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HIGHLIGHTS

REQUIREMENTS FOR MANUFACTURING LICENCE

The *Economic Census 2016 on Establishment Statistics* by the Department of Statistics revealed that the number of business establishments in Malaysia increased from 662,939 in 2010 to 903,818 in 2015 with an average annual growth rate of 6.4 per cent. The number of establishments in the manufacturing sector totaled 48,806 or 5.4 per cent of the total establishment in 2015.

Despite the smaller number of establishments in the manufacturing sector, its contribution to the economy is significant. In the third quarter of 2017, as the Malaysian economy grew at 6.2 per cent with a Gross Domestic Product (GDP) of RM296.6 billion (at constant 2010 prices), the manufacturing sector contributed to 22.8 per cent to the GDP.

As part of the role of MIDA in assisting investors, all projects with manufacturing licence are offered hand-holding facilitation to ensure that the projects are implemented in a timely manner. MIDA also requires manufacturers to provide their manufacturing licence for the consideration of import duty exemption on raw materials and components used in the production of finished products.

What is considered as manufacturing activity?

The ICA defines “manufacturing activity” as the making, altering, blending, ornamenting, finishing or otherwise treating or adapting any article or substance with a view to its use, sale, transport, delivery or disposal; and includes the assembly of parts and ship repairing but shall not include any activity normally associated with retail or wholesale trade.

There are however, activities that are exempted from ICA. These are milling of oil palm fresh fruits into crude palm oil; the production and processing of raw natural rubber of all types including latex, skim, sheets, scrap, technically-specified rubbers, non-standard and modified rubber or any other unvulcanised form of natural rubber prepared by any patented or technically specified procedure; and the milling of paddy into rice.

Who is required to apply for Manufacturing Licence?

Manufacturing companies with shareholders’ funds of RM2.5 million and above or engaging 75 or more full-time paid employees are required to apply for a manufacturing licence for approval by the Ministry of International Trade and Industry (MITI).

A manufacturer is required by law to obtain a manufacturing licence from MIDA if it meets a certain threshold. The **Industrial Coordination Act (ICA), 1975** requires person(s) engaging in any manufacturing activity to obtain a license from the Licensing Officer in respect of the manufacturing activity. The ICA was introduced to ensure an orderly development and growth of the country’s manufacturing sector.



In its effort to reduce labour intensive and nurture technology intensive industries, approval of manufacturing projects in Malaysia are subject to Capital Investment per Employee (CIPE) Ratio and employment of local personnel. The CIPE Ratio must be at least RM140,000 and the project employs at least 80% Malaysian personnel from its total manpower.

In addition, the proposed project is required to fulfill at least one of the following criteria.

- Manufactured product's value-added is 40% or more; or
- The Managerial, Technical and Supervisory (MTS) ratio of at least 25%.

"Shareholders' funds" is defined as the aggregate amount of a company's paid-up capital, reserves, balance of share premium account and balance of profit and loss appropriation account.

"Full-time paid employees" is defined as all persons normally working in the establishment for at least six hours a day and at least 20 days a month for 12 months during the year and who receive a salary.

What if the company has less than 75 workers and the shareholders' fund has not reached RM 2.5 million?

A company with a paid up capital/shareholder's fund not exceeding RM2.5 million or manpower less than 75 people may apply for a confirmation letter that the company is exempted from manufacturing licence approval. The applicant should submit ICA 10 form to MIDA. The letter, however, can only indicate that the company is exempted from manufacturing licence and does not carry the same weight as a manufacturing licence. Once companies reached the threshold of RM2.5 million of shareholders' funds or employing 75 workers or more, they should immediately apply for manufacturing licence.

Do I require a Manufacturing Licence to expand my operation?

An existing licensed company which proposes to undertake an expansion of production capacity of its approved products or a diversification to manufacture additional products is required to submit an application for the manufacturing licence to MIDA for the expansion or diversification project.

Where can I obtain the application form?

