector is driven by growth in export, especially of electronics. The main export partners are United States, Singapore, Japan and China.



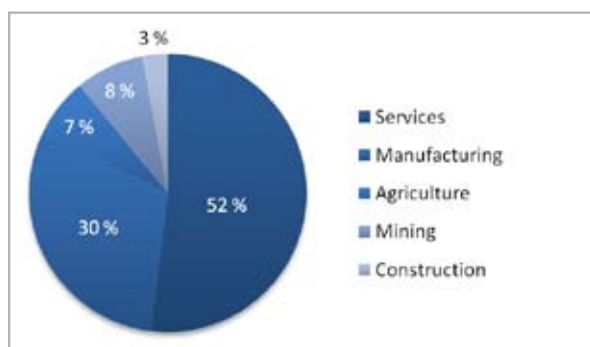


Figure 3. GDP by sector  
Source: Innovation Norway (Malaysia)

### Governmental development plans

Although the federal Government promotes private enterprise and ownership in the economy, the economic direction of Malaysia is heavily influenced by the Government's development plans. The Government has a development plan to improve the manufacturing sector which is called the 'Industrial Master Plan'. The current Third Industrial Master Plan (IMP3) covers the period from 2006 to 2020. The purpose of these industrial plans is to make Malaysia a major trading nation and build up the country's economical and human capital. IMP3's

objective is to achieve long-term global competitiveness through transformation and innovation of the manufacturing and services sectors. The Malaysian economy is expected to grow at an average rate of 6.3 percent year on year during the entire IMP3 period.

### Current economic situation

As a result of comprehensive restructuring of the Central Bank and reform of the financial sector following the Asian financial crisis, which included consolidation of domestic financial institutions, the strengthening of corporate governance, risk management and the institutional capacity of domestic financial institutions; Malaysia enters this period of subprime crisis with a strengthened position.

Nevertheless, decreasing worldwide demand for consumer goods is expected to hurt economic growth in 2009. From a high growth of GDP (7.1 percent) in first quarter of 2008, growth decreased to 4.7 percent in the third quarter and is expected to slow down further. Export and manufacturing have been key drivers in the Malaysian economy, and the decreased demand from both the US and Europe is likely to affect the Malaysian economy.

### SWOT analysis of the Malaysian economy

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• During the past four decades, Malaysia has transformed itself from a commodities-dependent backwater into a major exporter of electronics and computer parts.</li> <li>• Malaysia is the world's largest producer of rubber, palm oil, pepper and tropical hardwoods, and is also a net exporter of crude oil. All this provides a platform for economic growth.</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• Malaysia may be affected by the decreasing global price of energy. It is now possible that within the next 5 years Malaysia will become a net importer of oil.</li> <li>• Malaysia's economic openness can be as much a burden as a benefit, since it confers a high degree of vulnerability to global growth and capital flows.</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• The opportunity for private-sector-led growth will improve as the Government continues divestment of state shareholdings in order to raise funds to reduce the budget deficit.</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Wages are higher in Malaysia than in a number of its competitors, such as China and Vietnam, which could hinder long-term economic growth.</li> <li>• If the exchange rate continues to increase, export competitiveness could be eroded. Exports will diminish if the decrease in demand in Europe and United States continues.</li> </ul>

Figure 4. SWOT- analysis of the Malaysian economy  
Source: Business Monitor's Malaysia Business Forecast Report 2009



## 1.2 BUSINESS AREAS

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*In addition to Malaysia's three potentially large growth industries covered in detail in this report (oil and gas, shipping and aquaculture) other interesting business areas include electronic equipment, petrochemicals, rubber products, medical devices, textiles, furniture and pharmaceuticals. These industries are introduced below to give a broader overview of the main business activities in Malaysia. .*

**Electronics and manufactured goods** are one of the major contributors to the country's GDP. In particular the electrical and electronics industry remains a significant driving force behind the economy. Intensification of efforts within research and development and insourcing activities for companies worldwide has made the electrical industry evolve from mere assembly to produce high value-added products.

**Petrochemical** products are another main export article. Malaysia has the world's 13<sup>th</sup> largest natural gas reserves and 24<sup>th</sup> largest crude oil reserves. The country exports major petrochemical products and has large capital investors in the sector both nationally and internationally. This domestically important industry has also contributed significantly to the development of a local downstream plastics industry, and today there are more than 1, 500 manufacturers within plastic processing activities.

Malaysia's natural **rubber production** in 2007 amounted to 1.20 million tonnes, with rubber medical gloves constituting nearly 65 percent of all manufactured products. Malaysia is today the world's leading producer and exporter of catheters, latex threads and natural rubber medical gloves, supplying more than 80 percent of the world market for catheters, 70 percent for latex threads and 60 percent of rubber gloves. The Government wishes to push this sector further by promising R&D efforts to produce high technology rubber products.

In addition to being a major producer of medical rubber gloves and catheters, Malaysia manufactures a wide

variety of **medical devices**. Currently, this is concentrated on rubber-based products, but several companies are moving into non-rubber based products made from plastics, silicone and metal alloys as well.

The **textiles and apparels** industry was the ninth largest contributor to total earnings from manufactured exports in 2007. The industry has been accelerating since the early seventies and today this sector has the potential to evolve into a developed, industry cluster through investments encouraged by the Government

The Malaysian **furniture industry** exports over 90 percent of its production and the country is currently the world's largest exporter of tropical plywood. It is estimated that 80 percent of the furniture companies are small and medium-size companies. The wood-based industry is one of the resource-based industries with the potential for growth as the downstream wood-based industry is still relatively undeveloped.

The **pharmaceutical sector** is eligible for several generous investment incentives. As economic development progresses and average incomes increase; domestic healthcare needs are likely to change as an increasing demand for pharmaceutical products is expected. Today, more than 70 percent of domestic demand is satisfied through imports.

Additionally, The Malaysian Government has identified eight sectors within the services industry with large potential for further development; real estate, hotel and tourism, transport, energy, telecommunications and financial services.



Growth comes from truly  
understanding the needs of  
people, to drive relevant change



DiGi (Malaysia)  
dtac (Thailand)  
Grameenphone (Bangladesh)  
Telenor (Pakistan)  
Telenor (Norway)  
Sonofon (Denmark)  
Telenor (Sweden)  
Pannon (Hungary)  
Telenor (Serbia)  
Promont (Montenegro)  
Vimpelcom (Russia)  
Kyivstar (Ukraine)

## 1.3 GLOBAL RELATIONS AND TRADE

*Over the latest decades, the Malaysian economy has become increasingly globalized. Malaysia is member of the trade organizations ASEAN and WTO, and the Government has introduced several economic and commercial initiatives to become a more globalized country and collaborate more closely with neighboring countries and the rest of the world.*

### ASEAN

Malaysia has been a member of Association of South-East Asian Nations (ASEAN) since its establishment in 1967. The organization's aims include the acceleration of economic growth, social progress, cultural development among its members, the protection of the peace and stability of the region, and to provide opportunities for member countries to discuss differences peacefully. Other participating countries are Brunei, Cambodia, Indonesia, Laos, Myanmar, Philippines, Singapore, Thailand and Vietnam.

In 1992, the member countries established a trade bloc called AFTA (ASEAN Free Trade Area) with the main purpose of promoting trade among ASEAN members. ASEAN is playing an increasingly important role in free trade negotiation on behalf of its members. The organization's goal is to get a free trade agreement with the largest countries in the region (China, Japan, India, Australia, New Zealand and South Korea) within 2013. On February 27<sup>th</sup> 2009, ASEAN signed a Free Trade Agreement New Zealand and Australia, which is to boost aggregate GDP across the ASEAN countries by more than 48 billion USD over the period 2000-2020.

ASEAN is also open to regional cooperation on economic integration with purpose of creating an ASEAN Economic Community (AEC) by 2015. ASEAN as a group also hopes to establish a free trade agreement with the European Union, but nothing has been concluded to date.

### WTO and liberalization of trade

Since 1995, Malaysia has been a member of World Trade Organization (WTO). The progressive liberalization of trade in goods and services under the WTO and AFTA, as well as the implementation of the ASEAN Economic Community (AEC) and the commitments to tariff reductions under bilateral trade arrangements will open up new markets for exports of goods and services from Malaysia.

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**NHH**



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## Export

The major manufactured products exported will include electrical and electronic products, chemicals and chemical products, petroleum products, food, textiles, clothing and footwear, wood products, manufactures of metal and transport equipment.

The export numbers from 2008 shows that the ASEAN countries are important export destinations for Malaysia. USA has for a longer period been the most important export destination, but due to the current economic climate in USA, this has changed.

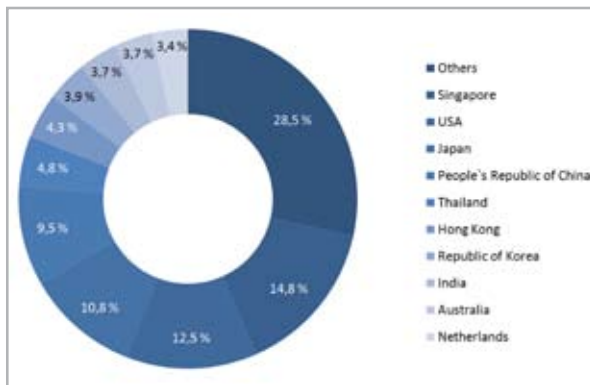


Figure 5. Malaysian export destinations 2008 (RM 663,5 bill)  
Source: Malaysia External Trade Development Corporation (MATRADE)

Malaysia's strategic position is increasingly respected in the knowledge-based economy and the service sector has been singled out as the next engine of growth. In order to enjoy greater business opportunities from the global liberalization of services, Malaysian services industries will have to adapt to a more open market environment. The sector needs to increase efficiency, productivity, and competitiveness, through essentially market related means as it becomes increasingly open to foreign participation and global best practice standards. This also includes transparency of rules and regulations.

In preparing the services industry to meet the challenges posed by globalization and the liberalization process under WTO, the Malaysian Government has developed and explored various strategies to enhance the competitiveness of the Malaysian services sector. According to WTO, some sectors, such as tourism, private education, promoted manufacturing services, health and construction services, have been able to make use of more liberal markets, while others may face problems by adjusting accordingly to this new landscape.

## The Government's globalization goals

Malaysian Industrial Development Authority (MIDA) is focusing on globalization in the Third Industrial Master Plan (2006-2020). MIDA has listed ten strategic thrusts towards competitiveness:

- *Strengthening Malaysia's position as major global trading nation*
- *Generating investments in targeted growth areas*
- *Integrating Malaysian companies into regional and global networks*
- *Ensuring sustainable industrialization, with environmental and regional balance*
- *Sustaining the manufacturing sector's significant contribution to economic growth*
- *Positioning the services sector as major source of growth*
- *Facilitating development and application of technologies*
- *Developing innovative and creative human capital*
- *Strengthening the role of private sector institutions*
- *Creating a competitive business operating environment*

One of the main challenges facing the Malaysian economy in the future will be to sustain a high contribution from the private sector for growth, in particular private investment. Given the openness of the Malaysian economy, initiatives to enhance competitiveness will probably continue to be a priority.







## 2.0 SOCIETY

*This part will give an introduction to the population and culture of Malaysia, followed by an overview of Malaysian politics and finally an outline of the main legal issues and regulations relating to employment and business.*

### 2.1 POPULATION AND CULTURE

*Malaysia is a multi-ethnic, multi-cultural and multilingual country. This impacts working life, the educational system and other aspects of society.*

#### Population and demography

The population of Malaysia's is currently around 27 million, with approximately 85 percent living in Peninsular Malaysia. The three largest groups, Malays, Chinese and Indians, mainly live on this peninsula and are the groups which one is most likely meet in a business situation. Malaysia is also home to the indigenous Orang Asli population, and there are other tribes living in the more sparsely populated states of Sabah and Sarawak in the eastern part of the country.

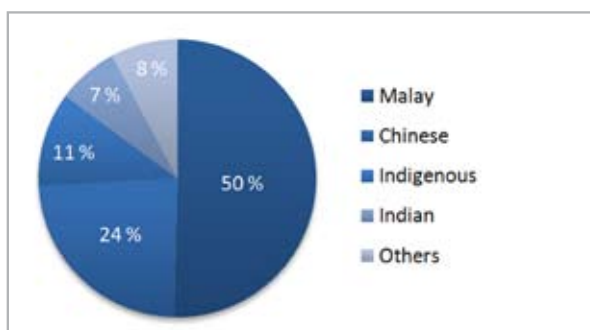


Figure 6. Population distribution  
Source: CIA World Factbook

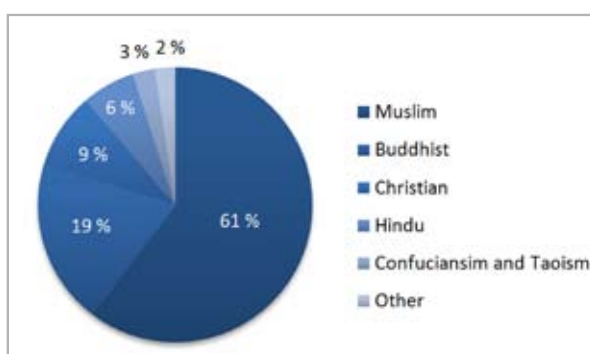


Figure 7. Religion  
Source: CIA World Factbook

All people having a Malaysian citizenship call themselves Malaysians; though they clearly distinguish between their ethnical backgrounds. The original Muslim population is called Malay or Bumiputra (children of the soil). The Chinese often call themselves Chinese Malaysian, and the Indians call themselves Indian Malaysian. The various ethnic groups work together, and companies generally employ people from

the major groups. English is widely spoken by all groups because it was the administrative language of the British colonizers and it is also the working language in most offices in the main cities.

The Malays make up more than half of Malaysia's population, and are the most dominating ethnic group in several ways. Their language (Bahasa Malay) is the official language, their religion (Islam) is the state religion, and it is reasonable to say that they control most of the Government.

The Chinese are the second largest group in Malaysia and have an important presence and influence within major industries and in the commercial sector. When doing business in Malaysia one can expect to meet a majority of Chinese businesspeople. The Chinese in Malaysia are normally followers of Buddhism or Taoism and they speak a variety of Chinese dialects.

Indians make up about ten percent of the population, yet they own less than one percent of the country's corporate wealth. The majority of Indians are still manual laborers on plantations and in factories, though the group is also represented within various service professions, such as medical, legal and engineering. Most Indians in Malaysia are Hindu, though a considerable part is Muslim. The majority speaks Tamil, but many middle-class Indians speak English as their first language.

In addition to the Malaysian population, there is a significant amount of foreign workers in the country. As much as 20 percent of the workforce is foreign, including approximately one million unauthorized workers. The majority of foreign workers come from Indonesia and the Philippines. They dominate in sectors such as construction work and domestic services.

#### Poverty and employment

Though the standard of living has increased significantly alongside the economic development of the latest decades, about 3.5 percent of Malaysia's population still lives under the poverty line.

The 2007 Household Income and Facilities Census, undertaken by the Department of Statistics Malaysia showed that half of Malaysian households have a monthly income of less than RM3.000 (approximately 6.000 NOK). Of the 5.8 million households in the country, about 9 percent have an income below RM1.000 and only 5 percent have a monthly income of more than RM10.000.

According to the Minister Tan Sri Amirsham Abdul Aziz,

“One of the focus areas for the Government is to reduce the incidence of poverty among all racial groups as well as in the urban and rural areas”. Critics have however accused the Government of only focusing on the income disparity between racial groups instead of the overall income disparity in the society.

A reason for this critique is that the Malays and certain indigenous minority races classified as Bumiputras have several rights and privileges which the Chinese and Indians do not enjoy, particularly related to employment and redistribution of wealth. The New Economic Policy (NEP) of 1971 is an affirmative action program launched by the Malaysian Government to protect the Bumiputra's economic interest. The background of the legislation was the fact that the Malay majority only held 2.4 percent of the national economy in 1970, with the rest on Chinese and foreign hands. The main goal was therefore to increase the Bumiputra's share of the national wealth to 30 percent and secure employment for Malays. The legislation has caused a lot of controversy in Malaysia over the years (For further details on the NEP, see the section on Legal Issues).

### The importance of Islam

The variety of religions found in Malaysia is a direct reflection of the diversity of ethnic groups in the country. Islam is the official state religion and all ethnic Malays are defined as Muslim in the Malaysian constitution. Still, Malaysia is not an Islamic state and freedom of religion is guaranteed. Though Muslims are obliged to

follow the decisions of Syariah courts when it comes to matters pertaining to their religion, these courts hold no jurisdiction over non-Muslims. As in many other Muslim countries, Malaysia has been going through a period of increased focus on religion the latest decade and religion plays a more important role in determining public values than in most modern Western societies.

### Educational system

The level of education in Malaysia is good relative to the neighboring countries. There are 6 years of obligatory primary school and most people complete 13 years of education. According to Unicef (2009), girls in Malaysia have equal opportunities and choices as boys, and there are more girls than boys completing both primary education and university studies. The total number of students completing higher education has increased notably over the last decades. Today, about 30 percent of the population between 18 and 24 years are enrolled at a Higher Education institution, and the goal is to increase the number to 40 percent within a few years.

The various ethnicities and languages in Malaysia have led to an education system challenged by racial polarization, where students are educated according to their race from an early age. The national schools are Malay-dominated, with courses taught in Malay and in a Muslim atmosphere. Chinese and Indian students go to their respective schools, where classes are taught in Mandarin and Tamil. Most students from Chinese schools excel in standardized tests, which have given Chinese schools a reputation for providing better education.

## Focusing on Asia



Bergen Chamber of Commerce and Industry has over the last years been focusing on business opportunities in the Asian countries. For more information about our international projects, see our webpage.

[www.bergen-chamber.no](http://www.bergen-chamber.no)



**Bergen Næringsråd**

Bergen Chamber of Commerce and Industry



## 2.2 POLITICS

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*In 1963, Malaya along with the then-British colonies of the region formed Malaysia. While there was a conflict area in the early years of independence, Malaysia today is a politically stable country.*

### Political Structure

The system of Government in Malaysia is closely modeled on that of the Westminster parliamentary system, as a legacy of British colonial rule. Malaysia is a federal constitutional elective monarchy, where the King is the head of state and elected every five years from one of the Sultan states. Malaysia's legislative power lies in the Parliament, executive power is vested in the cabinet led by the Prime Minister, and the judiciary is independent of both the legislature and the executive powers.

The Parliament consists of the Senate with 70 non-elected representatives and the House of Representatives with 222 elected representatives. The members of the House of Representatives are elected every five years, and the leader of the largest party becomes Prime Minister and head of Government.

### Current political situation

The two main parties within Malaysian Politics are the ruling coalition, the 'National Front', and the opposition coalition, the 'People's Alliance'. The ruling coalition has lead Malaysia ever since it gained independence in 1959. In the last election to the House of Parliament of March 8 2008, the ruling coalition received 50.3 percent of the votes (140 seats), and the opposition parties 46.8 percent (82 seats), leaving others with 2.9 percent. This was a major setback for the ruling coalition, which has generally had more than two thirds of the seats. This has historically allowed them to pass almost any legislation and make changes to the constitution.

The ruling coalition consists of 13 different parties, where the main parties are the United Malays National Organisation, the Malaysian Chinese Association and the Indian Congress. This coalition is led by the current Prime Minister Abdullah bin Ahmad Badawi and his deputy Prime Minister Mohamed Najib bin Abdul Razak.

