Malaysia

ASEAN's established electrical & electronics base and its fastest-scaling data-centre hub: RM92.8 billion in approved investments in Q1 2026, with GDP expanding 5.2% in 2025

Download PDF

Investment Cooperation Guide — Malaysia, National Edition (2026 Edition) | Published by AERI

Introduction

Malaysia is one of the most open, industrialised and institutionally mature economies in ASEAN. Situated at the geographic centre of Southeast Asia and straddling the Strait of Malacca — one of the world's busiest shipping corridors — the country combines a decades-old electrical and electronics (E&E) manufacturing base with a rapidly scaling digital infrastructure sector, a deep capital market and a common-law legal system.

Malaysia's economy expanded by **5.2% in 2025**, according to the Department of Statistics Malaysia (DOSM), with GDP at current prices reaching **RM2.03 trillion** (RM1.74 trillion at constant 2015 prices) and gross national income per capita rising to **RM57,200** from RM54,870 a year earlier. The population stood at **34.23 million** in 2025.

In the first quarter of 2026, Malaysia recorded **RM92.8 billion in approved investments across 1,249 projects**, expected to create **50,226 new jobs** — a 46.7% increase year-on-year — according to the Malaysian Investment Development Authority (MIDA). Foreign investment accounted for RM56.2 billion, or 60.5% of the total.

AERI assesses that Malaysia's core investment value manifests at four levels: first, a mature and deeply clustered E&E and semiconductor ecosystem, particularly in Penang and Kulim; second, an emerging position as a regional data-centre and cloud hub, anchored by Selangor, Johor and Kuala Lumpur; third, strategic location and connectivity within ASEAN and to global shipping lanes; and fourth, a predictable, rules-based investment regime with a dedicated one-stop promotion agency.

This national guide complements AERI's existing city and state-level guides on Kuala Lumpur, Penang, Johor Bahru and Miri, Sarawak. It is intended for investors who need a country-level framework before selecting a specific location.

Preface

The Asia Economic Research Institute (AERI) is a professional institution dedicated to regional economic research in Asia. To help enterprises better understand Malaysia's investment environment and opportunities, we have compiled this guide on the basis of authoritative official data sources, including the Department of Statistics Malaysia, the Malaysian Investment Development Authority, Bank Negara Malaysia and international financial institutions.

All statistics in this guide carry their source and reference date. Where official agencies have published revised or provisional figures, this guide uses the most recent official release available at the time of compilation (September 2026).

Contents

Part I: Malaysia Overview

AERI Assessment

AERI notes that Malaysia occupies a distinctive position in ASEAN investment strategies: it is simultaneously a low-risk jurisdiction for incremental manufacturing capacity and a high-growth venue for digital infrastructure. The concentration of approved investment in information and communications — RM38.9 billion in Q1 2026, of which RM34.6 billion was data centres and cloud computing across 33 projects — indicates that the country's investment profile is shifting from pure assembly toward capital-intensive digital and energy assets.

Investors should, however, weigh three structural considerations: the small domestic market relative to regional peers, rising competition for industrial land and grid capacity in the Klang Valley and Johor, and the fact that Malaysia's incentive regime for manufacturing was substantially restructured with effect from 1 March 2026, requiring new entrants to re-model their tax assumptions.

1. Country Profile

- **Official name**: Malaysia (Federation of Malaysia)
- **System of government**: Federal constitutional monarchy with a parliamentary democracy
- **Constituent units**: 13 states and 3 federal territories (Kuala Lumpur, Labuan, Putrajaya)
- **Capital**: Kuala Lumpur; **federal administrative centre**: Putrajaya
- **Population**: 34.23 million (2025, DOSM), up from 34.05 million in 2024
- **Official language**: Malay (Bahasa Malaysia); English is widely used in business, law and administration
- **Currency**: Malaysian ringgit (MYR, "RM")
- **Time zone**: UTC+8
- **Regional memberships**: ASEAN, APEC, RCEP, CPTPP, WTO, IOR-ARC, EAS

Malaysia consists of Peninsular Malaysia, bordering Thailand to the north and Singapore to the south, and the states of Sabah and Sarawak on the island of Borneo, sharing land borders with Indonesia and Brunei Darussalam. The country sits directly on the Strait of Malacca, through which a substantial share of Asia–Europe maritime trade transits, and maintains well-developed port infrastructure including Port Klang, Tanjung Pelepas and Penang Port.