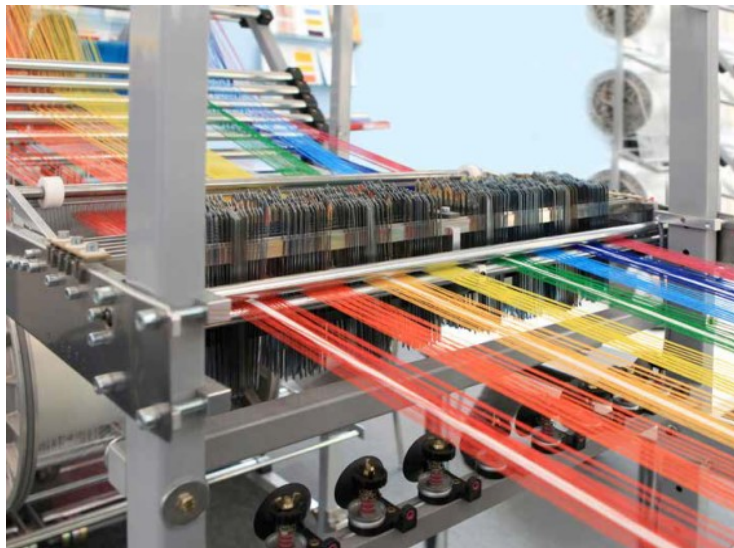
Application forms can be downloaded from MIDA's website at www.mida.gov.my/home/forms-&-guidelines-for-manufacturing-sector/posts/

What is the expected duration to obtain the manufacturing licence?

Based on MIDA's Client Charter, the interim approval letter will be issued to the applicant within 4 weeks of full information received.

Once the interim approval letter is issued, the applicant company is required to provide the necessary documents specified before the manufacturing licence certificate is issued.

BUSINESS OPPORTUNITIES IN THE TEXTILE & APPAREL INDUSTRY



The textile and apparel industry in Malaysia has been growing at a fast pace after the country started an export-oriented industrial transformation in the early 1980s. Today, Malaysia's textile and apparel industry is targeting the higher end of the global value chain with a diversified production of higher value-added products. The industry has also been implementing the latest automation and technology in its manufacturing and distribution. New R&D activities are further strengthening the industry's competitiveness in the global market.

Hence it is with little surprise that the textile and apparel industry became the country's 11th largest exporter in 2017, contributing approximately RM15.3 billion to Malaysia's total exports of manufactured goods. In recent years, Malaysia has also emerged as one of the global trendsetters in textile and apparel wear. According to Euromonitor, the local industry is targeting to reach an annual export value of US\$7.5 billion by 2020. Towards this goal, more efforts are being undertaken to expand the local high-value fashion scene, particularly in the angle of design.

In 2017, MIDA approved 12 projects with total investment of RM428.8 million mainly in primary textiles, production of ready to wear garments, and textiles accessories sub-sectors. These projects have generated 1,850 employment opportunities which include skilled positions for engineers, quality controllers and highly skilled technicians created in the textiles and apparel industry in Malaysia.

The main growth areas include industrial and home textiles, functional fabrics, high-end fabrics and garments, ethnic fabrics, and key support facilities and services such as design houses and fashion centres and specialised dyeing and finishing facilities. As one of the most popular contract manufacturers and investment destinations in Asia, Malaysia has been favoured by many international fashion brands and foreign investors. High-end global brands such as Marks & Spencer, Guess, Tommy Hilfiger, GAP, Adidas, Nike, Burberry, and Ralph Lauren are already using Malaysia as their manufacturing base.

The fashion and design industry is dynamic and constantly evolves to keep pace with the latest demands and current trends. Globally, the fashion and design industry is moving into a decisive phase of digital adoption in which the online sales of apparel and footwear is projected to grow rapidly with 10% Compound Annual Growth Rate (CAGR) from 2017 to 2020. According to the McKinsey Global Fashion Index, it is forecasted for the fashion industry sales to nearly triple between 2016 and 2018, from 1.5% to between 3.5% - 4.5%.

There is a myriad of business opportunities in the textile & apparels industry in Malaysia and much room for growth. MIDA continues to encourage industry players to focus on the production of high value added products such as high quality and niche market items, invest in modern equipment, undertake research to keep abreast with new market trends and development, explore networking and trade opportunities in exhibitions and trade fairs as well as to explore e-commerce and social media platforms to boost sales. MIDA is also on high gear to encourage industry 4.0 by urging the local textile players to take full advantage of the available facilities provided by the Government and invest in automation to improve their efficiency and productivity.