The opposition coalition, the 'People's Alliance' consists of four parties; The Islamic Party of Malaysia, Democratic Action Party, People's Justice Party, and Sarawak National Party. It is lead by Anwar Ibrahim, the former Deputy Prime Minister and former Minister of Finance of the ruling coalition. He had a dispute with the former Prime Minister Tun Dr. Mahathir bin Mohamad in 1998, over accusations of sodomy and corruption. After spending six years in prison he switched party and is currently trying to overrun the sitting coalition.

### Political stability

Though political tension and challenges exist in Malaysia, it is unlikely that this will have any significant impact on foreign investors. Malaysia is relatively politically stable; Business Monitor International ranked Malay-

sia number 4 in the region in terms of political stability, with only Singapore, Hong Kong and Australia above. Furthermore, the Malaysian Government understands the great importance of international business connections and technology transfer, and has passed numerous intensives to attract foreign investors. This trend is likely to continue.

### Political Challenges

Though Malaysia is politically stable, there are some important political challenges related to corruption, Government controlled media and violence of human rights that Norwegian companies should be aware of. These political challenges are however unlikely to affect any foreigners.

The ruling coalition has been in power since Malaysia's independence and is today struggling to maintain the power. This seems to have resulted in unhealthy political situations, as there have been accusations from both the free media and the opposition coalition towards extreme hidden political activities, such as illegal imprisonment, falsification of evidence, murder and sodomy. These are only accusations, but limited transparency in the political arena and overarching control of the media makes it hard to prove anything in either way. However the fact that there are accusations alone suggests that there might be many issues still to deal with.

Another demanding challenge facing Malaysian politics is corruption (this is elaborated on further in the section on Corporate Social Responsibility.) Furthermore, the media is to a large extent controlled by the Government, especially the printed media which written in Malay. The English news is slightly better, and the local Chinese news sources are the most open. Since the traditional media to a large extent is controlled, this has lead to a plethora of other ways to reach the people and express political opinions such as blogging and YouTube. Malaysia Today, a blog and news portal hosted from Singapore, receives around 1.5 million hits a day, which makes it one of the most popular political sites in the country. A popular blogger for Malaysia Today, Raja Petra, was arrested in September 2008 for insulting Islam under the Internal Security Act. Though was released from prison after almost 60 days, this example has by some been interpreted as an attempt of prevent freedom of speech. This quote from Amnesty International (2003) speaks for itself

“Amnesty International calls on the Government of Malaysia to respect and uphold fundamental human rights, which are currently being violated by the Internal Security Act (ISA), used against people peacefully expressing their religious and political beliefs.”

## 2.3 LEGAL ISSUES AND REGULATIONS

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*A legacy of British colonial rule is Malaysia's legal system which is derived from common law. The country's legal practices should thus be familiar to most international companies, as they are based on the British system. Legal issues of especial interest to foreign firms are considered to be enforcements of the law, labor regulations, foreign ownership limitations, competition policy and intellectual property laws.*

### Enforcements of the law

Transparency levels within the Malaysian courts are fairly high. The legal system is seen as relatively supportive of investors as it provides sufficient possibility to achieve fair compensation if disagreements should arise. Cases involving foreign investors are nevertheless rare.

Statistics from the World Bank shows that Malaysian courts are overloaded and backlogged. In the World Bank's Global Ranking of Court Efficiency by the enforcement of contracts, Malaysia is ranked 63rd overall. Malaysian courts uses 600 days from the moment the plaintiff files a lawsuit until the moment of payment, including days with legal activities as well as waiting periods. In comparison, Singapore which has a more efficient court system uses on average only 150 days (World Bank, 2009).

If the local judicial system fails to resolve a dispute, it is referred to the UN's International Centre for Settlement of Investment Disputes (ICSID). The Kuala Lumpur Regional Centre for Arbitration also offers international arbitration for trade disputes.

### Sharia law

The constitution of Malaysia consists of a dual justice system, common laws and sharia laws (in Malaysia known as syariah). This dual system existed even before Malaysia gained independence in 1957. According to an official in the Syariah Judiciary Section, syariah law in Malaysia is only applicable to Muslims and covers both Muslim family law and criminal law. Matters concerning trade and business will be dealt with under civil law jurisdiction.

### Labor regulations

According to the World Bank's Employment Laws Index, the Malaysian labor force is comparatively very lightly regulated. There are no nationwide or industry-wide standards for fixed wage rates, and there is no legal minimum wage. Strikes are very rare in Malaysia as trade union rights are limited and strikes are actively discouraged.

### New Economic Policy

As stated in the section on Population and Culture, The New Economic Policy (NEP) was introduced by the Government in 1971 with the objective of restructuring Malaysian society and to correct economic imbalances by channeling a greater share of future economic growth into Malay hands. NEP's goals were to raise the level of corporate ownership by Malays to 30 percent

by 1990, reducing corporate ownership by other Malaysians groups to 40 percent, and limiting foreign ownership to no more than 30 percent.

Growth was a necessary condition for NEP as it ensured that distribution did not come from the simple reallocation of existing wealth but rather expanding and creating new sources of wealth. In practice, the NEP policies were seen as pro-Bumiputra as it provided several privileges to the Malay population.

These objectives were maintained under the National Development Policy in 1990 as the goals for NEP were not reached. Today, the principles are covered in the National Vision Policy linked to the "Third Outline Perspective Plan for 2001–2010". Although the new policies have put far greater emphasis on achieving rapid growth, industrialization and structural change, there is a perception that public policy is still dominated by the NEP's restructuring targets.

The current policy specific equity targets for ownership in the commercial and industrial sectors. It included a requirement that all initial public offerings (IPOs) shall set aside a 30 percent share for Malay investors. These investors can be selected by the company being listed, or the Ministry of International Trade and Industry. This is especially apparent in the petroleum sector where the state owned oil company, PETRONAS controls foreign companies' entry through a licensing system, to ensure compliance with the NEP in terms of ownership and employment.

Today, the Government encourages foreign venturers to partner with a local entity and to employ Bumiputras at all levels, to better reflect the country's ethnic composition. Foreign companies are also required to set up training programs for their Malaysian staff.

Although the New Development Policy could be seen as a barrier for foreign investors wanting to enter the Malaysian market, it is important to mention that several industries are exempted from NEP guidelines. Total foreign ownership is permitted in the manufacturing sector. Peder Bohlin of Jotun explains that the company has not experienced any problems related to NEP during their 30 years in Malaysia that could not be solved in a practical and manageable way.

### Pension

The Employees Provident Fund (EPF) is responsible for granting employees retirement benefits. Membership of EPF is mandatory for working Malaysian's, and at least 11 percent of each member's monthly salary is transferred. Employers are obligated to make an additional contribution of at least 12 percent of their employee's

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salary. Official retirement age is 55 years old; individuals can then withdraw all of their EPF and stop working, though many continue on as consultants within their respective areas of expertise.

### Foreign ownership

One of the Government's racial preference policies is a requirement that foreign and domestic firms take on Bumiputra partners with a minimum of 30 percent of share capital. This is a general rule, and many industries have their own requirements. Since 2003 total foreign ownership has been permitted in the manufacturing sector, as this industry is exempted from the Foreign Investment Committee (FIC) Guidelines because it operates in a highly liberalized global environment. Since 1998, foreign investors have also been permitted to hold stakes of up to 61 percent in telecoms companies, 70 percent in shipping companies, 51 percent in insurance firms and 49 percent in forwarding agencies.

The purchase of property by foreigners requires the approval of the Foreign Investment Committee, and foreigners are welcome to purchase all property costing more than 100 000 USD. The World Bank's Country Profile for Malaysia (Doing Business 2009 report) ranks Malaysia 81st among 175 countries for the ease of registering property, which takes an average of 144 days. The Embassy of the United States in Malaysia reported that it is unaware of any cases of uncompensated expropriation of foreign-held assets by the Malaysian Government.

The regulatory framework for investments is laid out in the Promotion of Investments Act of 1986 and the Industrial Coordination Act of 1975. A more concise framework has been promised, but has yet to emerge.

### Competition Policy

Malaysia has yet to implement competition policy or laws regulating the business economy. There are however several statutes which regulate trading and business activities as well as protecting consumer interests on a sector level. These statutes consist of about 30 laws relating to competition, each applicable to different sector of the economy. Formally there are only two sectors where competition regulation exists expressly, namely the communications and multimedia sector, and the energy sector.

### Intellectual property laws

Malaysia's Intellectual Property laws conform to international standards and provide adequate protection to both local and foreign investors. In 2003, Malaysia amended its laws to allow it to join the Patent Cooperation Treaty (PCT) which permits the filing of an international patent application. It is also party to the WTO's Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) as the legislation in Malaysia is largely TRIPS compliant. Malaysia is a member of the World Intellectual Property Organization (WIPO), the Berne Convention and the Paris Convention for the Pro-

tection of Industrial Property.

Intellectual property protection in Malaysia comprises of patents, trademarks, industrial designs, copyright, geographical indications and layout designs of integrated circuits. Malaysia's intellectual property laws are in conformance with international standards and are reviewed by the TRIPs Council periodically.

While serious efforts have been made to improve the enforcement of intellectual property rights (IPR), Malaysia is still struggling with a reputation as the world's largest producer of illegal software. The situation seems to be improving with the formation of the Intellectual Property Corporation of Malaysia (IPCIM) in 2003. Intellectual property administration in the country has improved considerably since this time, and the American Embassy in Malaysia stated in its annual review for 2007 that

// Malaysia showed a solid commitment to strengthening IPR protection and enforcement this past year, but still has some serious deficiencies that need attention".

In April 2007, the Prime Minister announced plans to bolster Malaysia's IPR protection with new laws and improved enforcement. The development of a new National Intellectual Property Policy supported by a fiscal fund and the creation of specialized courts dedicated to the protection of intellectual property might improve the situation.







## PART 2: BUSINESS IN MALAYSIA



This part considers aspects related to establishing and doing business in Malaysia, written from a Norwegian point of view. Chapter three elaborates on certain advantages of establishing in Malaysia regardless of industry, such as ease of setting up a business, technology and infrastructure, as well as attractive tax and incentive systems. Chapter four provides information on aspects that are important for Norwegian companies to be aware of when doing business in Malaysia; business culture, corporate social responsibility and corruption.

### Outline of Part 2

- **3.0 Establishing business in Malaysia**
  - 3.1 *Setting up a business*
  - 3.2 *Technology*
  - 3.3 *Infrastructure*
  - 3.4 *Tax and incentives*
- **4.0 Doing business in Malaysia**
  - 4.1 *Business culture*
  - 4.2 *Corporate Social Responsibility and Corruption*







## 3.0 ESTABLISHING BUSINESS IN MALAYSIA

*Regardless of industry or sector, there are some aspects of Malaysia that contributes to making the country attractive for Norwegian companies interested in investing in the South-East Asian region.*

*Establishing and running a business in Malaysia is relatively easy compared to surrounding countries, and the technological standards and infrastructure are significantly better than the average of the region. Additionally, the country has a business friendly tax system and several attractive incentives for foreign companies.*

### 3.1 SETTING UP A BUSINESS

*Malaysia is an attractive FDI destination because it is relatively easy to set up and do business in the country. There are a number of practical issues related to the establishment of a business, and there are several supporting facilities ready to help Norwegian companies in this process.*

#### Ease of establishing and doing business

When considering establishing a business in Malaysia it is recommendable to compare the procedures for establishing in Malaysia to other countries in the region. The most accurate comparison is made by the World Bank's Ease of Doing Business report from 2009 which compares most countries in the world across a number of criteria related to setting up and running a business. The report concludes that setting up a business in Malaysia is quite easy, especially compared to other South-East Asian countries.

In general, Malaysia ranks higher than most of the other popular FDI destinations in the region. Singapore is the only location in the region that is significantly better across all categories.

Country	Rank (1 to 181)
Singapore	1
Norway	10
Thailand	13
Malaysia	20
China	83
Vietnam	92
Indonesia	129

Table 4. World Bank Ease of Doing Business 2009  
Source: World Bank

Category	Rank (1 to 181)
Ease of Doing	24
Starting a business	74
Dealing with licences	105
Employing workers	43
Registering property	67
Getting credit	3
Protecting investors	4
Paying taxes	56
Trading across borders	21
Enforcing contracts	63
Closing a business	54

Table 5. Malaysia's ranking in Doing Business 2009  
Source: World Bank

As this overview shows, Malaysia is considered to be a leading country in the world in terms of protective regulations for investors and also in terms of ease with getting access to credit. It is also rated amongst the best in the world in terms of regulations in place for facilitating trading across borders. This means that these processes are relatively efficient with limited paperwork.

Malaysia is ranked poorly in terms of administering licenses, and on average there are 25 procedures to go through. The process will, on average, take quite some time (on average 285 days). To get the procedures correct, it is recommended that the Norwegian companies hire local representatives to aid with the registration in order to ensure a correct and swift process.

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### Practical issues

There are a number of practical issues and procedures that one needs to consider when setting up a company in Malaysia. The appropriate Governmental body is the Companies Commission of Malaysia (CCM) which is similar to the Norwegian Business Registrar (Brønnøysundregistrene). It is in general easier for smaller firms to register than for larger ones. More complex ownership and organizational structures require more thorough registration. The Companies Act of 1965 and the Registration of Businesses Act of 1965, note that foreign firms are not allowed to do business in Malaysia unless they incorporate a local firm that is registered with the Government. However, in certain industries, foreign firms can do business in Malaysia without local participation. The registration process itself includes several steps, and it is very common and recommendable to hire local representatives to aid with this process.

### Supporting facilities

Several institutions support Norwegian companies who wish to enter the Malaysian market.

#### *The Malaysian Development Authority (MIDA)*

This is one of the first institutions to contact when establishing a company in the Malaysian market. MIDA provides assistance regarding the registration process of the company. It can also help with for example, statistics and market information, contact persons, questions related to doing business in Malaysia, such as costs involved and providing an overview of different industries. MIDA has offices around the world, including one located in Sweden, which handles all enquiries from Norwegian businesses.

#### *The Royal Norwegian Embassy and Innovation Norway in Malaysia*

The Royal Norwegian Embassy in Malaysia and Innovation Norway is sharing offices in Kuala Lumpur. These two institutions should be contacted early in the process of establishing a company in Malaysia. Innovation Norway support and help Norwegian businesses entering the Malaysian market with country and sector specific information. It can provide an overview of which Norwegian firms are already established in Malaysia, and contact information of interest. Innovation Norway can also recommend local experts and agents that have successfully worked with Norwegians on other ventures.

The Royal Norwegian Embassy maintains official contacts between the Norwegian and the Malaysian authorities and also facilitates economic and cultural co-operation between both countries. The goal of the Embassy and Innovation Norway is to promote bilateral trade and economic cooperation between Malaysia and Norway.

#### *Royal Malaysian Embassy in Stockholm*

The Royal Malaysian Embassy in Stockholm, which is also accredited to Norway, can provide a wealth of important information to Norwegian businesses wishing to establish operations in Malaysia.



## 3.2 TECHNOLOGY

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*Norwegian companies are used to high standards in technology, both in infrastructure and access to equipment and workforce with high levels of know-how. Being located in South-East Asia makes Malaysia fall into the same region as Cambodia, Laos, Myanmar, Vietnam and other countries with low levels of technological development. Technological standards in Malaysia are however more developed, and the skepticism many companies feel towards the technological standards of the region is less apparent in Malaysia than many of its neighboring countries. One of the reasons for this is that the Government has focused on technological improvement since the beginning of the early 1990's.*

### Governmental initiatives

One of the Government's earliest technological initiatives was the Malaysian Technology Development Corporation (MTDC) set up in 1992. The intention was to "spearhead the development of technology businesses in Malaysia. Its initial role was to concentrate on the promotion and commercialization of local research and invests in new ventures that can bring in new technologies from abroad." From this initiative several other institutions emerged. Among these was the Multimedia Super Corridor (MSC) which was launched in 1996 by the former Prime Minister Mahathir bin Mohammed.

The MSC is an area that stretches 75 kilometers from Kuala Lumpur city to the airport. The purpose of MSC was to attract foreign technology companies to this area and build on Malaysia's growing success as a high-technology manufacturing centre. By doing this the Malaysian Government wanted to move the country up the value chain so that more people could be employed in the software and product development sectors.

In 1997 Prime Minister Mahathir bin Mohammed opened Cyberjaya, a high technology area 50 kilometers outside Kuala Lumpur, as a part of the MSC area. This town aspires to be the Silicon Valley of South-East Asia and houses most of the leading software and hardware manufacturers in the world such as Panasonic, HP, Oracle and Sun among others. Cyberjaya is described in further detail in the case study on the city.

*// In 2002 it was easier to get high-speed internet connections in Kuala Lumpur than in much of London."*

*- BBC News, June 2006*

*This quotation gives a good pointer on the focus Malaysia have on technology.*

### Current technological situation

It is important to point out that technological development in Malaysia has occurred around the large cities, mainly Kuala Lumpur. In the countryside one will find many of the same conditions as in the other countries in the region. Although the launch of the MSC and the focus on technology development was emphasized in the late 90's, Malaysia is still not at Norwegian standards. Much of the reason for this is that the development slowed down shortly after a promising start.

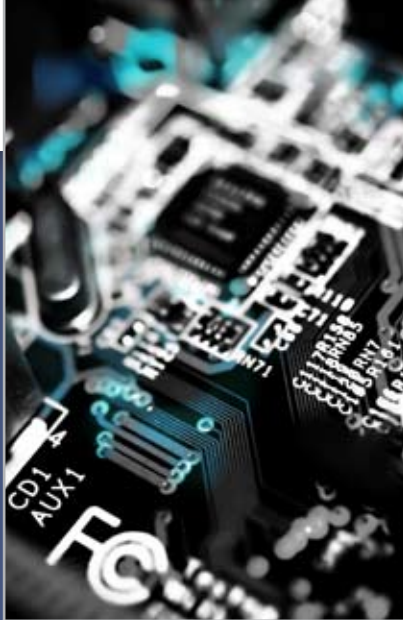
According to the Malaysian Communications and Multimedia Commission there is 59 percent internet penetration, which means that 15 million people in Malaysia have access to a 2 Mbit connection for about the same price as in Norway. For a 10 Mbit connection the price is however considerably higher, up to 30 000 NOK a month. This clearly shows that in South-East Asia, the term 'high technology country' is not comparable to the Norwegian interpretation, in terms of continuous development of technological infrastructure. Still, Malaysian cities offers significantly better technological standards than in most of the surrounding countries.



*Multimedia Super Corridor Logo*



# CYBERJAYA



## - the intelligent city

*Cyberjaya is a city born out of the Malaysian Government's initiative to transform the country from a manufacturing-based economy to knowledge-based economy. Subsequently, a plan for the development of Malaysia's Information and Communication (ICT) industry was formulated. The most crucial part of that plan was the creation of a Multimedia Super Corridor (MSC), within which an intelligent world class city was supposed to be the core component. Cyberjaya started taking shape in 1997.*

Cyberjaya is the first multimedia and ICT hub in Malaysia and aspires to be the Silicon Valley of South-East Asia. As of 2009, many leading software and hardware manufacturers are present in the area. Among these are Dell, Ericsson, IBM, DHL, Shell, Panasonic, Nokia, BMW, AIG, and Motorola.

### Infrastructure

Cyberjaya was designed to attract world class companies as the Malaysian Government intended to create the city of the future. In order to meet international standards in terms of capacity, reliability and pricing, a high-capacity digital telecommunication infrastructure was designed. The fibre-optic backbone has a speed of 10 gigabytes per second where as it usually is limited to only 2 gigabytes elsewhere in Kuala Lumpur. Additionally, the Government guarantees 99.9 percent minimum service availability of electricity and other utilities. Cyberjaya also has its own water reservoir with a 48 hour reserve.