2. Economic Overview

According to DOSM's official release of 15 May 2026, Malaysia's economy expanded by **5.2% in 2025**, sustaining the growth rate recorded in the preceding year. Sectoral performance in 2025 was as follows:

- **Services**: +5.4% (unchanged from 2024)
- **Manufacturing**: +4.5% (2024: +4.2%), supported by electronic components, communication equipment and consumer electronics, which grew 9.9% (2024: +4.0%)
- **Construction**: +12.2% (2024: +17.6%), led by non-residential buildings (+16.6%)
- **Agriculture**: +2.2% (2024: +3.4%), with the oil palm sub-sector rising 4.7%
- **Mining and quarrying**: +0.6% (2024: +1.2%), driven by the natural gas sub-sector (+0.5%)

On the demand side, private final consumption expenditure remained the principal contributor, accounting for 60.5% of

GDP in 2025. Gross national income per capita increased to RM57,200. MIDA cited GDP growth of **5.4%** for the first quarter of 2026. The Asian Development Bank, in its July 2026 Asian Development Outlook, maintained Malaysia's growth forecast at **4.6% for 2026 and 4.5% for 2027**.

Malaysia's principal exports are electrical and electronic products, palm oil and palm-oil-based products, petroleum products, chemicals, machinery and equipment, metal manufactures, optical and scientific equipment, liquefied natural gas and processed food. The E&E cluster remains the single most important export engine and the main anchor of foreign investor interest.

Part II: Investment Environment and Policies

1. Business Environment

Malaysia operates a common-law-derived legal system with specialised commercial and construction courts, and English is extensively used in commercial documentation. Company incorporation and corporate filings are administered by the Companies Commission of Malaysia (SSM) through its digital portals. Tax administration is handled by the Inland Revenue Board (LHDN). Foreign investors routinely work with licensed company secretaries and local professional advisers for incorporation, licensing and tax registration.

In practical terms, the business environment is characterised by: a dedicated investment promotion agency (MIDA) with sectoral divisions and an aftercare function; a deep domestic banking sector; established free industrial zones and licensed manufacturing warehouse schemes; and a large English-proficient professional workforce. Investors should nonetheless budget for multi-agency approvals where projects involve land, environmental impact, grid connection or sector-specific licensing.

2. Foreign Direct Investment

According to MIDA's official release of 8 June 2026, Malaysia recorded **RM92.8 billion in approved investments in Q1 2026** across 1,249 projects. The headline total was marginally lower than the RM93.0 billion recorded in Q1 2025 (−0.2%), but approved projects are expected to create **50,226 new jobs**, a 46.7% increase year-on-year.

- **By sector**: services RM60.8 billion (65.5%, 731 projects, 19,758 jobs); manufacturing RM24.1 billion (26.0%, 501 projects, 30,468 jobs); primary RM7.9 billion (8.5%). Manufacturing project count surged 142% year-on-year and the primary sector rose 418.2% year-on-year on offshore oil and gas development and exploration.
- **By origin**: foreign investment RM56.2 billion (60.5%); domestic investment RM36.6 billion (39.5%), up 13.0% year-on-year.
- **Top five foreign sources**: Japan RM21.5 billion (a 13.8-fold increase, with 93.6% channelled into digital transformation activities); the People's Republic of China RM10.1 billion; the United States RM10.1 billion; Singapore RM6.7 billion; Thailand RM2.5 billion.
- **Top five states**: Selangor RM33.5 billion (threefold increase); Johor RM16.9 billion; Federal Territory of Kuala Lumpur RM16.9 billion; Pulau Pinang RM6.2 billion; Sarawak RM4.0 billion.
- **Pipeline**: MIDA reported a pipeline of 182 potential projects worth RM38.3 billion, with discussions ongoing for a further RM91 billion of proposed investments.