WHAT IS BEPS & FHTP?

Taxes, direct or indirect, are essential to any economy. Regardless of the jurisdiction, it operates within a global economy. The wider the tax base, the more revenue it collects for the country. Thus, allowing more to be spent on development such as healthcare, education and infrastructure.

However, as most multinationals have inter-connected operations in multiple countries, it has enabled some to exploit the flaws in international tax rules through harmful tax practices. This has resulted in an erosion of the worldwide tax base which poses a threat to the balance and efficiency of the international tax system.

To address this, the Organisation for Economic Cooperation and Development (OECD) has prepared an action plan to address the concerns of base erosion and profit shifting (BEPS).

In Budget 2018, the Government announced that Malaysia is committed to fulfill the OECD BEPS Action Plan. Malaysia joined the Inclusive Framework on BEPS and became a BEPS Associate in January 2017. As an Associate of BEPS, Malaysia will have equal rights with other OECD countries to address BEPS issues. This is an important step in protecting the country's tax base while meeting international commitment. Other BEPS Associates within the Asia Pacific (APAC) region include Singapore, Hong Kong and Indonesia.

Meanwhile, FHTP (Forum on Harmful Tax Practices) has been the body mandated to monitor and review tax practices around the world, focusing on the features of preferential tax regimes (incentives). It counters harmful tax practices on income from geographically mobile activities such as financing and leasing, service centres, distributive centres, banking, insurance, and includes intangibles such as Intellectual Property (IP).

In a nutshell, 'BEPS' or Base Erosion and Profit Shifting refers to strategies used by global corporations to exploit gaps in tax rules and legally shift profits to low or no-tax regions.

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When a company increased its profits at the cost of a country losing its revenue, it threatens the financial security of the country's economy.



How does a company indulge in harmful tax practices? There are three simple examples:

- ◆ A company doing their mobile activity in another country to avoid paying tax in its own country.
- ◆ A country that offers tax reliefs (incentives) that are not published/ widely available (lack of transparency).
- ◆ A company that invests in a country, without any substantial activity (no evidence of establishment of an office and permanent workers in the country that their mobile activity is carried out).

FHTP evaluates incentives within countries and classifies them into two categories, namely IP Regime and Non-IP Regime.

IP Regimes

Incentives that give exemption on IP income such as royalty, licence fee etc. are classified under the IP Regime and will be subjected to the "Nexus Approach". It uses expenditure as a proxy for activity. From the angle of MIDA, all incentives that have elements of IP income must comply with the Nexus Approach, where only the Research and Development (R&D) expenditure incurred and engaged by the company is taken into account for incentivizing IP income.

Non IP Regimes

Incentives that have been classified under the Non-IP Regimes will be evaluated based on the following conditions:

- ◆ Substantial activity – The company must have an adequate number of full time employees and incur an adequate amount of Operational Expenditure (OPEX)/ Capital Expenditure (CAPEX).
- ◆ Ring fencing – There is unequal treatment between local and foreign residents (for example, a restriction on incentives for residents) or restriction from accessing to local markets (for example, condition to export services) or restriction from using domestic currency.
- ◆ Transparency - Available legislation must be in the form of a gazette order.

MIDA's Focus

In light of the current industrial landscape that is constantly changing, it is more crucial now than ever for companies to evaluate and realign their business strategies to adapt to the current challenges of doing business.

Among the BEPS areas that MIDA is currently looking into are the design and development activities for the manufacturing sector, which has IP income embedded in the sale of products.

MIDA is also focusing on the implementation of the *Nexus Approach*, whereby companies are required to have a proper system to trace and track R&D expenses and income. However, there is currently a lack of clear understanding on the actual implementation of FHTP guidelines. MIDA also seeks to balance compliance to FHTP requirements in the agency's current promotion efforts to ensure investors adhere to FHTP guidelines.

What's next?

The new guidelines on the *Nexus Approach* will soon be issued by the Ministry of Finance (MOF). MIDA will be engaging the relevant stakeholders including the industry players and potential investors to create more awareness and understanding on this matter.