Cyberjaya is easily accessible from the region through a number of major expressways. Kuala Lumpur International Airport as well as downtown Kuala Lumpur is only 20 minutes away from Cyberjaya. Transportation is a key element of the infrastructure in Cyberjaya, and mass transportation and public services are delivered through a variety of modes, such as taxis, buses and high speed trains.

## Employees and education

Cyberjaya is becoming a major educational hub with a number of recent educational developments such as the Cyberjaya Smart Schools, The Seri Puteri Boarding School, the Limkokwing University College of Creative Technology, Multimedia University and the Cyberjaya University College of Medical Sciences. A large share of the students start working for the companies located in Cyberjaya upon graduation.



These workers are considered as providing high value at a relatively low cost because most of them are multi-lingual, technically skilled and have educational experience from overseas.

## Advantages and incentives

Cyberjaya offers several advantages that can make it an attractive business location for a wide range of companies. Prices for private land and offices are low compared to the offices in Kuala Lumpur. While offices in Kuala Lumpur are often rented out and sold without necessities such as flooring, all offices in Cyberjaya are of good standard. Furthermore, companies located in Cyberjaya can employ unlimited share of both local and foreign workers. In addition, companies are exempt from the Malaysian local ownership requirements through achieving MSC Malaysia Status. They can collect capital from all sources and are allowed to borrow funds globally without interference. MSC companies can either be exempted from income tax for up to ten years or get an investment tax allowance.

Furthermore, pay no duties on imports of multimedia equipment and are guaranteed a censorship-free internet connection.

Although there are many advantages related to the establishment of an office in Cyberjaya, many companies are still hesitant to move. Based on our analysis, transportation services within Cyberjaya are still not sufficiently well developed. People also seem sceptical towards working, studying and living in the same relatively small area with limited social activities, especially compared to Kuala Lumpur. Acknowledging these imperfections, the development of Cyberjaya is definitely moving in a positive direction. A central part of this progress has been the continuous efforts to making living areas more attractive for locals, as well as foreigners. Over time, this will lead to more people living and working in the area, which will further increase its attractiveness for business.





### 3.3 INFRASTRUCTURE

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*A particular advantage for businesses in Malaysia has been the country's drive to develop and upgrade its infrastructure. It has been suggested that this is a reason why many companies want to establish in the country. Over the years these investments have paid off and Malaysia now has a well developed infrastructure.*

#### Roads

Peninsular Malaysia has of a large network of highways. These highways link major growth centers to seaports and airports throughout the peninsula and provide an efficient means of transportation for goods. The network connects all major cities and conurbations such as Klang Valley, Johor Bahru and Penang. The major highway, North-South Expressway, spans the length of peninsular Malaysia and is a part of the Asian Highway Network, which also connects into Thailand and Singapore. The travel time by bus from Kuala Lumpur to Singapore is approximately 5 hours and by car around 4 hours.

Roads in East Malaysia (Borneo) and the eastern coast of Peninsular Malaysia are still relatively undeveloped. The roads here pass through mountainous regions and many are still made of gravel. A good alternative here is transportation either by air or along one of the rivers.

#### Railway

To complement the highways, a Kuala Lumpur-Bangkok-Kuala Lumpur containerized service known as the Asean Rail Express (ARX) has been initiated with the aim of expanding it to become the Trans-Asia Rail Link that will include Singapore, Vietnam, Cambodia, Laos and Myanmar before ending in Kunming, China. Train services in West Malaysia are operated by the Keretapi Tanah Melayu (Malayan Railways). It has an extensive network that connects all major cities and towns on the peninsula, including Singapore. There is also a small rail service in Sabah operated by Sabah State Railway that mainly carries freight.

#### Ports

International trade, especially seaborne trade, has traditionally been important to Malaysia. Today 95 percent of Malaysia's international trade is transported by ocean-going vessels through one of Malaysia's many international ports. The major ports are Port Klang and the Port of Tanjung Pelepas in Johor. Besides the physical infrastructure being in place, the electronic data interchange (EDI) in the ports has allowed for the efficient clearance of cargo through electronic document transfer. Further details on Malaysian ports are explained in the section on Shipping.

#### Airports

Malaysia's biggest airport, KLIA Kuala Lumpur International Airport, is located 50 kilometers south of Kuala Lumpur. It has a capacity of 25 million passengers and 650, 000 tonnes of cargo per year. Cargo import and export procedures are fully automated at KLIA to cut down on delivery times.

Other important airports include Kota Kinabalu International Airport, Penang International Airport, Kuching International Airport, Langkawi International Airport, and Senai International Airport. There are also airports in smaller towns, as well as small domestic airstrips in rural Sabah and Sarawak. There are daily flight services between West and East Malaysia, which is the most convenient option for passengers travelling between the two parts of the country. AirAsia, a low-cost carrier is based out of Kuala Lumpur, and operates flights to South-East Asia and China.

#### Telecommunication

Malaysia's telecommunications network has seen impressive expansion and upgrading over the past decade following the successful privatization of its Telecommunications Department. The latest digital and fiber optics technology is being used to provide high quality telecommunication services at competitive prices.

When it comes to mobile connection, coverage in Malaysia is good and above average compared to the surrounding region. There are three major telecom companies that provide a variety of services; Maxis, Celcom and DiGi all offer prepaid and subscriptions, with relatively cheap prices compared to Norway. A call to a Norwegian mobile will not cost more than 2 NOK per minute with a Malaysian subscription. The intercity telecommunication service is provided on peninsular Malaysia mainly by microwave radio relay. International telecommunications are provided through submarine cables and satellite.



## 3.4 TAX AND INCENTIVES

*Malaysia has a reasonably business friendly tax system. There are no annual wealth taxes, no estate duties, no gift taxes, no accumulated earnings tax, no federal income tax, no controlled foreign company legislation, no thin capitalization rules and no transfer pricing rules. Moreover, capital gains tax is only imposed in very limited circumstances. Malaysia also has several attractive incentives such as Pioneer Status, Investment tax allowances and fiscal incentives for Operational Headquarter Companies.*

### General tax system

#### Corporate income tax

Corporate tax is applicable to both resident and non-resident companies. Corporate tax was 26 percent in 2008, but has been reduced to 25 percent for 2009. There is a 38 percent corporate tax on companies engaged in petroleum activities and production.

A company, whether resident or not, is assessable on income accrued in or derived from activities in Malaysia. Income derived from activities outside Malaysia and remitted by a resident company is not subject to tax, except in the case of banking, insurance business and air and sea transportation. A company is considered resident in Malaysia if the control and management of its affairs are exercised in Malaysia, which is determined by where meetings of the Board of Directors are held.

#### Sales tax

According to the Sales Tax Act 1972, all manufacturers are required to be licensed. Manufacturers that have an annual sales turnover of less than RM100 000 (200 000 NOK) are exempted from licensing and are taxed based on their inputs. These companies can opt to be licensed under the Sales Tax Act, in order to purchase tax-free inputs and only pay sales tax on their finished products with a rate of 10 percent. Raw materials for use in the manufacture of taxable goods and inputs for use in selected non-taxable products are eligible for exemption.

#### Personal Income tax

All individuals are liable to tax on income accrued in, derived from or remitted to Malaysia. The rate of tax depends on the resident status of the individual which is determined by the duration of his/her stay in the country. A resident individual is taxed on his chargeable income at graduated rates from 2 percent to 27 percent after the deduction of tax reliefs.

Generally, non-residents are liable to pay tax at 28 percent. For certain types of income such as interest, royalties and technical assistance services, non-residents are subject to a withholding tax of 10-15 percent.

#### Agreement for the Avoidance of Double Taxation

Agreements for the Avoidance of Double Taxation provide for the avoidance of incidence of double taxation on income such as business profits, dividends, interest and royalties that are derived in one country and remitted to another country. To date, Malaysia has signed such tax treaties with more than 68 countries and among them Norway.

### Pioneer Status Companies

Pioneer status is granted to companies participating in a promoted activity or producing a promoted product. Promoted activity is defined as a manufacturing, agricultural, integrated agricultural, hotel, tourist or other industrial or commercial activity and includes an activity of national and strategic importance to Malaysia, as well as research and development.

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#### *Fiscal treatment of Pioneer Companies.*

A company which is granted pioneer status obtains very favorable fiscal treatment in respect of income derived from promoted activities or promoted products. Only 30 percent of the income from the promoted activities is subject to corporate income tax, while the remaining 70 percent is tax exempt. The exemption is generally granted for a period of 5 years. To encourage investment in the States of Sabah and Sarawak, companies located in these areas are 100 percent tax exempt on their statutory income during the exemption period.

When large amounts of income are tax exempt, the company may incur taxable losses during the pioneer status period. Later on these losses can be carried forward to the post-pioneer status period and set off against future taxable profits.

Both the 70 percent exemption rule and the 5 year exemption period are basic guidelines, and depending on the industry seeking pioneer status they can be increased. Some relevant examples are listed below:

- *Where a manufacturing company is capable of achieving world class standards in terms of product quality, product price and capacity it will be eligible for pioneer status with a 100 percent tax exemption on statutory income for a period of up to 10 years. Smaller manufacturing companies are eligible for a 100 percent tax exemption on statutory income for a period of 5 years;*
- *High technology companies can apply for pioneer status. These companies are defined as companies in which at least 7 percent of the work force are science and technical graduates and of which research and development costs amount to 1 percent of gross sales. 100 percent of the statutory income of high technology companies is exempted from tax for a period of 5 years;*
- *Pioneer status is also available to strategic projects defined as projects of national importance which involve heavy capital expenditure, long gestation periods and high levels of technology, and have a significant impact on the economy. 100 percent of the statutory income of a company engaged in a strategic project is exempted from taxes for a period of 10 years;*
- *Research & Development Companies: Such companies as defined by law are entitled to pioneer status with full tax exemption on statutory income for a period of 5 years;*
- *Companies engaged in software development can obtain pioneer status for a period of 5 years with a 100 percent exemption from taxes on business income, provided that the software is for a general purpose and not customized (i.e. for only one client).*

#### *Renewal of Pioneer Status Exemption Period*

A pioneer status company exemption period can be renewed on expiry if the Government is satisfied and the company employs more than 500 persons. It should also have fixed assets (excluding land) with a value in excess of RM 25 million (6.6 million USD). Furthermore, the Government must be of the opinion that the company contributes to the economic and technological development of the country.

#### **Investment Tax Allowances**

Investment tax allowances are means of effecting a substantial artificial reduction in taxable profits. In Malaysia there are a wide variety of investment tax allowances. Investment tax allowances are transferred into an "exempt income account" where they are exempt from corporate income tax.

Dividends paid to shareholders out of the "exempt income account" are free of 'withholding taxes' on distribution. Dividends from the "exempt income account" paid to a parent corporation which in turn distributes them to its shareholders are also free of withholding taxes.

Usually, investment tax allowances are awarded to manufacturing companies, high technology companies, small and medium enterprises (SMEs) and R&D companies.

#### **Operational Headquarter Companies**

Companies that fulfill the criteria for Operational Headquarter Companies (OHC) are entitled to fiscal benefits. In order to qualify for OHC status the following criteria must be met:

1. *The OHC must be wholly owned by foreigners;*
2. *The OHC must have a minimum capital of RM 500 000 (1m NOK) or a minimum expenditure of RM 1.5m (3m NOK) per annum;*
3. *The OHC must offer and carry out three of the following services outside Malaysia : general management and administration, business planning, procurement of raw materials and components, technical support, treasury and fund management services, corporate financial advisory services, marketing, control and sales promotion, training and personnel management, research and development work & assistance in the obtaining of credit facilities.*

OHC companies are taxed at a 10 percent corporate income tax rate, provided the income is derived from the provision of "specified services" to companies located outside Malaysia. In addition, foreign source dividends received by an OHC from a foreign subsidiary are exempt from corporate income tax for a period of 10 years. Dividends distributed by the OHC are exempt from withholding tax for a period of 5 years irrespective of whether those dividends represent profits remitted to the OHC or profits earned by the OHC.

## 4.0 DOING BUSINESS IN MALAYSIA

*When doing business in Malaysia, Norwegian companies should be especially aware of the distinct differences in business culture and corporate social responsibility practices between Norway and Malaysia.*

### 4.1 BUSINESS CULTURE

*For someone wanting to do business in Malaysia, it is important to understand Malaysia's diverse society, and be aware of the main differences between Norwegian and Malaysian business culture and workplace values. Malaysian business people dealing internationally usually have a good understanding of the western customs, as many have been educated abroad. Their history of being a colonist state as well as their internal cultural diversity makes them open to different cultures and values.*

“Norwegians tend to be accepted in Malaysia. They are open minded and polite, and they try to adapt”

- a Malay working for a Bumiputra owned company

#### Cultural differences

Professor Geert Hofstede has conducted perhaps the most comprehensive study of how values in the workplace are influenced by culture, and is well known for his mapping of the world's countries across several cultural dimensions. His study was undertaken some time ago, but is still a good point of departure in order to understand the Malaysian society.

According to Hofstede's cultural dimensions, Malaysia and Norway are very different on four important dimensions: Power Distance, Individualism, Masculinity and Uncertainty Avoidance. Malaysia like other Muslim countries, scores high on power distance and masculinity. The combination of these two high scores typically creates competitive societies with large inequalities in power, wealth and status, both within corporations and in society as a whole. The Malaysian combination of power distance and masculinity also creates a situation where leaders have power and authority, and the rules, laws and regulations developed by those in power, reinforce their own leadership and control. Such societies are generally highly rule-oriented with laws, regulations, and controls in order to reduce the amount of uncertainty.

Malaysia scores quite the opposite to Norway on Hofstede's cultural dimensions, which implies that it is very different doing business in Malaysia. Malaysia scores low on individualism, which means that people tend to be more group oriented than in individualistic countries such as Norway. Norway also has a much larger focus on equality and feminine values than the Malaysian society.

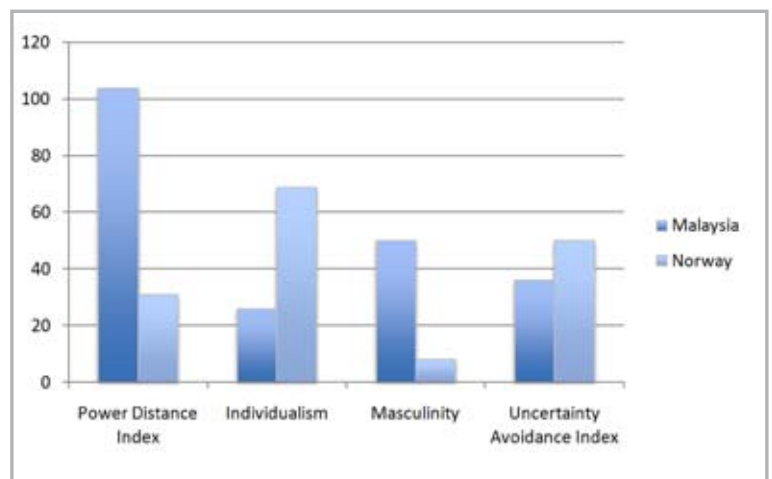


Figure 8. Comparison of cultural differences  
Source: [www.clearlycultural.com](http://www.clearlycultural.com)

#### Differences in Business Culture between the ethnic groups

Malaysia has a very complex demography compared to Norway. It is particularly important to understand this, and how this might affect business relations. As a foreigner it might be hard to distinguish between the different races. This is however essential, due to differences in business culture, negotiation style and business relationships. For Norwegians doing business in Malaysia, the customs of the Chinese and Malays are especially important to be aware of, since these are the ethnic races most likely to be potential business partners.

##### The Chinese

The majority of businesses in the private sector are managed and owned by Chinese, and many aspects relating to negotiation style are similar to China. The Chinese Malaysians do not want to lose face, and they do not want their counterparts to lose face either. This results in an indirect way of negotiating, which might be frustrating for Norwegians. There is a saying about the Chinese,



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“I cannot do business unless we are friends, but I cannot be your friend unless we do business”, which highlights the importance of being sensitive. Generally the Chinese Malaysians are very business minded, and can present many business opportunities in the private commercial market. They are especially dominant in the consumer market because of their close relationship with Chinese suppliers.

#### *The Malays*

The Malays tend to dominate most of the Governmental institutions and companies dependent on Governmental intensives and support. According to stereotypes, The Malay people are more calm and relaxed to work with compared to the Chinese. Malay organizations often have a large managerial hierarchy, which might explain the high Power Distance Index of the country.

When doing business with the Malays, it is important never to rush any conversation or deal before a relationship is established. Malaysians seek harmony, and typically avoid situations that might cause conflicts or unpleasant situations. The seeking of harmony might hinder constructive and honest conversation and openness might suffer as a result of this.

#### **General business customs**

##### *Greetings*

When it comes to handshaking and other greetings, always execute common curtsies. A common way among the Malay is to give a soft and short handshake, and then put the hand to the heart. It is recommended to let the other party initiate the greeting, especially when greeting women. Many Muslim women do not want to shake hands with men. In such cases, a polite nod will suffice. Elderly people are usually introduced first and women before men. Hierarchy is very clear in these situations.

There are many noble and honorable titles that should be used, especially when the relationship is still

young. Tunku or Tengku indicates hereditary royalty; Tun denotes nobility. Tan Sri and Datuk indicate knighthood. Tuan or Encik is the equivalent of Mr, Puan of Mrs, Cik of Miss.

##### *Relationships*

Patience and endurance are important values in Malaysian negotiation and the process typically is time consuming compared to in Norway. The Malaysians build their business relationship on friendship and trust just as much as on business expertise. It is therefore important to spend time with the business partner, also outside of the office.

##### *Gifts*

It is not always expected to bring gifts, but it is a polite gesture. Gifts are typically given at the end of the meeting, and not opened in front of the giver. Normal gifts include company pens, calendars etc. It is recommended to avoid sharp articles, watches and alcohol.

##### **Do**

- Dress discreetly and cover up. A long sleeved shirt and long pants for men, maybe also a tie. A jacket is rarely expected. Women should wear long shirts and long skirts or pants
- Make appointments well in advance. Avoid Monday morning and Friday afternoon
- Remember to bring your business card

##### **Don't**

- Touch someone's head, as it is considered a sacred part of the body
- Point with a finger; use a closed hand with the thumb in front instead
- Use the left hand for shaking, eating or giving

#### **Hofstede's cultural dimensions**

**Power Distance** is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally.

**Individualism** is the degree to which individuals are integrated into groups. In individualistic societies ties between individuals are loose; in collectivist societies people are integrated into strong, cohesive groups where loyalty is important.

**Masculinity** refers to the value placed on traditionally male or female values. Masculine cultures value competitiveness, wealth and material possessions, while feminine cultures place more value on relationships and quality of life.

**Uncertainty Avoidance** deals with a society's tolerance for uncertainty and ambiguity. Uncertainty avoiding cultures minimize uncertainty by strict laws and rules, and on the philosophical and religious level by a belief in absolute Truth.