The single largest driver in the quarter was the information and communications sub-sector at **RM38.9 billion**. Within it, **data centres and cloud computing alone accounted for RM34.6 billion across 33 projects**, or 88.9% of sub-sector approvals. MIDA cited the UNCTAD Global Investment Trends Monitor No. 50 (January 2026), which reported that global greenfield investment in data centres exceeded USD270 billion in 2025 — more than one-fifth of total global greenfield value — and listed Malaysia among the top ten global destinations for data centre projects. BMI, a unit of Fitch Solutions, has noted that Malaysia is prioritising high-value, AI-focused data centre investments, with approximately **4.6 gigawatts** of capacity planned or under construction.

3. Factors of Production

- **Labour**: Malaysia has a comparatively well-educated workforce with strong English proficiency and a long-established technical and engineering talent pool in the E&E cluster. Wage levels are higher than in Vietnam, Indonesia or the Philippines but lower than in Singapore, and the market is at its most competitive in Penang, the Klang Valley and Johor.
- **Industrial land**: A wide range of free industrial zones, technology parks and purpose-built industrial developments is available. Competition for well-located land is intense in Selangor and Johor, particularly for power-intensive uses.
- **Power and utilities**: Malaysia has a national utility (Tenaga Nasional Berhad) with an established grid and a growing renewable pipeline under the Large Scale Solar (LSS) and Corporate Green Power Programme (CGPP) schemes. Grid connection lead time and capacity allocation are material considerations for data centre and high-load manufacturing projects.
- **Digital infrastructure**: Submarine cable landing stations, carrier-neutral data centres and hyperscale operator presence (including Microsoft, Amazon Web Services and Google, per MIDA) support the digital economy cluster.
- **Logistics**: Port Klang, Port of Tanjung Pelepas and Penang Port, together with Kuala Lumpur International Airport, provide regional and global connectivity.

4. Investment Policies and Regulations

Promotion agency. The Malaysian Investment Development Authority (MIDA) is the principal federal agency for the promotion and coordination of investment into the manufacturing and services sectors. Applications for tax incentives, manufacturing licences and expatriate posts are generally routed through MIDA.

Incentive framework. Tax incentives are provided under the Promotion of Investments Act 1986, the Income Tax Act 1967, the Customs Act 1967, the Excise Act 1976 and the Free Zones Act 1990, covering manufacturing, agriculture, tourism and approved services, as well as R&D, training and environmental protection activities. Historically, the two principal instruments have been:

- **Pioneer Status (PS)**: a five-year partial exemption under which a company pays tax on 30% of its statutory income, commencing from its Production Day. Unabsorbed capital allowances and accumulated losses from the pioneer period may be carried forward against post-pioneer income (losses for seven consecutive years).
- **Investment Tax Allowance (ITA)**: an allowance of 60% on qualifying capital expenditure incurred within five years, offsettable against 70% of statutory income in each year of assessment, with unutilised amounts carried forward.

Important change. MIDA has confirmed the introduction of a **New Incentive Framework for the Manufacturing Sector with effect from 1 March 2026**. New manufacturing incentive applications are assessed under this framework, which prioritises technology-driven, high-value-added investment that strengthens local industry participation and creates high-value jobs, rather than operating under the traditional promoted-activity list. Investors planning new manufacturing projects should obtain current MIDA guidance before finalising capital expenditure plans, and should not rely on legacy Pioneer Status assumptions.

Corporate taxation. The standard corporate income tax rate is 24%. Malaysia has implemented a domestic top-up tax regime aligned with the OECD Pillar Two global minimum tax for financial years beginning on or after 1 January 2025, which may affect large multinational groups. Withholding tax applies to specified cross-border payments, subject to relief under Malaysia's extensive double taxation agreement network.