EVENTS

Eternal Materials, One of the World's Largest Chemical Manufacturer Opens Its Manufacturing Facility in Johor



Eternal Materials, one of the largest chemical manufacturers in the world with 26 production facilities globally, officially opened its first manufacturing facility in Malaysia on 1 March in Tanjung Langsat, Johor. The opening of this plant, which is also Eternal Materials' second facility in ASEAN, underscores Malaysia's position as a competitive hub for businesses to meet their growing demands in Asia.

SATO's New Facility Opening

“SATO has been Malaysia’s long standing partner since 1986, and we are glad SATO continues to find that this country fits into its long-term growth plan.

SATO Malaysia Manufacturing has brought in additional value to our society, particularly through its local sourcing activities and the creation of local employment. The company has engaged many Malaysian manufacturers that supply raw materials and other components for its production as well as providing more than 400 jobs for Malaysians as to date. We welcome the opening of this new facility and the opportunity it will further provide for Malaysia, especially in the Klang vicinity,” said Mr. Arham Abdul Rahman, Deputy Chief Executive Officer of MIDA during the opening of Sato Malaysia’s Electronics Manufacturing facility on 1 March at Klang, Selangor.



MIDA Organises Inaugural Industrial Park Forum



The Forum, a collaboration between MIDA and the FMM (Federation of Malaysian Manufacturers), was attended by more than 200 participants representing the entire spectrum of relevant stakeholders – from local authorities, park developers & managers, utility companies, manufacturers and potential investors. Also present were YBhg. Dato’ Azman Mahmud, CEO of MIDA and YBhg. Dato’ Soh Thian Lai,

[READ MORE](#)

EVENTS

Embracing Future Innovations

The Towards Autonomous Technologies Conference 2018, a collaborative efforts between MIDA, CREST (Collaborative Research in Engineering, Science and Technology) and DRB-HICOM University was held at the MIDA headquarters on 21 March. The event, with the theme “Embracing Future Innovations”, was attended by more than 150 participants ranging from industry players, academia and government agencies.



[READ MORE](#)

EVENTS

Highlights of March 2018



On 1 March, MIDA Milan and MIDA’s Food Technology team had a good discussion with Altinkaya, one of the leading Food Processing Company in Turkey that is exploring to expand their market by making Malaysia as a potential hub.

CEO of MIDA received a copy of the National Workforce Human Capital Development Blueprint 2018-2025 from Dr Mohd Gazali Abas, Secretary General of the Ministry of Human Resource, on 8 March.





MIDA had a productive meeting with Antah Group and Thermosphere Australia on 13 March. Looking forward to continuing our fruitful collaboration in future.



MIDA Sydney welcomes Leigh Howard President of Malaysia-Australia Business Council (AMBC). On 13 March, they had a good chat on strengthening collaboration between the Sydney office & AMBC and facilitating interests of Australian Businesses towards Malaysia.



MIDA Domestic Investment & Supply Chain Innovation team had a briefing session with the UPM Technopreneurs under the Innohub Programme at the Putra Science Park, UPM on 14 March.

EVENTS



Director of MIDA Osaka shared the investment opportunities available in Malaysia at the 4th Seminar by Resona Foundation for Asia Oceana at the City Plaza Hotel, Osaka on 15 March. The event was well attended by 157 participants.

CEO of MIDA and other board members of RECODA visited OM Materials (Sarawak), OCIM Sdn. Bhd. and Samalaju Port on 15 March.



MIDA received a courtesy call from Dr. Toh Kyung Hwan, Ambassador of the Republic of Korea to Malaysia on 19 March.

HIGHLIGHTS



The Offshore Technology Conference Asia officially opened on 20 March. MIDA was once again a part of this event which provided investors first hand information & insights on the opportunities Malaysia has to offer as a regional oil & gas hub in Asia. During the Malaysia Country Session, MIDA CEO urged local players to invest more in technology and innovation.