Source: [www.geert-hofstede.com](http://www.geert-hofstede.com)

## 4.2 CORPORATE SOCIAL RESPONSIBILITY AND CORRUPTION

*Norwegian companies who are looking to establish in Malaysia, should be aware of the gap between what is regarded good Corporate Social Responsibility (CSR) practice in Norway and in Malaysia. Furthermore, Norwegian companies should be aware that corruption is more widespread in Malaysia than in Norway.*

### Corporate social responsibility in Malaysia

Corporate Social Responsibility (CSR) is a commitment by business to behave ethically and contribute to economic development while improving the quality of life of employees and their families as well as the local community and society at large. A dilemma which arises in relation to CSR is that different countries have varying interpretations regarding the social obligations of private business. Often there will be gap between the relatively strict legislation which pertain to Norwegian companies and the requirement by private businesses in other countries. When establishing in Malaysia, Norwegian companies should be clear on how they wish to incorporate CSR into their operational activities in Malaysia, particularly as this is a less developed country

Bursa Malaysia performed a CSR survey in 2007 which showed that locally listed corporations are far behind international standards when it comes to implementing good CSR practices. The results of the survey showed that 11.5 percent of the corporations surveyed are in the poor category, 28.5 percent below average, 27.5 percent in the average category. That leaves only 32.5 percent of the companies in the above average. Multinational corporations achieved the highest scores - of the 4.5 percent in the leading category, 67 percent where multinational corporations. The results of this survey

indicate that companies have a poor understanding and lack awareness in relating to CSR policies and disclosures. Areas that require more attention are the environment and diversity, as the findings indicated that too few companies consider how their business activity impacts the environment and equally that too little focus is placed on improving diversity.

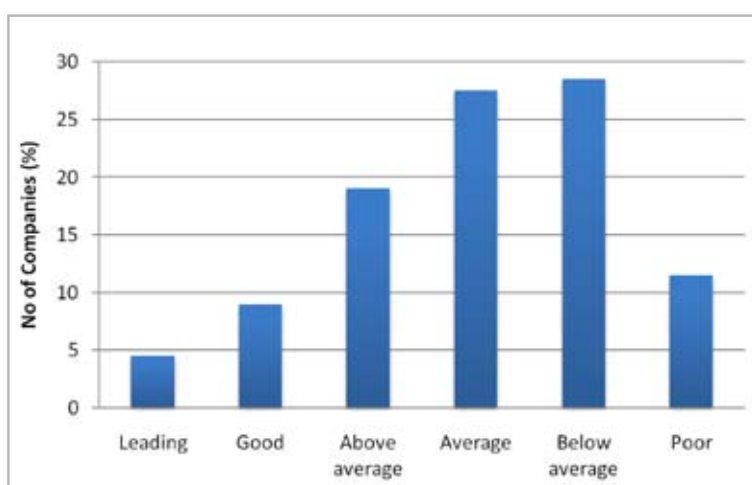


Figure 9. CSR standards in Malays  
Source: Bursa Malaysia 2007

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### Corruption in Malaysia

There is a widespread perception that corruption is common among Malaysia's political and business elite, though the problem is smaller than in many surrounding countries. A range of anti-corruption initiatives have been introduced to deal with the problem, but the fight against corruption seems to have stalled in recent years and few concrete reforms have been put in to practice.

Bribery and other corruption practices are viewed as a serious problem for companies operating in Malaysia. In the World Economic Forum Global Competitiveness Report 2007-2008, Malaysian business leaders rank corruption as the second problematic factor for doing business in the country (after inefficient Governmental bureaucracy). The results from the report show that Malaysia is perceived by foreign businessmen to be more corrupt in 2008 than in 2007.

Recent surveys show that local people also believe corruption to be a challenge. The Peninsula Malaysia Voter Opinion Poll July 2008 shows that 62 percent of the respondents believe people with political connections are the ones who really profit from projects funded by the Government. Companies known as "political businesses" are an important aspect of the corruption situation in Malaysia. These companies owe their growth to favored treatment received from the ruling party, and sometimes the entire company is owned by political officials.

The Transparency International Malaysian Transparency Perception Survey 2007 show that 47 percent of corporate respondents admit to having paid bribes or knowing someone who have done so, mainly to avoid inconveniences. Transparency International's 2008 Corruption Perception Index of Asia Pacific states that "corruption and lack of transparency, particularly in political financing, clearly remain serious challenges across the region (Asia Pacific)". Of the 32 countries in the region, only ten scored above 5. Malaysia is the top ten ranked country in the region, with a score of 5.1. Compared to most of its neighboring countries, Malaysia has a significantly smaller corruption problem.

Country rank of 180 countries	Country	Score
4	Singapore	9.2
12	Hong Kong	8.1
14	Norway	7.9
47	Malaysia	5.1
72	China	3.6
80	Thailand	3.5
121	Vietnam	2.7
126	Indonesia	2.6
166	Cambodia	1.8

*Table 6. Corruption rank of comparable countries  
Source: Transparency International 2008 Corruption Perception Index*

An area that is especially important for companies looking to do business in Malaysia is the corruption risks and legal liabilities associated with joint ventures and the use of agents. Therefore companies are strongly advised to develop, implement and strengthen their integrity systems, and to conduct extensive due diligence when planning their business activities in Malaysia.



## PART 3: BUSINESS SECTORS



This part explores three sectors that are considered to be especially interesting for Norwegian companies in Malaysia: Oil and Gas, Shipping and Aquaculture. For each sector there is presented an overview of the sector and opportunities for Norwegian companies. This is followed by a discussion of challenges Norwegian companies might face and recommendations on how to enter the Malaysian market.

### Outline of Part 3

- 5.0 Oil and Gas
- 6.0 Shipping
- 7.0 Aquaculture

Each sector contains:

- *Overview*
- *Opportunities*
- *Challenges*
- *Entry Strategy*





## 5.0 OIL AND GAS

Malaysia is a mature oil and gas producing country. PETRONAS is the national oil company, which is fully owned by the Government and has the ownership rights and control of the country's petroleum resources. Prospects for the Malaysia's oil and gas industry are bright, especially in deepwater and ultra-deepwater areas, where only half of identified exploration acreages have been explored. Only a few of the discovered deepwater fields have been developed for production. PETRONAS has ambitions to develop the country as a deepwater hub in Asia Pacific. This requires new technology and the demand for equipment will increase, which gives Norwegian oil and gas companies good opportunities in the country.

This chapter on oil and gas in Malaysia will primarily focus on the upstream industry. The first section will provide an overview of the oil and gas sector, including an outline of the history, reserves, exploration and production, pipelines, Liquefied Natural Gas production and main players in the market. The middle sections will explain the PETRONAS licensing process and opportunities for Norwegian oil and gas firms in Malaysia. The two last sections will present some challenges Norwegian firms might face and recommendations on how to enter the industry in Malaysia

### 5.1 OVERVIEW OF THE MARKET

Malaysia is ranked as the world's 24th largest producer of oil and 14th largest producer of gas. Until 1990 the exploration was limited to shallow waters, but subsequently 16 deepwater fields have been discovered.

#### History

The first oil well in Malaysia was discovered by Shell in 1910 in Miri, Sarawak. This well is colloquially referred to as the 'Grand Old Lady'. Until 1963, Shell was the only oil company operating in this area. In 1968, Shell began production at the first offshore oil field. Some years later, Esso received a license to undertake exploration activity in the Malay Peninsula. By 1974, Malaysia's output of crude oil was about 81 000 barrels per day. To prevent foreign companies getting too much control over oil exploration, the Malaysian Government established a state-owned oil company, PETRONAS, in August 1974. The company entered the downstream industry for the first time in 1976 and in the same year Malaysia became a net exporter of oil. The oil reserves were estimated to be about 2.84 billion barrels early in the 1980s. Still it was officially predicted that by the late 1980s Malaysia would be net oil importer.

When the oil prices fell dramatic during 1986, Malaysia's income from exported oil decreased by more than a third, even though the volume of exports rose by 16 percent. This discouraged interest in new arrangements. In 1989 PETRONAS had however signed 22 new contracts with 31 companies from 11 countries.

#### Resources

Malaysia's proven reserves of crude oil are 4 billion barrels and 2.35 trillion cubic meters of natural gas (CIA World Factbook, January 2008 est.). Most of the oil

reserves are located off the coast of Peninsular Malaysia, and are considered of high quality. Much of the natural gas production comes from Eastern Malaysia, especially off the shores of Sarawak.

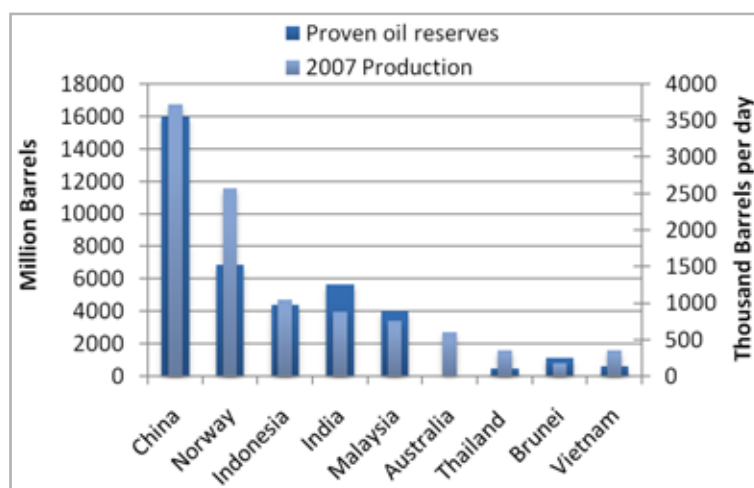


Figure 10. Oil reserves and production  
Source: CIA World Factbook



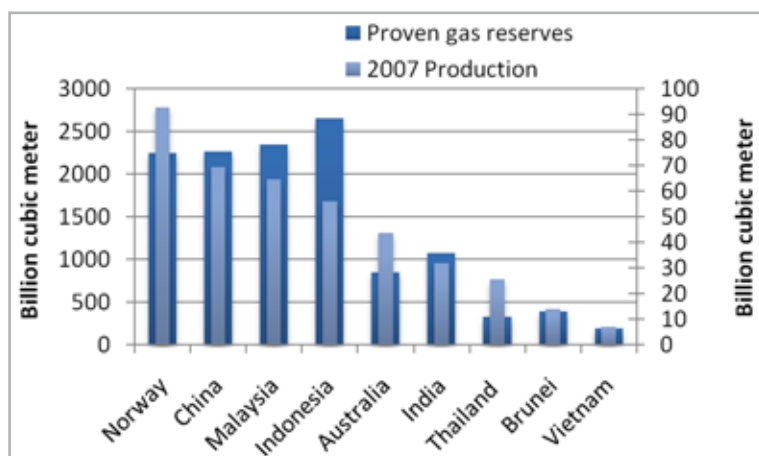


Figure 11. Natural gas reserves and production  
Source: CIA World Factbook

### Exploration and production fields

Malaysia's national oil company, PETRONAS, dominates upstream and downstream activities in the country, and owns the rights to all exploration and production projects in Malaysia. All foreign and private oil companies must operate through Production Sharing Contracts (PSCs) with PETRONAS. (See the next chapter on PETRONAS for further description).

The total offshore exploration area in Malaysia is 565,555 square kilometer. There are currently 71 blocks in exploration and in operations and another 40 open blocks. About one third of these blocks are in deepwater. There are 312 fields discovered, 61 are producing oil fields and 27 are gas fields. See the exploration and production acreage situation map for detailed information about these fields.

Until 1993, exploration and production were carried out on the broad continental shelf off the coast of the states of Sabah and Sarawak, and off the coast of Terengganu in Peninsular Malaysia. The deepwater exploration started in the 1990s. Today a total of 16 deepwater fields are discovered, and 20 of the Production Sharing Contracts in operation are in deepwater and ultra deepwater areas.

Most of the deepwater areas are located offshore Sabah. The first production from a deepwater field began in august 2007 on the Kikeh field (Block K) that was discovered in 2002. The second deepwater development at Gumusut-Kakap was discovered in 2007 and Shell is expected to start production in the end of 2011.

On production, the Kikeh oil field is estimated to lift Malaysia's oil production by 18 percent against an oil production of 661,000 barrels per day (bbl/d) in 2007. The Gumusut-Kakap field is estimated to lift the oil production by 20 to 23 percent per day by 2010. To ensure growth and sustainability in Malaysia's oil revenue a significant increase in exploration and development of deepwater fields is now needed. PETRONAS has identified deepwater as a key area of future activities and has started activities for making Malaysia a deepwater hub for South-East Asia.

### Pipelines

Malaysia has one of the most extensive natural gas pipeline networks in Asia. The Peninsular Gas Utilization (PGU) was completed in 1998. The goal of the PGU was to expand natural gas transmission infrastructure on Peninsular Malaysia. The PGU system spans more than 880 miles and has the capacity to transport 2 billion cubic feet of natural gas per day. In 2006, the linkage between the PGU pipeline to the Trans-Thailand-Malaysia Gas Pipeline System at Changlun, Kedah was finished, providing additional security of supply to Malaysia. This linkage is a significant step towards the realization of the proposed Trans-ASEAN Gas Pipeline (TAGP) system, which is going to link the major gas producers and consumers in South-East Asia. Because of Malaysia's extensive natural gas infrastructure and its location, the country is a natural candidate to serve as a hub in the proposed TAGP project.

Field Name	Recoverable	Water Depth	On-stream Date	Operator
Kikeh	536 mmboe	1,300 m	Q 3 2007	Murphy Oil
Gumusut-Kakap	620 mmboe	1,100 m	Q 4 2010/Q 1 2011	Shell
Malikai	108 mmboe	480 m	Q 2 2011	Shell
Kebabangan	2.2 tscf	> 200 m	Q 3 2011	ConocoPhillips
Jangas	81 mmboe	> 1,000 m	Q 4 2011	Murphy Oil
Ubah Crest	215 mmboe	> 1,000 m	Q 2 2012	Shell
Pissgan	56 mmboe	> 1,000 m	Q 3 2012	Shell
Kamunsu	2.2 tscf	> 1,000 m	Q 2 2013	Shell

Table 7. Main deepwater discoveries  
Source: Innovation Norway Malaysia

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### Liquefied Natural Gas (LNG)

Malaysia is the second largest exporter of LNG in the world. Most of the LNG production from Malaysia is exported to Japan, South Korea, Taiwan and small amounts are exported to United States and Spain. LNG is primarily transported by the PETRONAS-owned shipping line MISC, which owns and operates 23 LNG tankers. Malaysia has three LNG processing plants, which are located at Bintulu and are supplied by the natural gas fields at Sarawak.

Plant	Ownership	Capacity (MMt/y)	Start-up
MLNG	PETRONAS (65%), Shell(15%), Mitsubishi (15%), Sarawak local government (5%)	8,1	1983
MLNG Dua	PETRONAS (60%), Shell(15%), Mitsubishi (15%), Sarawak local government (10%)	7,8	1996
MLNG Tiga	PETRONAS (60%), Shell(15%), Nippon Oil (10%), Sarawak local government (5%), Diamond Gas (5%)	6,8	2003
<b>Total liquefaction Capacity at Bintulu Complex</b>		<b>22,7</b>	

Table 8. Malaysia's LNG infrastructure.  
Source: EIA

### Main players

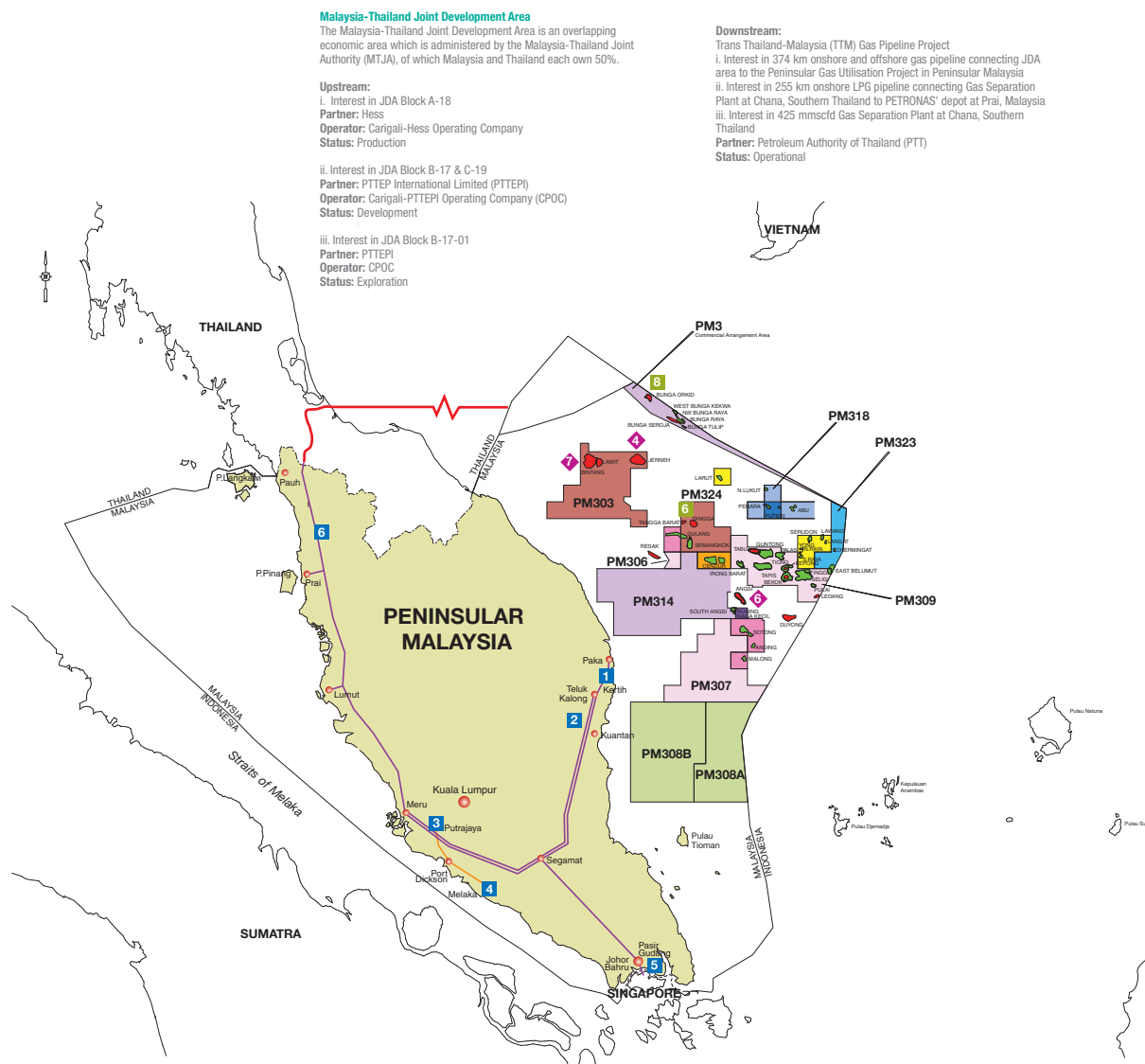
In the Malaysian upstream industry there are 15 Exploration and Production companies working under PETRONAS production sharing contracts. The major companies are Shell, ExxonMobil, PETRONAS Carigali and Murphy Oil. When the deepwater fields start, PETRONAS Carigali, BHP, Murphy Oil and Shell are expected to be the main players in this market. See the exploration and production acreage situation map for more block information.

Of the six refineries in Malaysia (with a total processing capacity of about 545,000 bbl/d), PETRONAS operates three (259,000bbl/d total capacity), Shell operates two (200,000 bbl/d) and Exxon Mobil, one (86,000 bbl/d).

In the petroleum industry there are different regulations for activity in the downstream sector compared to the upstream sector, and PETRONAS has to compete with other multinational oil companies operating in Malaysia. Downstream activities are regulated by the Ministry of International Trade and Industry (MITI), which is responsible for processing and enforcement of licenses.