Foreign equity. Malaysia generally permits full foreign equity ownership in manufacturing projects. Equity conditions, licensing requirements and sectoral restrictions may apply in selected services and strategic sectors, and are determined by the relevant regulator on a case-by-case basis. Investors should confirm the applicable conditions for their specific activity before committing to a structure.

Special zones. In addition to the national framework, Malaysia operates special regimes including the Johor–Singapore Special Economic Zone in southern Johor, the Forest City Special Financial Zone, and the Labuan International Business and Financial Centre. These carry their own eligibility criteria and, in general, cannot be stacked with standard MIDA incentives for the same project.

Part III: Chinese Enterprise Investment in Malaysia

1. China–Malaysia Economic and Trade Cooperation

China is a first-tier economic partner for Malaysia. In Q1 2026, the People's Republic of China was the **second-largest source of approved foreign investment at RM10.1 billion**, level with the United States and behind Japan, according to MIDA. Bilateral ties are further institutionalised through ASEAN–China frameworks, including the **ASEAN–China Free Trade Area 3.0 Upgrade**, which was concluded in 2025 and adds dedicated cooperation on the digital economy and the green economy alongside supply chain connectivity, standards and technical regulations, customs facilitation and sanitary and phytosanitary measures, and competition and consumer protection.

For Chinese enterprises, the practical significance is threefold: tariff and rules-of-origin continuity across ASEAN supply chains; a clearer framework for digital trade, paperless trading and cross-border data-related cooperation; and an explicit green economy pillar covering renewable energy, green technologies and sustainable supply chains. Malaysia's established E&E ecosystem and its rapidly growing digital infrastructure sector are the two clusters most directly exposed to these provisions.

2. Investment Forms

- **Greenfield investment**: the dominant route for manufacturing, typically through a private limited company (Sdn. Bhd.) that acquires land or leases industrial premises, obtains a manufacturing licence and applies for incentives through MIDA.
- **Mergers and acquisitions**: used to acquire established distribution networks, licences or local brands, particularly in services, consumer goods and industrial distribution.
- **Joint ventures**: common where local participation strengthens access to government procurement, strategic licences or Bumiputera-related policy requirements.
- **Regional headquarters and services hubs**: Malaysia offers incentive packages for companies establishing regional management, treasury, procurement and shared-services functions.
- **Contractual modes**: engineering, procurement and construction (EPC), build-operate-transfer and operations and maintenance contracting remain widely used in infrastructure, power and utilities.

3. Key Investment Sectors

Based on Q1 2026 approval data and the national industrial policy direction identified by MIDA, the following sectors account for the bulk of current investment interest:

- **Electrical and electronics**: RM6.0 billion in approved manufacturing investment in Q1 2026. Malaysia's E&E cluster spans semiconductor assembly and test, packaging, embedded systems, and increasingly advanced packaging and design-linked activity.
- **Data centres and cloud computing**: RM34.6 billion across 33 projects in Q1 2026. Anchored by hyperscale operators in Selangor, Johor and Kuala Lumpur, with Cyberjaya's mature infrastructure, Johor's positioning as a Singapore alternative, and Kuala Lumpur's connectivity role cited by MIDA as the three drivers.
- **Chemicals and chemical products**: RM3.9 billion.
- **Machinery and equipment**: RM3.5 billion.
- **Food manufacturing**: RM3.3 billion, including halal-certified production for regional and Middle Eastern markets.
- **Transport equipment**: RM2.2 billion, including the national automotive and aerospace supply chains.
- **Renewable energy**: large-scale solar under the LSS5+ programme and corporate renewable procurement under the CGPP.