MIDA Deputy CEO Mr. Arham led a delegation of 8 potential investors on 29 March to visit the Chuping Valley Industrial Area, Perlis. This Working Visit was a follow up from the first forum of the MIDA Invest Series

On 29 March, MIDA Deputy CEO, Mr. Arham and team had a fruitful working visit to Perlis. Exciting opportunities in this unique state.



“Malaysia’s talented & creative workforce, good education system, cost-competitive environment, will match well with Jinjing’s growth plan in the region. We look forward to be part of the production of new & innovative products in meeting their customers’ needs,” said Mr. Arham Abdul Rahman, Deputy CEO of MIDA during the groundbreaking ceremony of Jinjing Holding Group on 28 March in Kulim, Kedah.

MIDA IN THE NEWS

Quality Investments Spur Industrial Growth

ECONOMY NEWS

Aramco agrees to invest US\$7 billion in Malaysia — Najib

MoUs for Terengganu Silica Valley signed

Strong performance to continue on favourable macroeconomics

IMF projects above 5.3pc GDP growth

IMF: High income nation in sight

Malaysia to gain the most

Malaysia's capital market grow 12.6pc to RM3.2tril

Economy ripe for shift

INDUSTRY NEWS

Kaneka stays bullish with MIDA support

Pentamaster targets two sectors

Lii Hen buys Muar land to expand furniture ops

O&G industry to do better due to stable crude oil prices, say analysts

Prestar buying leasehold land for RM19mil

Vitrox to develop advanced robotic vision equipment

Greater automation for Top Glove

DRB-Hicom to buy land in RM1.9bil deal

MFC to help furniture industry meet RM12b export target

Cuckoo plans RM100m factory

OM Sarawak to invest in Samalaju sinter plant

Subang Aerotech Park to attract over RM1b investments in 5 years

High demand for petrochemicals

Maric: Railway industrial park plan on track by Q2

Eonmetall to set up production facility for 'Constructor' racking products

Malaysia remains country of focus for Baker Hughes

Aramco's RM7bil investment in Rapid by end of the month

Elektrisola: a model corporate citizen

CIDB sees higher IBS uptake

World's first halal laboratory launched

SERVICES NEWS

Sarawak to undertake RM1bil state water grid project

Northport gets 30 year extension for 2 ports

MoF Inc to jointly develop TRX Tower with Mulia Group

TM, Huawei in deal to boost broadband reach

Cahaya Mata Sarawak, Ibraco team up to set up private school in Kuching

PHB, UEM and Japan firm to build senior care services residences

GDEX to grow customer-to-customer segment

Plan to build KLIA3 in 5 years

Denko plans to buy land in Johor for new warehouse

Momentum builds for UMW's high-value manufacturing park

The right bets in creating a hub

Internet penetration rising among Malaysians

McDermott eyes US\$5b projects

SEB to get power boost

TNB in solar power deals

CROSS BORDER NEWS

Petronas unit inks LNG deal with Tokyo Gas

GLOBAL NEWS

Signed, sealed, delivered

Australia, ASEAN agree to start regional infrastructure cooperation

ABOUT MIDA

The Malaysian Investment Development Authority (MIDA) is the Government's principal promotion agency under the Ministry of International Trade and Industry (MITI) to oversee and drive investments into the manufacturing and services sectors in Malaysia. Starting operations in 1967, MIDA is the first point of contact for investors that want to take advantage of Malaysia's vibrant economy, world-class infrastructure and business-friendly environment to set up their profit centre in Asia. For more information, visit www.mida.gov.my or e-mail us at investmalaysia@mida.gov.my.

MIDA, your first point of contact for investments in Malaysia.



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Tell us what you think about our newsletter . Your feedback will help us improve our services to you.

[Give Feedback](#)

A colorful graphic advertisement for MIDA services. The central text reads "GET YOUR BUSINESS NOTICED ADVERTISE WITH US". To the left is a blue megaphone. Below it is a computer monitor displaying a website layout. In the foreground, there is a blue spiral notebook with a pencil. On the right, a digital sign displays the MIDA logo and three red buttons labeled "NEWSLETTER", "DIGITAL SIGNAGE", and "WEBSITE". Below the sign is a red button with the text "Click Here >>". At the bottom, a yellow banner contains the text "Please contact us for more information" and the email address "ads@mida.gov.my".



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