# Domestic Operations



## LEGEND:

### Exploration Contract Areas

PM3 CAA	Talisman Malaysia Ltd / Talisman Malaysia (PM3) Ltd / Petrovietnam / PETRONAS Carigali Sdn Bhd (PCSB)
PM301 PM302	CS Mutiara Petroleum Sdn Bhd
PM314	Talisman Malaysia Ltd / PCSB
PM306, PM307, PM309	PCSB
PM318	PCSB / Newfield Peninsula Malaysia Inc
PM323	Newfield Peninsula Malaysia Inc / PCSB
PM308A	Lundin Malaysia BV / Nippon Oil Exploration (Peninsula Malaysia) Ltd / Japan Energy Malaysia E&P Co Ltd / PCSB
PM308B, SB303	Lundin Malaysia BV / PCSB
PM303, PM324	Total E&P Malaysia / PCSB
SK305	PCSB / PERTAMINA / Petrovietnam

SK307	PCSB / Sarawak Shell Bhd
SK308	Sarawak Shell Bhd / PCSB
SK309, SK311	Murphy Sarawak Oil Co Ltd / PCSB
BALINGIAN PSQ	PCSB
SK310	Newfield Sarawak Inc / Mitsubishi Corp. / PCSB
SK333	Nippon Oil Exploration Ltd / PCSB
SB301	Sabah Shell Pet. Co Ltd / Shell Sabah Selatan / KUPPEC / PCSB
SB305	PCSB
SB312	PCSB / KUPPEC
DEEPWATER BLOCK E	Sarawak Shell Bhd / PCSB

DEEPWATER BLOCK 2C	Hess (Malaysia - Block F) Ltd / Total / PCSB
DEEPWATER BLOCK 2C	Newfield Sarawak Malaysia Inc / Mitsubishi Corp. / PCSB
DEEPWATER BLOCKS G, J, K, L, M, P	Murphy Sabah Oil Co Ltd / PCSB
DEEPWATER BLOCKS N, Q	BHP Billiton Petroleum Sabah Corp. / PCSB
DEEPWATER BLOCKS ND1, ND2, ND3, ND4, ND5	PCSB
DEEPWATER BLOCKS ND6, ND7	Sabah Shell Pet. Co Ltd / Shell Sabah Selatan / PCSB

### Significant Upstream Producing Fields

- 1 Jintan (Gas)
- 2 E8 (Gas)
- 3 F6 (Gas)
- 4 Jerneh (Gas)
- 5 Kikeh (Oil)
- 6 Angsi (Oil & Gas)
- 7 Bintang (Gas)
- 8 E11 (Gas)
- 9 Baram (Oil)
- 10 F23 (Gas)

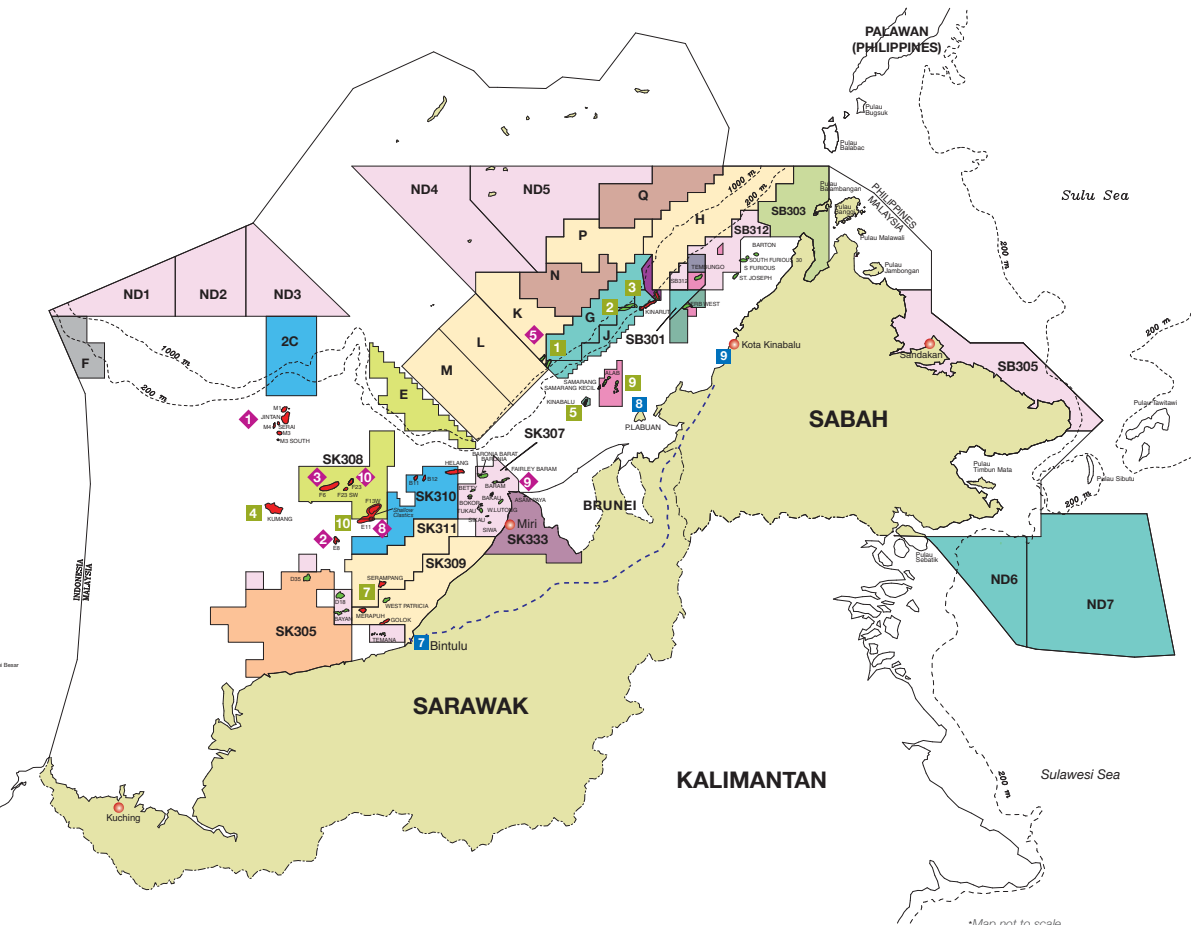
### Producing Fields

Oil Field Gas Field

### Peninsular Gas Utilisation System

### Multi-Product Pipeline

### Sabah-Sarawak Gas Pipeline (under construction)



## Upstream Activities

### Development Projects

- 1 Gumusut/Kakap (Deepwater) (Oil)
- 2 Malikai (Deepwater) (Oil)
- 3 Kebabangan (Deepwater) (Gas)
- 4 Kumang Cluster Phase 1 (Gas)
- 5 Kinabalu East/Kinabalu Deep (Gas)
- 6 Tangga Cluster (Gas)
- 7 SK309/SK311 Phase I (Gas)
- 8 PM3 CAA - Northern Field Development (Gas/Oil)
- 9 Sumandak Phase II (Oil)
- 10 E11 Hub Stage II (Gas)

## Downstream Plants & Facilities

- 1 **PETRONAS Petroleum Industry Complex, Kertih**
  - Refinery & Condensate Splitter
  - Gas Processing Plants - GPP 1-6
  - Ethylene / Polyethylene Plants
  - Ethylene Cracker
  - Ethylene Oxide / Ethylene Glycol Plant
  - Multi-Unit Derivatives Plant
  - Vinyl Chloride Monomer / Polyvinyl Chloride Plant
  - Ammonia / Synthesis Gas Plant
  - Acetic Acid Plant
  - Aromatics Plant
  - Low Density Polyethylene Plant
  - Crude Oil Terminal
  - Gas Terminal
  - LPG Bottling Plant
  - Centralised Utilities Facility
  - Kertih-Kuantan Railway System
  - Kertih Port
- 2 **Gebeng Integrated Petrochemical Complex, Kuantan**
  - MTBE / Propylene & Polypropylene Plants
  - Propane Dehydrogenation Plant
  - Acrylic Acid / Acrylic Esters Plant
  - Oxo-Alcohols Complex
  - Butanediol Plant
  - Centralised Utilities Facility
- 3 **Putrajaya**
  - Klang Valley Distribution Terminal and Multi-Product Pipeline
- 4 **Melaka**
  - Refinery – PSR1 and PSR2
  - Group III Base Oil Plant (under construction)
- 5 **Pasir Gudang**
  - Ethylbenzene / Styrene Monomer Plant
  - Malaysia Marine and Heavy Engineering (MMHE) Yard
- 6 **Gurun**
  - Ammonia / Urea Plant
- 7 **Bintulu**
  - PETRONAS LNG Complex (MLNG, MLNG Dua, MLNG Tiga)
  - Ammonia / Urea Plant
  - LPG Extraction Facility
- 8 **Labuan**
  - Methanol Plant
  - Mega-Methanol Plant
  - Crude Oil Terminal
  - Gas Terminal
- 9 **Kimanis**
  - Oil and Gas Terminal (under construction)
  - Sabah-Sarawak Gas Pipeline (under construction)



## 5.2 PETRONAS

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*Petronas is the acronym for Petroliam Nasional Berhad. The company is owned by the Government and has the entire ownership and control of the petroleum resources in Malaysia. The Government established Petronas on 17th August 1974 to control the oil and gas activities in Malaysia, and to ensure that the value created would benefit the people. Petronas is a wholly Government owned company, vested with the entire ownership and exclusive rights in the exploration, development and production of the petroleum resources in Malaysia. The company reports directly to the Prime Minister.*

The Financial Times has identified PETRONAS as one of the “new seven sisters”, which are the most influential oil and gas companies from countries outside the OECD. As a result of its powerful role and growth, PETRONAS has in many ways become a proud symbol of Malaysia’s enormous economic progress.

The PETRONAS Group, with all its subsidiaries, has activities in more than 30 countries and employs in excess of 30 000 people. PETRONAS Carigali Sdn Bhd which is the Exploration and Production arm of PETRONAS is one of many noticeable subsidiaries. Within PETRONAS, there is also a unit known as Petroleum Management Unit (PMU) that acts like the Norwegian Petroleum Directorate.

PETRONAS also controls MISC, Malaysia’s national shipping company which operates more than 100 ships worldwide, and has the world’s largest fleet of LNG carriers. MISC also owns and operates most of the offshore production vessels in Malaysia. For more information about MISC, see the chapter on Shipping.

The total worldwide reserves of the PETRONAS Group are currently estimated at 26.37 billion barrels of oil equivalent (boe), where international reserves account for 23.7 percent. The Group had a Reserves Replacement Ratio (the ratio of new reserves to oil produced) of 0.9 times in 2008. Total production of the group for 2008 was recorded at 1.77 million boe per day, of which 1.115 million was delivered by domestic production, and 0.615 million from international interests. PETRONAS produced 69.2 percent of Malaysia’s total production in 2008. The group secured 13 new Production Sharing Contracts abroad in 2008, bringing the number of international upstream ventures to 63 in 23 countries.



PETRONAS Logo

### **PETRONAS’ contracts and licenses**

There are many rules and regulations that any company in the oil and gas industry will have to comply to. As in many other countries in the world the regulations are created to protect the country’s wealth from being exploited by foreigners. As a result it may be easier to get PETRONAS’ acceptance if one can bring value in employment, knowledge building or new technology. Important systems to be aware of are the Product Sharing Contracts, the PETRONAS Licensing system and the bidding and procurement process.

### **PETRONAS’ Product Sharing Contracts**

PETRONAS regulates exploration, development and production activities in Malaysia through Production Sharing Contracts (PSC). These contracts are similar to those that multinational oil and gas companies enter into with other host countries and partners. No foreign operator in Malaysia has 100 percent operational control of a field; this is always split between PETRONAS Carigali and the operator. The PSCs are individual contracts between PETRONAS and the operators, and are built on a common structure. They are however open to negotiation. There are two main types of PSCs, one for the exploration and development phase, and one for the operation phase. There are always time regulations involved.

Each contract obligates the PSC contractor to provide all of the financing and bear all of the risk associated with exploration, development and production activities in exchange for a share of the total production. In 1997, PETRONAS introduced a new PSC based on the “revenue over cost” concept (R/C PSC) to encourage additional investment in Malaysia’s upstream sector. The R/C PSC allows PSC contractors to accelerate their cost recovery if they perform within certain cost targets. The underlying principle is to allow the PSC contractor a higher share of production when the contractor’s profitability is low and to increase PETRONAS’ share of production when the contractor’s profitability improves. The contractor’s profitability at any time is measured by the “R/C Index”, which is the ratio of the contractor’s cumulative revenue (calculated as the sum of the contractor’s cost oil and profit oil or cost gas and profit gas, as the case may be) over the contractor’s cumulative costs.

The relationship between the operator and PETRONAS is relatively uncomplicated. It is designed so PETRONAS is able to control all operations in Malay-

sia. The relationship between the operator and the suppliers is however also controlled by PETRONAS. All service contracts have to go through the PETRONAS procurement process, and all service suppliers need to have a PETRONAS License.

### PETRONAS Licensing System

Any company who intends to deliver services to Exploration and Production companies in the Malaysian upstream market needs to obtain a PETRONAS License. Once a company has a license, the company can apply to PETRONAS to add various work/services categories to the license. A company can participate in tenders for the categories of work/services, which the company has registered with PETRONAS.

The License is one action to encourage the development of local industry. PETRONAS also try to restrict the number of companies providing the same services/products. The common requirements are that the licensed company must have at least 51 percent Malay ownership. Receiving a license is a result of a company review, and there are many ways a company can meet these requirements. The requirements are listed on the PETRONAS webpage. This is discussed further in the section about entry strategy.

### PETRONAS bidding and procurement process

PETRONAS' Petroleum Management Unit (PMU) has developed a monitoring system around the process of bidding and tendering for a contract. It applies to all contracts given by an operator, but also between the contractor and the subcontractor. All services supplied in any part of the contract network have to follow the rules of the PETRONAS procurement process unless the contract value is less than RM 2 million (RM 0.5 million in some cases).

An operator or contractor who offers a project will have to send the tender to PETRONAS. PETRONAS will review the tender and go through their "bidders list" to find all service companies that are prequalified through the license to cover the particular work/service. All qualified companies on the bidders list will be invited to tender. The bidders will then have to prepare a technical and commercial bid, which will be presented to PETRONAS' Petroleum Management Unit (PMU). The PMU will then open the technical bid and decide who is technically qualified before they open the commercial bid. They will then take a final decision on which supplier they will offer the contract to. If an operator has preferences for a specific company to perform the job, PETRONAS usually takes this into consideration. It is not uncommon in these cases that the operator and service supplier get a letter of intent from PETRONAS before the decision is officially taken.

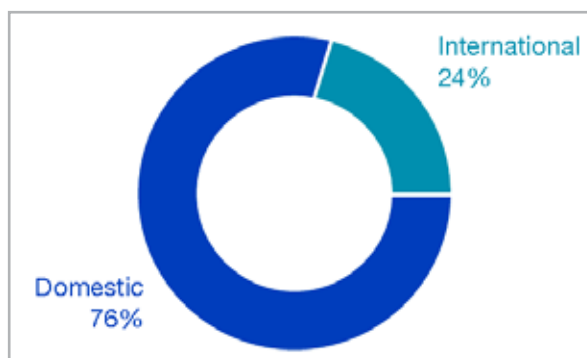


Figure 12. PETRONAS Group's Oil and Gas reserves  
Source: PETRONAS

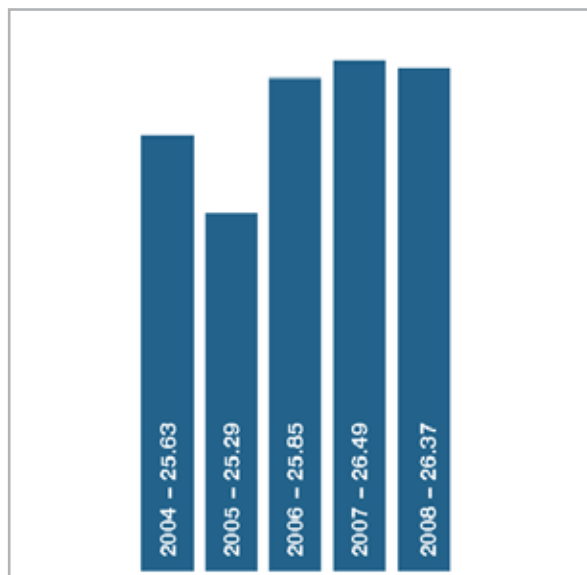


Figure 13. PETRONAS Group's Oil and Gas reserves  
(in billion BOE)  
Source: PETRONAS

## 5.3 OPPORTUNITIES

*Based on IB's research, there are two main areas of opportunity for a foreign company in Malaysia. One is the possibility to use Malaysia and Kuala Lumpur in particular as a hub for the company's activities in the South-East Asian Region. There are also many Government intensives that make it easier to build regional supporting facilities like production plants and service centers. Secondly the possibilities in the local market have increased in recent years due to the deepwater discoveries, and there is still a lot of activity related to the old shallow water fields, especially terms of service and maintenance.*

### Advantages of establishing in Malaysia

Malaysia is one of the first countries in South-East Asia to discover deepwater fields, and PETRONAS has plans to develop Malaysia into a Regional Deepwater Centre to support and provide deepwater services to the oil and gas industry in the region. With a substantial deepwater home market and the ambition to become a deepwater hub, Malaysia has significant potential as a future growth market.

“We have entered an entirely new era of our oil and gas history. The developments to date have been shallow water fields with relatively conventional facilities which have for many years been designed and fabricated locally. This new deepwater phase heralds the arrival of not just addi-

tional value in terms of production but also of new technology and expertise required to develop these fields. As one of the first countries in South-East Asia to discover and develop reserves in deeper waters, we believe there is scope to build Malaysia into a regional center of deepwater excellence.”

*-PETRONAS' Vice President of Exploration & Production, Ramlan A. Malek (Aker Solution 2007: 14)*

Government intensives to attract foreign investments provide a golden opportunity to establish operations in Malaysia. PETRONAS encourages joint-ventures and partnerships between established foreign oil companies and Malaysian companies, especially companies supplying deepwater technologies. Arrangements such as



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duty-free zones are one such intensive. Aker Solutions has taken advantage of this and established a plant in the Port Klang duty-free zone just outside Kuala Lumpur. Kuala Lumpur has developed into a city where most of the major oil and gas companies in the region are represented. Additionally, the infrastructure in Malaysia is good and the costs are lower compared to some neighboring countries such as Singapore and Australia.

IB's impression is that Malaysia is a good choice for a Norwegian company who wishes to establish a presence in South-East Asia, but also if the goal is mainly to do business in the Malaysian market. More Norwegian companies establish in the country every year, and very few have withdrawn from Malaysia to date. Malaysia's current building activities, entrance into deepwater, and their upheld demand for foreign expertise, are going to maintain Malaysia as an attractive oil and gas market for many years to come.

#### Business Opportunities

Prospects for the Malaysian oil and gas industry are encouraging especially in deepwater and ultra-deepwater, where only half of identified exploration sites have been explored. Until 2010, there are plans to drill 11 wells each year. This plan has been ongoing since 2006, which will bring a total of 53 deepwater wells during this period.

Although the oil from the shallow water fields is depleting, the Government requires PETRONAS to produce 600.000 bbl/day in Malaysia. It is expected that production from deepwater fields will compensate for the decrease in production from shallow water fields, and contribute to about 30 percent of Malaysia's oil production by the year 2010.

The production from the Kikeh deepwater field started in 2007 and the Gumusut-Kakap field is expected to start producing in 2011. The development of such deepwater fields will boost the demand for FPSOs, semi-submersibles platforms, deepwater drilling rigs and other support vessels. Another prospect is marginal fields. As of January 2009, there are 42 open blocks, where about 8 are deepwater blocks and the rest is shallow water fields. When PETRONAS opens these marginal fields for exploration, operators and more services from supplying companies will be required. Additionally, old fields also need servicing, as the equipment needs to be changed or repaired. The need for cleaning up old equipment in dry fields will also emerge.