4. Representative Projects

MIDA identified the following among the notable projects approved or highlighted in the Q1 2026 reporting period:

- **Leader Solar Energy III Sdn. Bhd.** — a solar energy project in Kedah under the LSS5+ programme with an installed capacity of 99.99 MW (170 MWp) and an investment of RM261.7 million, expected to reduce carbon emissions by approximately **2.99 million tonnes of CO_2e over 21 years**.
- **Equinox Solar Farm Sdn. Bhd.** — a solar project in Kelantan under LSS5+ with an installed capacity of 99.99 MW and an investment of RM197.9 million, expected to reduce emissions by **2.52 million tonnes over 21 years**.
- **BKH Solar Sdn. Bhd.** — a joint venture between local renewable energy developer Conextone Energy and ENGIE, developing a **30 MW** solar farm in Bukit Kayu Hitam, Kedah under the Corporate Green Power Programme, supporting renewable energy adoption through a long-term power purchase agreement with STMicroelectronics Malaysia.

AERI notes that these projects illustrate a broader pattern: foreign and domestic capital is increasingly directed at assets that combine long-term offtake contracts with measurable decarbonisation outcomes, rather than at standalone manufacturing capacity.

Part IV: Corporate Financing

1. Financial Market Overview

Malaysia's financial system is among the deepest in ASEAN and is supervised by Bank Negara Malaysia (the central bank) and the Securities Commission Malaysia. The banking sector is dominated by large domestic banking groups — including Maybank, CIMB, Public Bank, RHB and Hong Leong — alongside a significant presence of international banks. Malaysia is also the historic centre of Islamic finance, with a full suite of Shariah-compliant banking, capital market and takaful products.

Chinese banks including Bank of China (Malaysia), ICBC (Malaysia) and China Construction Bank (Malaysia) operate in the market, supporting bilateral trade settlement and corporate banking for China-linked clients. Bursa Malaysia provides an established equity capital market with a Main Market, ACE Market and LEAP Market. The Labuan International Business and Financial Centre offers a separate offshore regime for qualifying holding, trading and financing structures.

2. Financing Channels

- **Domestic bank lending**: corporate term loans, revolving credit, trade finance and project finance from Malaysian and foreign banks, typically onshore and ringgit-denominated.
- **Islamic financing**: commodity murabahah, sukuk and other Shariah-compliant structures, widely used for project and infrastructure financing.
- **Capital markets**: corporate bonds and sukuk issuance, and equity listing on Bursa Malaysia for companies meeting admission criteria.
- **Export credit and bilateral facilities**: credit lines and buyer's credit from Chinese policy and commercial banks for equipment supply and EPC contracting.
- **Development and incentive-linked finance**: government-linked funds, guarantee schemes and targeted financing programmes for SMEs, technology adoption, green technology and automation.
- **Venture and private capital**: a maturing ecosystem covering technology, deep tech and growth-stage companies, with regional venture firms active in Malaysia.

Part V: Compliance and Dispute Resolution

1. Domestic Compliance

Companies operating in Malaysia must comply with the Companies Act 2016 administered by the Companies Commission of Malaysia (SSM), including annual returns, audited financial statements and beneficial ownership disclosure. Tax compliance is administered by the Inland Revenue Board (LHDN), covering corporate income tax, withholding tax, and indirect taxes. Sector-specific licences, environmental approvals, and manufacturing licences must be obtained before operations commence.

2. Compliance Operations in Malaysia

- **Employment**: employment relationships are governed by the Employment Act and related legislation; statutory contributions include the Employees Provident Fund (EPF) and social security contributions. Work permits for expatriate staff are subject to approval and, in some sectors, to localisation requirements.
- **Environment**: environmental impact assessment requirements apply to prescribed activities under environmental quality regulations, with growing emphasis on emissions reporting and sustainability disclosure.
- **Anti-corruption and governance**: corporate liability provisions under anti-corruption legislation make adequate procedures and internal controls a practical necessity for foreign-invested companies.
- **Data and cyber**: personal data protection legislation applies to the processing of personal data in commercial transactions.