There are several areas which require foreign technology, such as technology for modeling gas fields with high CO<sub>2</sub> content. As stated by PETRONAS' Vice President of Exploration&Production; "With the eight or nine deepwater discoveries recently made, the demand for cost-effective services, innovative technologies and increased capacity can only increase" (Aker Solutions 2007: 15). Norwegian technology is well known in Malaysia and the increasing exploration in deepwater and marginal fields gives Norwegian companies a clear comparative advantage in Malaysia.

Key areas	Key activities
Development Concept	FEED and Feasibility Studies
Support Structure Engineering	Topside Design
	Hull Design - Dry Tree units (DTU)
	Hull Design - Floating Vessels/Wet Tree Units
Support Structure Fabrication	Fabrication - Topside and Hull
Design, Engineering and Manufacturing	Flowline and Risers
	Umbilical/Fluid Transfer Lines (FTL)
	Subsea Modules
Installation	Pipeline installation

Table 9. Key equipment and expertise required for deepwater exploration.

Source: Innovation Norway Malaysia

## 5.4 CHALLENGES

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*There are many good opportunities to do business in the Malaysian oil and gas market, and Petronas is welcoming foreign companies to enter. International Business has however identified some areas that might be challenging and need extra attention. Dealing with Petronas, daily corporate activities and market entry are the most noticeable areas.*

### PETRONAS

Since all oil and gas activities are controlled by PETRONAS, any foreign company in the business should spend time and resources on understanding and dealing with the PETRONAS system. The company has over the years grown to become a huge multinational company and have many subsidiaries and units.

PETRONAS' procurement process is extensive and might seem quite complex in the beginning. Issues that may arise will probably be related to adding and keeping various work/services categories in the license.

A challenge with the procurement process is price competition. The procurement process has led to a higher focus on acquisition cost than lifecycle cost. For Norwegian companies, this means that the pricing routines might have to be reconsidered in order to be competitive. If a low bid is necessary to get a contract, companies are often bidding lower than they can deliver and gamble that they might charge for extra services somewhere else in the project. PETRONAS is trying to counter this through thorough review of the bid, but the issue is still present.

It might have financial consequences for the Exploration and Production companies if any contractor is not following the procurement process correctly. All operational costs are supposed to be split between the operators in the ratio of the Production Sharing Contracts, but there is no guarantee that PETRONAS will pay their part if the tendering process is not done correctly.

PETRONAS has recently initiated a Vendor Development Program (VDP) that is reserved only for local companies. The VDP is advantageous and makes it easier for local companies operating, within certain categories of services, get to contracts. There are not many products or services that come under the VDP yet, but this program will lead to tougher competition for foreign companies within these categories.

### Corporate activities

IB's impression is that running an office, service facility or production plant is quite unproblematic once it is established. There are however challenges in getting skilled labor and local employees with good connections.

A Norwegian company might also encounter challenges related to Health, Security and Environment (HSE) standards. IB understands that such activities might affect processes in the oil and gas industry. When it comes to HSE standards and other precautionary measures, Malaysians are of a different mindset than Norwegians. It will take time to build up a good relationship with the local employees to ensure they meet Norwegian HSE standards.

### Market entry

In the Malaysian oil and gas market, Norwegian companies have a good reputation for delivering high quality products and services. That does not however mean that a newly established Norwegian company will find it easier than others to win contracts. Most of the major suppliers have already entered the market or are expected to do so, and the competition among the existing actors is strong. To get a position in the market, it might thus be necessary to accept projects with little or no surplus in the beginning.

Furthermore, the Malaysians have great pride in their local competence and technology, and foreign technology has to be proven to work in the region in order to be recognized. The conditions in the North Sea are very different from conditions in South-East Asia. Technology delivered in the North Sea might thus be too advanced for the conditions in Malaysian waters and it might be necessary to "engineer down" the equipment in order to be competitive.



## 5.5 ENTRY STRATEGY

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*The key when entering the Malaysian upstream oil and gas market is to get the Petronas License. It is therefore recommended to spend time and resources on understanding the Petronas system before entering the market. It is advisable to have people on board from an early stage with extensive knowledge of the Petronas procurement and licensing system.*

The licensing requirements can be dealt with in many ways, and there are thus many possible approaches on how to enter the Malaysian oil and gas market. The three most typical ways are either to go into a Joint Venture with a local company, set up a local company entirely or work through a local agent. Another possibility is to establish a company with a Headquarters in the region.

Establishing a joint venture with a Malaysian company is good alternative, and this is what PETRONAS recommends. It usually means that the local company gets more control and that technology is more transferable than when a company is operating through an agent.

Another possibility is to establish a local company entirely; this is often done as a daughter company. In order to be allowed to operate in Malaysia, the daughter company will either have to comply with PETRONAS requirements itself, or establish arrangements with an agent in order to be allowed to operate in Malaysia.

Having a local agent might be a good way for a smaller company with fewer resources to spend in the initial phases. It is usual to set up an agreement with a pre-agreed agent fee. The agent's company will then be the one that needs to comply with the PETRONAS require.

Having an agent is probably the fastest way to tender for contracts. It is however important to take great care when choosing an agent, as IB has the impression that there have been situations where agents have not behaved professionally. It is therefore important to ensure that the background of the agent/partner is sound and fit the criteria required. An ideal local partner would be one with the necessary knowledge of the industry, proven track record, good contacts and network with PETRONAS as well as the other PSC contractors. It is also important to provide adequate support to your local agent/partner. A local partner will often lack the necessary technical knowledge of your products/service and therefore can be have problems when promoting or presenting your products to customers.

Establishing a company with a Headquarters in the region might be an alternative way to get approval in the market, though it is not a way to get a license in itself. This is a special category defined by MIDA. An approved Operational Headquarter (OHQ) generally refers to a company that provides qualifying services to its offices or related companies regionally and globally. A company that establishes an OHQ in Malaysia can be considered for tax incentives and facilities under the OHQ incentive program. For further information, see the section on Tax Issues.

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## A Norwegian Subsea Marine Contracting Company considering establishing in Malaysia

*Technocean is an offshore Subsea IMR (inspection, maintenance and repair) survey and light construction support contractor, providing high quality services to clients worldwide. Their main office is located in Bergen, Norway. The company is a full life cycle service provider offering a comprehensive range of subsea inspection, maintenance and repair services to keep oil and gas fields producing at optimum capacity. The company is now in its initial process of assessing the possibilities to establishing in Malaysia.*

### Why Malaysia

The reason why Technocean has decided to look into the possibility of establishing an office in Malaysia is based on today's market situation in South-East Asia. There are several countries in the area with large oil and gas reserves being developed. The oil and gas market in the region is growing rapidly and the market for service companies is emerging, particularly due to the increased focus on deepwater operations. Another factor is that the region is looking at broad implementation of international Quality, Health, Safety & Environment (QHSE) standards. This creates more opportunities for 'high end' service companies, because it can be difficult for local companies to meet these kinds of requirements. Being locally present is also considered necessary to get acceptance for business agreements. Based on





Malaysia's strategic location and well developed infrastructure, the country can be viewed as a hub for further expansion into South-East Asia.

### How to establish

In South-East Asia it is considered important to have local collaboration partners for the business to be recognised. As Technocean is in the initial start-up phase, they have already established contact with a local company in Kuala Lumpur. This company is viewed as a good strategic match for Technocean because they have a well developed local network and have close ties to Norway. Technocean is looking into the opportunity to use this local company as an agent or to establish a joint-venture with them. PETRONAS demands a certain percentage of Bumiputra ownership and staff in order to get a Major PETRONAS License. This license is needed to do any

business in the Malaysian Oil and Gas market. Technocean has to take this into account when organizing a possible office.

### Other factors

After getting an operating license, the company will have to go through tendering process to win contracts with the operators. During this stage particular attention is placed on price. Therefore it is of great importance that Technocean retain a flexible organization that is able to provide cost effective subsea solutions, and at the same time, continue their focus on providing the high quality services that the company is known for.



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## 6.0 SHIPPING

*Malaysia is a maritime nation which is heavily dependent on shipping for trading purposes. About 95 percent of Malaysia's international trade is seaborne, which makes shipping and the maritime sector a very important component of the national economy.*

*Malaysia is one of the three countries that control the Strait of Malacca, an 805 kilometer passage between Malaysia and the Indonesian island of Sumatra. The strait is the main shipping channel between the Indian Ocean and the Pacific Ocean, and connects the major Asian economies such as China, India and Japan.*

*The Malaysian shipping sector is heavily colored by the energy industry and most activities are related to the national oil company, Petronas. The deepwater oil and gas fields that are currently being developed will spur the business of the shipping companies in Malaysia, and offers potential investment opportunities for Norwegian shipping companies.*

*The following section will provide an overview of the shipping sector in Malaysia, including an outline of the main shipping companies, ports and shipyards. The next part will explain the advantages of shipping in Malaysia and suggest some opportunities for Norwegian shipping companies. The final sections will explain some important challenges which a Norwegian company may face, and provide recommendations on how to enter the industry in Malaysia.*

### 6.1 OVERVIEW

#### Shipping companies

According to the Global Maritime Fleet Ranking as of January 2006, 325 ships with a capacity of 1 000 Gross register tonnage (GRT) and above are registered in Malaysia, which provides a total tonnage of 9 633 Dead-weight tonnage (DWT). Malaysia is ranked 21st in terms of global fleet size, and Malaysian ship-owners control 1.06 percent of the global capacity in terms of DWT.

#### Recent development

The number of ships and total capacity controlled by Malaysian ship-owners has increased rapidly over the last few years. From 2001 to 2006, the number of ships increased from approximately 3 000 to 4 300. This growth was almost exclusively (above 90 percent) due to barges, tugboats and passenger ships serving the domestic market.

In the same period, the total tonnage capacity of Malaysian ships increased from about 6 000 GRT to more than 9 000 GRT. In terms of GRT, the increase was largely (approximately 75 percent) due to rising numbers of oil tankers and ships carrying LNG and LPG, mainly related to increase at the PETRONAS owned shipping company, MISC. This shows how dependent and focused the Malaysian shipping industry is on the activities related to PETRONAS (for more information on PETRONAS, see the chapter on oil and gas).

#### Ship-owners

“When you talk about shipping in this country, you talk about MISC and the rest”

- Nazery Khalid, MIMA (Maritime Institute of Malaysia)

There are very few large ship-owners in Malaysia. The largest company, MISC, is significantly larger than all the other Malaysian ship-owners combined, both in terms of both GRT and DWT. According to data from the Malaysian Ship-owner's Association, the GRT capacity of the other largest nine companies is only nine percent of MISC's total capacity and in terms of DWT only about 7 percent (MASA 2009).

There are only 13 Malaysian ship-owners that have capacity above 10 000 DWT or GRT and above 10 vessels. Of the ten largest shipping companies, only four have more than 30 ships; MISC, Pengangkutan Kekal, Inai Kiara and Bumi Armada (MASA 2009).

Company	No. of vessels	GRT	DWT
MISC	111	6 124 865	9 988 434
Pengangkutan Kekal	69	28 350	54 050
Inai Kiara	45	65 612	16 896
Bumi Armada	39	66 718	91 939
Brantas	22	14 906	31 787
Johan Shipping	16	63 676	19 320
Sealink	13	15 721	33 522
Ban Hoe Leong Marine Supplies	13	20 126	31 892
Lunar Shipping	11	22 455	37 050
Wawasan Shipping	9	267 368	406 891
Total	348	6689797	10711781

Table 10. The ten largest shipping companies  
Source: Malaysia Maritime Handbook 2009

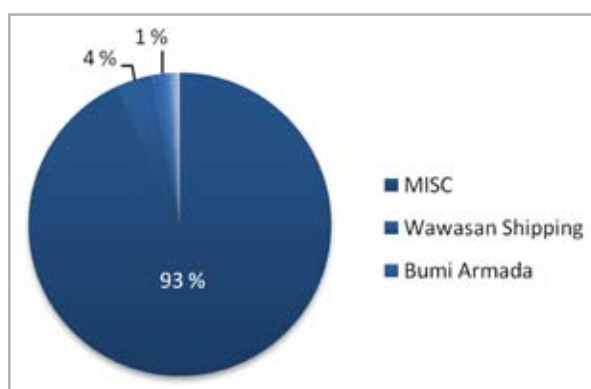


Figure 14. DWT operated by the ten largest shipping companies (10 711 181 in total)  
Source: Malaysia Maritime Handbook

#### MISC Berhad

MISC Berhad (formerly known as Malaysia International Shipping Corporation) is the dominant actor in the shipping industry. The MISC group posted revenues of 3.6 billion USD in 2008 and profits of 728 million USD. MISC is the fifth largest shipping company in the world in terms of market capitalization and the largest operator of LNG vessels in the world.

Since 1988, the national oil company PETRONAS has been the main shareholder with a 62.4 percent share of the company. In line with PETRONAS' operations, MISC is shifting from traditional shipping activities to purely focusing on activities related to the energy sector. The company aims to establish itself as a leading integrated service provider focused on energy transportation, marine and heavy engineering and offshore floating facilities. After the purchase of American Eagle Tankers, it is also among the leading global tanker operators and the second largest owner and operator of Aframax tankers in the world. In addition to its extensive shipping activities, MISC owns the largest shipyard in Malaysia (MMHE) and the country's ship academy (ALAM Maritime Academy).

#### International and domestic shipping

International shipping from Malaysia is dominated by foreign firms, which carry about 85 percent of the import and export in the country. Foreign and local shipping companies link Malaysia to 300 ports worldwide. MISC is the single largest player catering to international market. Other Malaysian shipping companies catering to the international market are Malaysian Bulk Carriers, Wawasan Shipping and Halim Mazmin.

In domestic shipping, non-scheduled shipping services are especially important as they mainly serve the oil and gas sector, particularly offshore supply boats and crude oil and product tankers. A number of domestic shipping companies handle containerized and non-containerized cargo, including major types of manufactured goods and commodities. In domestic shipping, expansion is expected in sectors such as offshore



supply services, carriage of crude oil to local refineries and passenger transport.

## Ports

Although there are more than 100 ports in Malaysia, about 90 percent of the country's trade by sea is processed through the seven Federal, international ports (see map). The growth in port traffic the recent years has been rapid, and most major ports are engaged in capacity expansion to meet increasing demands.

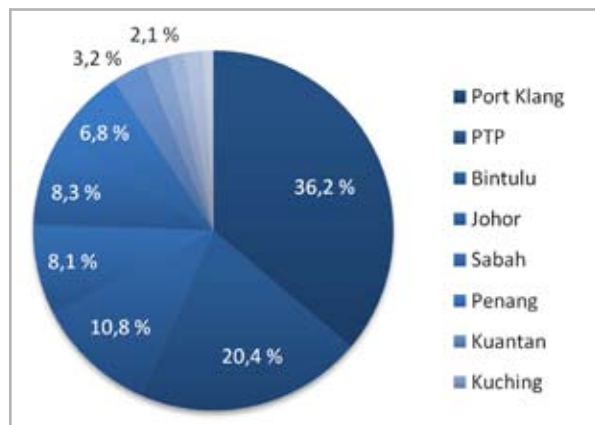


Figure 15. Total Tonnage Handled by Ports in 2006 (337.45 million FWT)

Source: Portsworld

Malaysia's two largest ports, Port Klang and the Port of Tanjung Pelepas (PTP) have on numerous occasions been ranked world class. The Hong Kong based journal 'Cargonews Asia' placed Port Klang and Port of Tanjung Pelepas among Asia's top ten seaports and top ten container terminal operators (REF). 'Portsworld' ranked Port Klang as the 15th best port in the world and Tanjung Pelepas as the 19th best in 2006. The ports are however not able to match Singapore, which generally rank among the top ports in the word.

Port Klang is located on the west coast of Peninsular Malaysia, relatively close to Kuala Lumpur. The port is the National Load Centre and is linked directly with more than 200 ports worldwide. This is by far the largest port, handling 36 percent of Malaysia's total tonnage and 45 percent of the country's container traffic.

The Port of Tanjung Pelepas (PTP) is one of the 20 busiest ports in the world and the main transshipment hub in Malaysia. PTP is located in the southern tip of Malaysia, close to the country's largest shipyard (MMHE) and Singapore. PTP has a 20 percent market share in Malaysia, and handles 37 percent of the country's total container traffic. This is mainly due to the port's strategic location, at the intersection of east-west shipping lanes.

The third largest port is Bintulu Port, which is the regions premier gas port. The port is located in Sarawak on the eastern part of Malaysia, where the main oil and gas activities are located. The port is investing to double its container-handling capacity from 327.000 Twenty-foot Equivalent Unit (TEUs) currently to 650.000 TEUs by 2011.

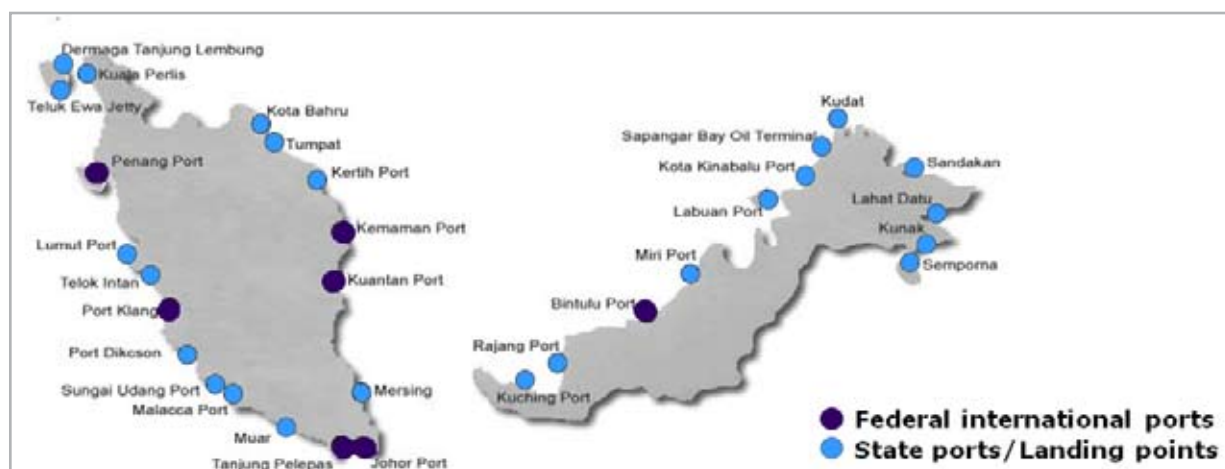


Figure 16. Malaysian ports

Source: Innovation Norway



### Composition of cargo

The composition of the cargo handled at Malaysian ports has changed dramatically in line with the structural transformation of the Malaysian economy. While the main cargo used to be commodities like rubber, palm oil and timber, the volume of containerized cargo from the manufacturing sector is increasing.

Collectively, Malaysian ports handled approximately 393 million tonnes of cargo in 2007, an increase of 11 percent from the year before. Containerized cargo amounted to 60 percent of the total, which included mainly bulk cargo such as LNG, petroleum and palm oil. In recent years, there has been a growth of transshipment activities in Malaysian ports. More than half the total volume of containers handled is transshipment traffic, which is expected to intensify in the future.

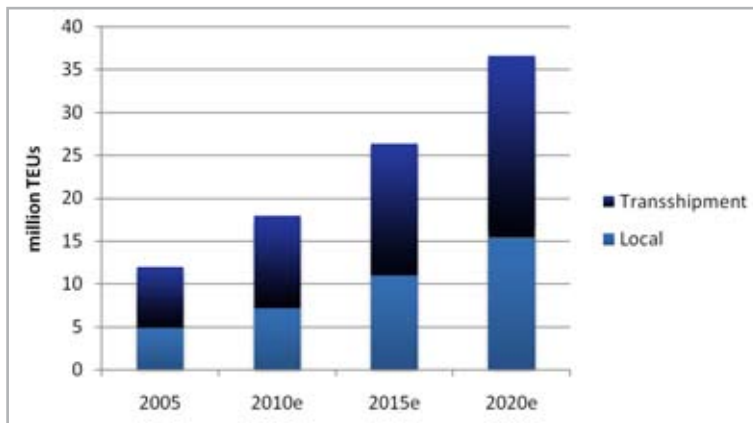


Figure 17. Composition of cargo handled by Malaysian ports (million TEUs)

Source: Portsworld

### Shipyards

The Government of Malaysia has relatively clear priorities for domestic shipyards. A stated goal of the Third Industrial Master plan (2006- 2020) is to increase activity in ship production and repair/maintenance of smaller coastal vessels of less than 30,000 DWT. A considerable portion of yard capacity is today being used to produce offshore oil and gas structures.

The shipbuilding and ship-repair industry in Malaysia comprises 56 companies with licenses to build and repair commercial and naval vessels. According to the Malaysian Ministry of Finance, the six main shipyards are MMHE, Muhibbah, Boustead, Sabah Shipyard, Ramunia and Sasacom. Of these, only MMHE and Muhibbah have dry docks of 5 000 DWT and above. In addition, there are more than 30 smaller shipyards producing smaller fishing boats, leisure boats and yachts. Most of the yards are located in Sabah and Sarawak.

When IB visited Malaysia in January 2009, most shipyards had a capacity utilization below 50 percent and we got the impression that many yards were experiencing very low levels of activity. This has affected the competitiveness, of the region because economies of scale advantages are not present. As a result, a large

number of yards are increasingly dependent on projects from PETRONAS.

### Malaysia Marine and Heavy Engineering (MMHE)

MMHE is by far Malaysia's largest shipyard and in many ways the only shipyard with sufficient capacity to be interesting from a global perspective. The shipyard is located outside of Johor Bahru in Southern Malaysia, giving MMHE many of the same benefits as its Singaporean competitors in terms of being close to the major trading routes.

MMHE is a wholly-owned subsidiary of MISC, which has the priority to use the shipyard. Though the relationship with MISC and PETRONAS has been very important in the growth and success of MMHE, the company has also undertaken a number of projects for foreign companies. Within ship-repair, MMHE have agents all over the world. During interviews with MMHE representatives of the company stressed that they have good relationship with Norway on ship repair. The company has also built a number of rigs for Smedvig/Seadrill.

MMHE's core business is marine repair, marine conversion and engineering & construction. The main focus areas are dry dock repair, special survey for LNG carriers and FPSO/FSO. From its historical position related to activities of a traditional shipyard, MMHE has in the recent years transformed much of its capacity towards the energy sector. Based on our interviews with MMHE, the reason for this strategic movement seems to be mainly to meet the needs of PETRONAS and MISC. Furthermore, it is a way to prevent direct competition with the more cost efficient yards located in China, Japan and Korea.

The company repairs approximately 50 ships per year. MMHE has dry-docking capacity of 450,000 DWT, and it has one of the largest ship lifts in the world that can be used on vessels up to 50,000 DWT. Currently, MMHE is going through a "yard optimization" process to increase and improve capacity.

## 6.2 OPPORTUNITIES

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*Malaysia offers several advantages and incentives that have resulted in some interesting business opportunities for Norwegian shipping companies.*

### Advantages and incentives

The advantages of doing shipping in Malaysia are mainly related to the fact that the country offers a skilled English-speaking labor force, stable political environment and sufficient infrastructure, at a lower cost than many comparable countries.

Governmental initiatives to attract foreign shipping companies are present, although the focus is also on protecting local actors in the industry. According to MIDA (2009) foreign shipping companies operating in Malaysia benefit from certain tax incentives and financial incentives. Income earned from the operation of Malaysian ships are tax exempt, and there are also advantages such as tax drawbacks and double deduction on freight chargers for ships from Sabah and Sarawak that use ports in Peninsular Malaysia. For a complete overview of the incentives in Malaysian shipping, contact MIDA.

International Business' impression is that the combination of low cost, incentives and other practical advantages make Malaysia and Kuala Lumpur a good alternative as a regional hub for Norwegian shipping companies expanding to South-East Asia.

### Business opportunities

International Business has identified two areas within shipping in Malaysia that are interesting for a number of Norwegian companies in the maritime industry:

- *Ship management services in Kuala Lumpur*
- *Vessels and equipment to support offshore oil and gas operations*

The first alternative is relevant for companies interested in reducing their costs significantly by moving certain administrative services to Kuala Lumpur. The second option could be relevant for Norwegian companies involved in the Norwegian offshore oil and gas business, as they could have something to offer the fast growing oil and gas sector in Malaysia.

### Ship management services in Kuala Lumpur

One of the most interesting opportunities for Norwegian shipping firms is to undertake certain administrative and back-office functions in Malaysia. Our research into ship management companies in Malaysia revealed that only one large international shipping company manages their fleet from Malaysia and that is the Wilh. Wilhelmsen Group through Wilhelmsen Ship Management (WSM). WSM had its headquarters in Kuala Lumpur from 1994 until 2004, and the company has planned to reestablish this from late 2009. According to WSM, Kuala Lumpur is well suited for back-office and mid-office services, such as crewing, procurement and administration. During interviews, representatives of WSM stated the following rationale for locating their ship management operations in Malaysia:

- *Low costs*
- *Well-educated and English speaking labor force*
- *Attractive location – close to Singapore*
- *Good infrastructure*
- *Political stability*
- *Regulations and laws that are similar to Europe*



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Interviewees from several companies pointed out that the same level of ship management competence is found in Malaysia as in Singapore, but the salaries are lower in Malaysia. Compared to cheaper neighboring countries such as Indonesia, Thailand, Vietnam and the Philippines, Malaysia will be a preferred administrative hub because the company has reached a sufficient level of wealth to provide the necessary infrastructure, level of education and standard of living.

### **Support services to offshore oil and gas operations**

#### *Development of the offshore supply sector*

The majority of shipping activities in Malaysia are connected to the oil and gas sector. This sector is currently expanding rapidly due to the development of several new deepwater fields (see chapter on Oil and Gas for more details). As a result, one of the fastest growing areas within shipping is the offshore supply sector, where there is a need for offshore support vessels (OSVs), equipment and services to support the deepwater operations. Additionally, the existing Malaysian OSV fleet is ageing with about 25 percent of the current fleet comprising vessels over 20 years. This offers opportunities for fleet expansion and renewal. Local shipbuilders are currently increasing their capacity to cater for more shipbuilding, maintenance and overhaul works. This will drive up the demand for engines and other marine equipment, as well as in ship design and marine engineering. The Malaysian yards are also eager to work with and learn from European companies, especially in terms of engineering.

#### *Norwegian expertise*

Support to offshore oil and gas operations is recognized as an area of opportunity for Norwegian firms, as this is an area where Norwegian companies have experience and are well known for internationally. The offshore oil and gas business in Malaysia is however completely different from the North Sea, as Norwegian waters are much tougher to operate in than the Malaysian. As the need for skilled workers and foreign expertise in Malaysia is quite substantial, Norwegian technology and expertise can be highly relevant. There could be a number of potential opportunities for Norwegian firms with experience in areas such as ship safety onshore and offshore, delivery of advanced ship equipment and ship parts, ship technology and other related areas. Aker Solutions has already taken advantage of this opportunity, and is using the company's expertise to help Malaysia become a new deepwater hub.



## 6.3 CHALLENGES

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*When entering the Malaysian shipping industry there are some challenges Norwegian companies might face. These are mainly related to three areas; restricted ownership, Petronas' requirements and unratified shipping conventions. In addition, it is important to fulfill the legal requirements necessary to obtain a license to operate, as described under the section on Entry Strategy.*

### **Restricted ownership**

The Government of Malaysia permits foreigners to hold only a 70 percent stake in shipping companies. This is part of the Government's racial preference policies, which requires that foreign and domestic non-manufacturing firms take on Bumiputra partners with a minimum of 30 percent of share capital. Though this does not have to be a major challenge for Norwegian companies, it is important to be aware that one is not allowed to own the entire company in Malaysia.

### **PETRONAS' requirements**

Since PETRONAS and MISC dominate the shipping sector, most Norwegian shipping firms established in Malaysia will have to relate to these companies. This will be especially important for companies involved in the offshore oil and gas sector, as they will need a direct relation with PETRONAS and fulfill the PETRONAS' criteria to be able to operate.

To get the license from PETRONAS, the company has to fulfill certain criteria and apply to be registered as an approved vender. Once the company is accepted, it will be able to compete for contracts and sell its products and services. According to Malaysian institutions this is a standard procedure that should not be too difficult, but several foreign and Norwegian companies have indicated that these procedures will require time and effort to follow for foreign companies. For more information on challenges related to PETRONAS and licenses, see the chapter on Oil and Gas.

### **Unratified shipping conventions**

A final minor disadvantage of Malaysian shipping is that Malaysia has still not ratified major international shipping conventions. To be a part of the international shipping community, there are several conventions and regulations that a country should ratify. According to shipping companies interviewed, this can be considered a minor hurdle for international companies considering establishing in Malaysia.



# HÖEGH AUTOLINERS

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# SINGAPORE

## - an alternative to shipping in Malaysia

*For many Norwegian shipping companies, Singapore will be an attractive alternative to Malaysia for undertaking shipping activities in South-East Asia. The city-state of Singapore is one of the main ports of the world, and an important hub for the international maritime industry.*



### **Advantages of establishing in Singapore**

Singapore has a significant location advantage, as it is a natural place for ships to bunker on their way to various destinations and all major shipping companies are located in the area. Since the Singaporean flag is acknowledged worldwide, financing is easier than with a Malaysian registered ship. Compared to Malaysia, Singapore also has the advantages of being a developed country; it is safe, economically and politically stable and can offer a higher standard of living compared to the other countries in the region.

In addition to location, Singapore's main advantages for shipping companies are



cooperative Government and attractive incentives. During interviews, several Norwegian companies located in Singapore stressed that the Government had been very helpful during the early stages. Local Government was characterized as helpful, cooperative and pragmatic. The processes involved are generally more transparent, flexible and faster than in Malaysia.

Singapore's attractive tax incentives are one of the main reasons for foreign investment in the country. The two main incentive schemes are The Approved International Shipping Enterprise (AIS) Scheme and The Approved Shipping & Logistics (ASL) Scheme.

According to the Maritime and Port Authority (MPA) of Singapore, established international shipping companies with worldwide networks and a good track record can apply for the AIS status. An AIS will be exempted from tax on income from the operation of its ships outside of Singapore. The incentive is granted for a period of 10 years, and further extension up to 20 years is generally granted. The ASL Scheme is relevant for established ship agencies, ship management, international freight forwarders and international logistics operators interested in using Singapore as a base for providing freight and logistics services. Approved companies enjoy a concessionary tax rate of 10 per cent on approved income derived from the provision of freight and logistical services. The incentive is granted for 5 years (MPA 2009).

### **Drawbacks of establishing in Singapore**

Since Singapore is among the most important shipping clusters in the world today, the demand for office space and the prices of office space have significantly increased over the last decade. Smaller companies that want to establish in the South-East Asian area might find that the office rentals and salaries in Singapore are higher compared to other alternatives in the region. Malaysia also offers a lower cost base on most shipping related activities compared to Singapore. For a company doing high volume business with many employees, it will thus be cheaper to operate out of Malaysia than Singapore.

### **Comparison of Singapore and Malaysia**

IB has the impression that Singapore's limited regulations and attractive tax incentives, increases the attractiveness for Norwegian companies to establish there. In general, IB would recommend Norwegian companies to compare the two countries closely before deciding where to establish.

IB has however identified two areas of opportunity where Malaysia offers better prospects than Singapore: (1) shipping activities related to oil and gas and (2) back-office services. Unlike Singapore, Malaysia has significant oil resources and interesting prospects for support services to offshore O&G operations. Additionally, Malaysia's low cost level compared to Singapore makes Malaysia more attractive as a center for back-office services and Ship Management.





## 6.4 ENTRY STRATEGY

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### Legal requirements

Besides general legal requirements for foreign companies in Malaysia, foreign shipping companies need a license by the Customs Department to be able to operate in Malaysia. In order to operate in domestic waters, the ship also needs to be Malaysian flagged.

Section 65KA of the Merchant Shipping Ordinance of 1952 ("MSO") states that no ship other than a Malaysian ship may engage in domestic shipping activity. Domestic shipping includes the use of a ship to provide services, other than fishing, in Malaysian waters. This means that ships engaged in the oil and gas industry in Malaysian waters need to be Malaysian and have a license from the Customs Department. Since the majority of shipping activities in Malaysia are connected to PETRONAS and MISC, most Norwegian companies will need Malaysian flagged ships and a license to enter and operate in the Malaysian shipping market.

### *How to obtain Malaysian flag*

Section 11 of MSO sets out the qualification of a Malaysian ship. The ship needs to be wholly owned by Malaysian citizens or in the case it is a corporation, it must be incorporated in Malaysia. Furthermore, the principle office of the corporation must be located in Malaysia, the management of the corporation must be carried out primarily in Malaysia and the majority of the shareholders, including the voting share of the corporation must be held by Malaysian citizens. Additionally, the majority of the directors of the corporation must also be Malaysian citizens.

### *How to get domestic license*

Full licenses (unconditional licenses) to operate in Malaysian domestic waters are only given to Malaysian flagged vessels that have 30 percent Bumiputra participation in terms of equity holdings, directorships and office staff. At least 75 percent of the crew working on the vessels has to be Malaysian citizens.

Foreign firms need to apply to the Domes-

tic Shipping Licensing Board to apply for a temporal license, which are given on case-by-case basis if the specific type of vessel is not available or the number of vessels is not adequate. Of the 3 646 domestic shipping licenses issued in 2005, 55 percent were issued to local vessels and 45 percent to foreign-owned vessels. A total of 35 companies were issued domestic shipping licenses to hire foreign vessels, of which 27 were joint ventures between Malaysian and foreign companies (Innovation Norway).

### Recommendation regarding strategy

There are many alternatives ways to enter the Malaysian shipping sector and obtain a license to operate. For companies interested in shipping it is recommended to contact the Customs Department for advice on how to establish, while companies interested in ship management should contact MIDA.

The three most common ways to get a license are either through a local agent, go into a Joint Venture with a local company, or set up a local subsidiary of the company. The normal and easiest way to get a license is to be represented locally by incorporated ship agencies. In this case, the agent will be the only firm that needs to fulfill the formal requirements. Innovation Norway in Kuala Lumpur can provide information and contact information of local ship agencies.

If a Norwegian company establishes a subsidiary in Malaysia, the subsidiary will have to fulfill criteria laid out by PETRONAS to be able to operate. During interviews with foreign firms already established in Malaysia, it became evident that there are ways to minimize the hassle of the Bumiputra legislation. It is possible to establish one company that fulfills the Bumiputra criteria and receives a license, and another "supporting" company without a license. The company with license can compete for contracts and hire employees from the other company as consultants. Our research indicated that this seemed as an easy and acceptable way to operate in Malaysia.



ARNE BLYSTAD AS  
OSLO

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## 7.0 AQUACULTURE

*Aquaculture is one of the fastest growing food production systems in the world. A great amount of output is being produced in South-East Asia. In Malaysia the aquaculture sector is important because it provides a vital source of animal protein, promotes rural development, and reduces poverty by providing employment. In addition, Innovation Norway notes that the aquaculture industry is seen as significant contributor to the country's future fish requirements and that there are several opportunities for Norwegian firms.*

*The following section will provide a general overview of the aquaculture sector in Malaysia. Various opportunities as well as different challenges for companies entering the market will be discussed. Finally a preliminary entry strategy for the new businesses in Malaysia's aquaculture sector will be recommended.*

### 7.1 OVERVIEW

*The fisheries sector has for decades played an important role as a major supplier of animal protein to the Malaysian population. A large portion of the fish produced in the country is consumed domestically. Today Malaysia is a net importer of fish in terms of volume and a net exporter in monetary terms. There is however no room to increase the yield from the fisheries sector, as the coastal fisheries' resources have been over-exploited and productivity has remained static and even declined recently. As a result, the aquaculture sector is recognized as a vital component of Malaysia's national food production, and the Department of Fisheries has identified aquaculture as an important sector for future development.*

#### Development of the industry

The majority of fish production in Malaysia has traditionally come from capture fisheries, constituting 71.2 percent of the total fish production for 2007. Additionally, 14.6 percent came from aquaculture and the rest from deep-sea fisheries. The Malaysian Ministry of Agriculture stated in the 9th Malaysian Plan (from 2006 – 2010) the goal to increase its self-sufficiency in fish. Under the National Agricultural Plan 3 formulated in 1996, the fish production target for the country was set at 600 000 metric tonnes of consumable fish by the year 2010 (IMP 3). As one of the strategies to meet this ambitious target by 2010, the Department of Fisheries has formed an extensive incentive package to be able to attract investments and technological competence from foreign investors.

“The demand for fish is rising worldwide. Most capture fisheries are already fully or overexploited. Aquaculture must supply an increasing proportion of the world's future demand.”

(The WorldFish Center 2006)

“The Malaysian Government has an ambitious policy of developing the aquaculture industry for strategic domestic food security, export, reduction of balance of trade issues and provision of new jobs for traditional wildcatch fishing villages.”

(Joseph Tuma, AKVA Group 2009)

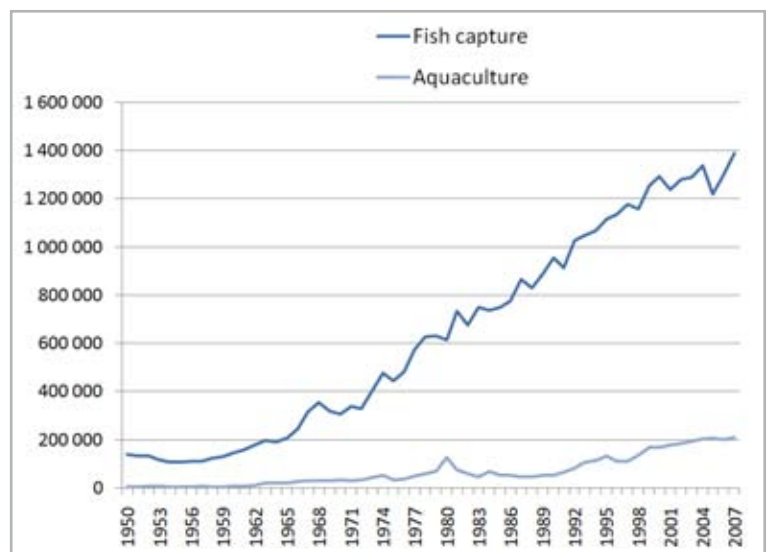


Figure 18. Fish capture and aquaculture production in Malaysia  
Source: Fisheries and Aquaculture department of the Food and Agriculture Organization of the United Nations

Malaysian interest in large deep-sea cages, along with high-technology machinery is rising and already Norwegian cages are being tested to examine their suitability in tropical waters. The focus is on species, not only of high per kilo commercial value but also species which can be mass produced.