3. Trade Dispute Resolution

Commercial disputes may be resolved through the Malaysian courts, through arbitration seated in Kuala Lumpur under the rules of the Asian International Arbitration Centre (AIAC) or other institutional rules, or through mediation. Malaysia is a party to the New York Convention on the recognition and enforcement of foreign arbitral awards and to the ICSID Convention, and investment protections may additionally be available under applicable bilateral investment treaties and regional agreements including RCEP and the ASEAN Comprehensive Investment Agreement.

Part VI: Living and Working in Malaysia

1. Visa

Expatriate employment generally requires an Employment Pass sponsored by the employing Malaysian entity, with categories differentiated by salary, duration and role seniority. Short-term assignments and specialist deployments may use a Professional Visit Pass. Malaysia also operates a long-term visa programme for location-independent remote workers. Entry requirements change periodically; investors should confirm current requirements with the Immigration Department or a licensed agent before deployment.

2. Housing

Kuala Lumpur, Selangor and Penang offer a wide range of condominium and landed housing in established expatriate districts, with international schools, medical facilities and retail amenities concentrated in the Klang Valley, Mont Kiara, Bangsar and Penang's northeast district. Rental levels are moderate by regional standards compared with Singapore and Hong Kong. Foreign ownership of residential property is subject to minimum value thresholds and state consent requirements.

3. Healthcare

Malaysia has a well-regarded private healthcare sector, with internationally accredited hospital groups in Kuala Lumpur, Penang and Johor Bahru, alongside a comprehensive public system. Private health insurance with regional evacuation coverage is standard practice for expatriate staff.

4. Banking

Resident and non-resident individuals and corporations may open ringgit and foreign currency accounts with Malaysian banks, subject to know-your-customer and exchange administration rules administered by Bank Negara Malaysia. Cross-border transfers are generally free but reporting and documentation requirements apply to certain transactions. Digital banking and e-wallet services are widely used.

5. Contact Information

- **Malaysian Investment Development Authority (MIDA)** — the principal investment promotion and licensing coordination agency. Website: **www.mida.gov.my**
- **Companies Commission of Malaysia (SSM)** — company incorporation and corporate filings. Website: **www.ssm.com.my**
- **Inland Revenue Board of Malaysia (LHDN / Hasil)** — tax administration. Website: **www.hasil.gov.my**
- **Bank Negara Malaysia** — central bank and exchange administration. Website: **www.bnm.gov.my**
- **Malaysia External Trade Development Corporation (MATRADE)** — trade promotion. Website: **www.matrade.gov.my**
- **Bursa Malaysia** — securities exchange. Website: **www.bursamalaysia.com**

Investors should also consult the relevant Chinese government and commercial channels in Malaysia, and their own professional advisers, for jurisdiction-specific guidance.

Appendix: Data Sources and Disclaimer

This guide draws on data from the Department of Statistics Malaysia (DOSM), the Malaysian Investment Development Authority (MIDA), Bank Negara Malaysia, the Asian Development Bank (Asian Development Outlook, July 2026), the United Nations Conference on Trade and Development (Global Investment Trends Monitor No. 50, January 2026), and official Malaysian government sources.

The information provided is for reference only and does not constitute investment advice, legal advice or tax advice. Tax rates, incentive frameworks and licensing conditions change over time — the New Incentive Framework for the Manufacturing Sector, effective 1 March 2026, is a recent and material example. AERI endeavours to ensure accuracy but does not guarantee completeness or timeliness. Readers should verify all figures and requirements against the latest official publications before making investment decisions.

Compiled by: Asia Economic Research Institute

Date of Compilation: September 2026

(End of Document)

Related Investment Guides

Kuala Lumpur →

Penang →

Johor Bahru →

Miri, Sarawak →

Need Investment Advisory?

Connect with AERI's research team for customised investment analysis and market entry guidance across Asian markets.

Contact Our Team →
News

Related News

Sarawak Welcomes Chinese Firms Eyeing ASEAN Expansion →

AERI Overview: Asian Economic Research →