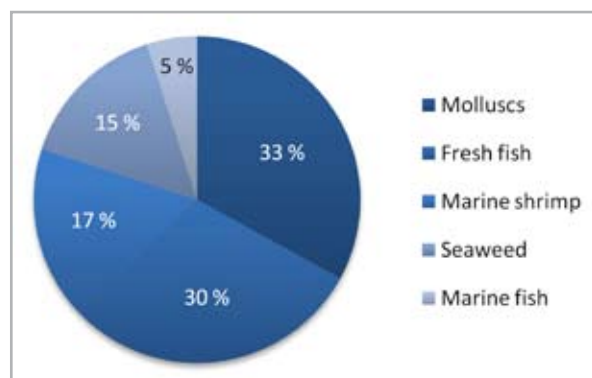


Figure 19. Aquaculture Production by Commodity (2006)  
Source: Department of Fisheries Malaysia

parent company. The Malaysian Government provides free education within the aquaculture sector; however within the contracting system there seems to be a need to monitor the farmers closely to ensure optimal results. The level of skill required is quite basic, and this has hindered the adoption of productive aquaculture systems.



### Current activities

“Effort to commercialize aquaculture in Malaysia is at its early stage. However, vast potentials and tremendous opportunities are available and ready to be tapped.”

(Department of Fisheries Malaysia 2008)

Compared to Norwegian breeding farms, most of the aquaculture farms in Malaysia are small scale with several species of fish and cockles/mussels in the same farm. Some of the large international aquaculture companies in Malaysia utilize a system of contracting where local farmers are invited to undergo training supervised by the company and then to construct smaller fish breeding installations which they subsequently return to the





## 7.2 OPPORTUNITIES

### Advantages and incentives

With its favorable climate and long coastline, Malaysia offers great potential for aquaculture development and commercialization. As noted by Joseph Tuma of AKVA Group (2009), one of the largest global producers of technology for the aquaculture industries, “Malaysia is a market seen with a great deal of potential in the future”.

Compared with its neighbors, Malaysia presents several advantages for aquaculture businesses. The country is relatively less polluted and the water is cleaner, which is particularly important when considering setting up fish farming business. Furthermore, the country’s natural landscape results in relatively calm seas and protects the coastline from threats such as typhoons and large waves.

In addition to favorable natural conditions, tax exemptions and many other attractive incentives makes Malaysia inviting for foreign businesses. In order to encourage more companies to establish businesses within the aquaculture sector, the Malaysian Government offers financial assistance. Companies within the aquaculture industry are exempt from paying tax for 10 years after they start making profits. Furthermore, if the initiative fails, the Government reimburses the amount invested. All companies within the aquaculture sector can enjoy benefits of the pioneer status as well as Investment Tax Allowances (see Tax issues for further details).

Companies trying to establish aquaculture businesses in remote areas get Government assistance in terms of infrastructure; roads, electricity, water etc. In addition, local authorities also educate potential employees. The training focuses on disease prevention as well as technical support. Although the labor force within the aquaculture sector is a bit more expensive than in Thailand or Indonesia, Malaysian’s speak comparatively better English and are generally well educated.

#### 10 Major Incentives for the Aquaculture Sector in Malaysia

- Pioneer Status
- ITA
- High Technology Projects
- R&D
- Small Scale Companies
- Reinvestment Allowance
- Export
- Training
- Deduction of Capital Expenditure on Approved Agricultural Projects
- Infrastructure and Freight

Table 11. 10 Major Incentives for Aquaculture sector in Malaysia

“The current Malaysian Government incentives are a good start. However, further expediting implementation is needed, as well as streamlining procedures”.

(Joseph Tuma, AKVA Group 2009)

### Business opportunities

Research undertaken by International Business has identified some opportunities for Norwegian companies who are considering establishing in Malaysia. These are primarily related to skills and competency which Norwegian companies possess. Norwegian companies can find opportunities within the following areas:

- *Hatchery and growth business*
- *Quality assurance*
- *Disease prevention and treatment*
- *Training or fish feed production*
- *Environmentally friendly techniques and organic aquaculture*
- *Insurance for the aquaculture industry*

Norway has extensive fish farming expertise and knowledge of both quality hatcheries, fish feed production and disease prevention. Great market opportunities are available within all of these fields. The Government promises to provide potential investors with all the necessary information. Furthermore, the Government has great intentions to improve the quality of aquaculture products, including the establishment of traceability system for fish, such as the one that already exists for shrimp.

Malaysian’s welcome knowledge and experience related to fish diseases, particularly with regard to hatcheries and fry production. The hope is that Norwegian companies can educate Malaysian’s to prevent virus outbreaks, as well as provide training when handling disease. In addition, local production of fish feed is currently insufficient to meet the increasing demand, and the shortfall is met by importing feeds from abroad. International companies wishing to engage in fish feed production are being actively encouraged by the Malaysian authorities.

Environmentally friendly techniques and organic aquaculture products are other possible areas for Norwegian involvement. Malaysian aquaculture is not particularly experienced in this field, while Norwegian companies have been engaged in this field for quite a while. Malaysia is working hard to improve food standards in order to satisfy EU standards, and is currently working to improve the water quality through recycling, reduced pollution and increased control over oxygen depletion. There may be opportunities for Norwegian firms in this regard.

One final opportunity relates to insurance of small scale fish farmers. The Malaysian Government is seeking international companies willing to start professional insurance-activities within this industry, as no such company exists in Malaysia today. There may be opportunities for Norwegian companies engaged in providing these sorts of services.

## 7.3 CHALLENGES

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*The main challenges facing the Malaysian aquaculture sector are related to (1) limited health standards and food security, (2) lack of land, fry and labor and (3) technical equipment.*

### Limited health standards and food security

In recent years, the Malaysian aquaculture sector has faced several challenges related to health standards and food security. In June 2008, a self-imposed ban on seafood exports to the European Union was implemented due to health concerns from EU-inspectors. Several aspects of the Malaysian seafood value chain were not in compliance with EU health and food standards, despite Malaysia previously enjoying a good reputation in the global seafood industry. Hopefully, this ban will motivate the local aquaculture industry to improve their quality. The ban is expected to be lifted gradually giving the international aquaculture companies in Malaysia access to the EU-market first, as they generally impose stricter health standards than the local small scale farmers.

Another worry for both the EU and US is the current lack of traceability and biosecurity in regard to Malaysian seafood. Both are areas where the Department of Fisheries is working to implement improvements. This is being done in collaboration with international aquaculture companies, which already have proper systems for this.

### Lack of land, fry and labor

The aquaculture industry has traditionally not been given priority in terms of land allocation, something that will pose as a major constraint towards the sector's further development. There are non-uniform regulations among the states with regard to water and land usage, and the aquaculture sector experiences competition from other industries when it comes to land assignments. As a result of the recent increased focus on aquaculture in Malaysia, the Department of Fisheries is hoping to pass regulations related to this in the near future.

In addition to lack of land, Malaysia is also currently lacking the capacity to provide enough fry for marine fish to ensure sustainable development. This necessitates import from less reliable sources in neighboring countries, and may lead to problems not discovered until the fish is a few months old. As of January 2009, many international companies have established their own hatcheries in Malaysia to safeguard fry supply.

Lack of cheap labor seems to be the major challenge for the aquaculture industry in Malaysia. Labor costs in the aquaculture sector are higher than in surrounding countries, and there is also a trend that the younger and more educated generation of Malaysians finds the fisheries sector less attractive. Even young people from fishing villages seems to be less interested in employment in the aquaculture industry, unless as farm owners.

“For aquaculture the biggest disadvantages with Malaysia are a relatively costly labor force and that it's hard to find workers willing to do physically demanding work for low pay. However, this should not stop anyone from setting up aquaculture operations in Malaysia. Norway has some of the most costly workers in the world but is still one of the biggest aquaculture nations”.

(Vidar Lund, GenoMar 2009)

### Technical equipment

From IB's research, there seems to be different experiences concerning the transmission capacity between Norwegian technical equipment and its possibilities for direct use in tropical waters. The technology supplier AKVA Group (2009) has experienced that “High humidity and elevated temperatures, both water and atmospheric, often necessitate special materials, system design and construction”.

However there are examples where Norwegian equipment of smaller dimensions is used without revisions.

“It is possible to employ equipment produced for Norwegian use in Malaysian freshwater lakes, but the equipment is typically oversized. We use a lot of the same equipment Norwegian fish farmers do, but in smaller dimensions”.

(Vidar Lund, GenoMar 2009)

Another problem concerning the technical equipment needed for fish farming is that there is little manufacturing of these products locally and most of it needs to be imported. Malaysia has however favorable regulations regarding import duties and value added tax on equipment, machinery or raw materials/components necessary for production that cannot be found domestically.

“Getting equipment has been an issue in Malaysia, most Malaysian aquaculture is pond based while we are using cages. Generally this has not been a big problem since the equipment we need can be obtained from neighboring countries.”

(Vidar Lund, GenoMar 2009)

## 7.4 ENTRY STRATEGY

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*“Within aquaculture, there are no restrictions on foreign equity ownership”*

*(Department of Fisheries Malaysia 2008)*

### Legal Requirements

Besides general legal requirements for foreign companies in Malaysia, there are three specific requirements that apply to aquaculture companies. Firstly, a license from Department of Fisheries is required to set up any marine water-based aquaculture project in Malaysia. Secondly, the Environment Quality Act of 1974 requires an environmental impact assessment for the establishment of an aquaculture project involving the clearance of more than 50 hectares of mangrove. Thirdly, the National Land Code from 1965 states that land based aquaculture projects can only be established on land zoned as agricultural land.

### Recommendation regarding strategy

Since aquaculture is one of the current thrust areas for the Malaysian Ministry of Agriculture, the Department of Fisheries promises no restrictions on foreign equity ownership. Unlike other industries in Malaysia, foreign investors do not have to cooperate with a local partner to be able to establish an aquaculture business. Still, a Norwegian company might be better prepared if they are able and willing to give Malaysians a minor shareholding. During an interview conducted by IB, Vidar Lund from GenoMar does however stress that

*“when a Malaysian company is given the minority share of the new company, it’s important to choose the partner wisely and not make hasty decisions”.*





# PALM OIL

Malaysia is currently the world's second largest producer and exporter of palm oil, and oil palms comprise two-thirds of the total agricultural area in the country. Each hectare of oil palms can produce nearly five tonnes of oil annually, which makes it up to ten times more productive than other major commercially grown crops. This is the major factor behind the relative cost effectiveness which characterizes the Malaysian palm oil industry, and has led to an increasing interest from foreign investors.

Malaysia's tropical climate allows palm oil to be harvested throughout the year, and this consistent supply enables it to be competitively priced on the world market. As a result of this, the palm oil industry in Malaysia has been able to attract domestic as well as foreign investors in the recent decades.

## **Opportunities for Norwegian companies**

The palm oil business in Malaysia presents several opportunities. IB has identified four areas that could be interesting for Norwegian firms; (1) animal and fish feed, (2) clean development mechanism projects, (3) paper and wood conversion and (4) biofuel.



### *Animal and fish feed*

The palm is a unique crop as its fruit produces two distinct types of oils; crude palm oil from the flesh and crude palm kernel oil from the seed. These oils are chemically and physically different and have very different areas of application. Palm oil is today found in one out of every ten food products worldwide. The palm kernel oil is extensively used in the chemical industry for non-edible purposes such as skincare, cosmetics and industrial detergents.

Palm kernel cake (PKC) is highly sought after as animal feed, and is currently exported at a low price to Europe for use as cattle feed concentrates. This is an area Norwegian investors and business entrepreneurs might find interesting as PKC is a source for high energy feed with suitable amounts of protein and fibre for use in livestock. There are also significant opportunities for the application of PKC in aquaculture, and several successful projects have already been completed with catfish.

### *Clean Development Mechanism projects*

The crude palm oil is extracted from the flesh of the fruit by cooking and pressing, giving it an environmental advantage as these methods do not emit greenhouse gases. The refinement process of crude palm oil further poses a possibility to establish Clean Development Mechanism projects (CDM) in Malaysia. For Norwegian companies or Governmental institutions, investing in Malaysian CDM projects could be a way to reduce their CO<sub>2</sub>-emissions. Since costs are lower in Malaysia, the CDM carbon project is an alternative to more expensive emission reduction projects in Norway.

### *Paper and wood-conversion*

The palm oil industry in Malaysia practises a zero burning policy and recycles every part of the palm trees. Still, the industry lacks expertise when it comes to forestry and wood conversion, such as pulpwood processing and prevention of plant diseases. Throughout our research we have met with several institutions and companies operating in Malaysia that emphasized this particular need. There is also potential for the development of products utilising non-wood fibres such as palm biomass to substitute wood. Norwegian companies could find these areas interesting due to their extensive knowledge of the paper and wood industries.

### *Biofuel*

Compared to fossil fuel, biofuel is a renewable energy source that does not emit net CO<sub>2</sub>. First generation biofuel (Fatty Acid Methyl Ester) made from biomass such as palm oil, is experiencing increasing demand as more and more industrialized countries are implementing biofuel policies that require a minimum volume of biofuels to be blended with fossil fuels. In addition, a rising number of airline companies are using more

biofuel to limit their exposure to the volatile global petrol price. The use of palm biodiesel in Europe is currently only small scale, but EU is increasing its need for biofuel supply through extensive Governmental policy measures.

Currently, there are no companies operating within the biofuel industry in Norway. It is crucial for biofuel production to have access to stable and low-priced raw materials to succeed. The palm oil's properties might make it a suitable ingredient in the biofuel process. Companies operating within the fossil fuel industry in Norway could use Malaysian palm oil as part of the biodiesel used in regular diesel. Additional business possibilities can be found within these areas:

- Capital investments in plantations
- Vitamin-extraction
- Bio-medical research
- R&D within cosmetics and the handling of skin diseases
- Cellulose processing
- Prevention and treatment of plant diseases

### **Challenges**

The palm oil industry in South-East-Asia has long been characterized as harmful to rainforests and wildlife habitats. The recent decades have seen a rapid expansion in palm oil production, and there is a serious concern that palm oil is still being produced in an unsustainable manner. To cope with these challenges, Malaysia has initiated re-forestation projects and in 2005, key companies in the industry established a stringent certification programme through the Round table for Sustainable Palm Oil (RSPO). As a result, it is now possible to purchase RSPO certified sustainable Malaysian palm oil.





# EXPERIENCES

*During our stay in Malaysia we met with several Norwegian and other international companies. Some had only been in Malaysia for a few months, while others have been doing business there for decades. The Norwegian companies we met ranged from a small advertisement agency to large multinational firms like Jotun. Even though they run their corporations in different ways they all had one thing in common; their experiences of doing business in Malaysia. This section presents personal and subjective experiences so potential newcomers can be prepared to meet the challenges of starting up a business in Malaysia.*

There are many reasons for Norwegians to establish in Malaysia. First of all, Malaysia is a perfect location for a hub in the South-East Asian region, at least when it comes to geography. Also, the highly-developed infrastructure, combined with an educated workforce which has excellent English skills.

The general feedback we got from the Norwegian start-ups in Malaysia was that it is quite easy to set up and manage a business here. However compared with Norway, you will find more bureaucracy and you will need to be a lot more patient. All registrations need to be taken care of before one can start operating. You can do this yourself, but it is recommended to use local representatives, as discussed under the section 'setting up a business'.

## **Start up**

We had a very interesting meeting with a Norwegian advertising agency, which opened a branch in the center of Kuala Lumpur only three months before we met them. During this meeting we were introduced to first-hand experiences of all the practical issues one will face when establishing in Malaysia.

When this advertising agency wanted to open a new branch, Malaysia turned out to be the best option when compared to other countries in the region such as China, Thailand, Indonesia, Singapore and Vietnam. An important motivation for opening a branch in South-East Asia was the desire to increase the company's working hours. Malaysia is located seven hours ahead of Norway, which the agency considered to be ideal for effectively increasing the 'opening hours'. The company also experienced another advantage related to opening hours; since the Malaysian employees have different religions, the employees do not take holidays simultaneously and the agency's office can be open all year around. The agency pointed out that the ability to communicate in English combined with a highly-educated workforce within the relevant business area were the most important factors for choosing Malaysia over its neighboring countries. The agency also stressed the helpfulness of the Innovation Norway office in Kuala Lumpur as a factor which made the establishment decision easier.

Though Malaysia turned out to be the most attractive location in South-East Asia for this company, our interviews uncovered several potential challenges





of establishing in the country For an advertising agency the price level in Malaysia is higher than in most parts of the region, both in terms of wage costs, technological infrastructure and tangible resources. However, wage costs per employee are still only one quarter of the price in Norway.

The marketing agency was located in an office hotel in Kuala Lumpur and recommended this for opening a small branch. This was because office space in Malaysia usually comes without any furniture or fixtures, without floors, internet connection or partition walls which split up the office space. Office hotels are however not cheap. Two small offices with total of 30 m2 at an attractive location next to the Twin Towers in Kuala Lumpur will cost around 2 500 USD each month, including furniture, fixtures and all other necessary infrastructure. One should also be aware of extremely high prices on high-speed internet connection. A 10 MBit connection might cost up to 5 000 USD a month, compared to 200 USD for a 2 MBit connection

### Management

The mobile operator DiGi is an interesting example of management differences between Malaysia and Norway. The Norwegian telecom company Telenor owns a 49 percent shareholding in DiGi. What Telenor noticed when they entered DiGi was the widespread respect for business hierarchy within the company. When Telenor took over the management of DiGi, they introduced a flat leadership structure and open office areas. According to the HR-department at DiGi this was quite unusual for a Malaysian employee, however at the same time productivity increased by 25 percent. This example shows two things. First, it is possible to transfer Norwegian management styles to an Asian country, and second, the Malaysian employees, be they Malays, Indian or Chinese, have the ability to adapt to a new leadership structure.

### Decision making

Communication is not always easy even though both Norwegian and Malaysian business men speak English. This is because Malaysians are hesitant to make decisions on their own, especially when it comes to negotiation. As a Norwegian you must realize that contract negotiation might start over and over several times before reaching a final agreement. This might seem unreasonable and time consuming for Norwegians, but in Malaysia the extensive use of hierarchy means that decisions cannot be made by lower level employees.



### Keys to success

There is no key to unlock how a Norwegian company can succeed abroad. When it comes to Malaysia the road to success seems to be easier than in other South-East Asian countries. Still, there are some key factors one should keep in mind. In a meeting with Jotun, three key success factors for the company's operation in Malaysia were presented; (1) a clear strategy, (2) invest in local employees and (3) capital and plenty of patience. Similar success factors were suggested by many of other firms which we met with.

### Relationships

Contacts, network and relationships are other important keys to success. The advice we got was to be polite, respect the hierarchy and build on existing networks. Malaysia is not a particularly corrupt country, but it is important to, as in any other country, to be aware of it. This was reiterated by Norwegian companies present in the Malaysian market. Norwegian companies will need to build on the good reputation which they have in the future.

#### Take advantage of:

- English language
- Interest in foreign investment
- Geographical hub
- Good infrastructure
- Growing educational level

#### Be aware of:

- PETRONAS' strong position
- Bureaucracy
- Certain things take time
- Network importance
- Cultural aspects

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## NEXT YEAR'S PROJECT: MEXICO

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### Previous Projects

Country	Year
Singapore	1984/1985
Brazil	1985/1986
Australia	1986/1987
Italy	1987/1988
China	1988/1989
Thailand	1989/1990
Russia and the Baltic States	1990/1991
Portugal	1991/1992
Mexico	1992/1993
Hungary	1993/1994
Chile	1994/1995
South Africa	1995/1996
India	1996/1997
Indonesia	1997/1998
The Baltic States	1998/1999
Brazil	1999/2000
South Korea	2000/2001
Poland	2001/2002
Turkey	2002/2003
Russia	2003/2004
China	2004/2005
India	2005/2006
Brazil	2006/2007
Vietnam	2007/2008



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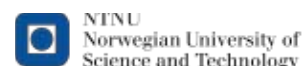
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