

# Greater Kuala Lumpur

## Magnet for principal hubs

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A new incentive further enhances Greater Kuala Lumpur's strategic position as a principal-hub location.

### PRINCIPAL HUBS | Consolidating services

## Greater Kuala Lumpur as home for multinationals' regional base in Asean

Multinational corporations establish strategic regional bases to consolidate management services across countries and better optimize resources, capabilities and cost. In a principal hub, MNCs go one step beyond international procurement, regional distribution and business process outsourcing, says Zainal Amanshah, chief executive officer of InvestKL, an investment promotion agency that provides MNCs end-to-end facilitation, helping them identify business opportunities while strengthening their competitiveness regionally and globally from Greater Kuala Lumpur. They also actively manage, control and support high-value activities and key functions, including risk, decision-making, strategic business activities, trading, finance and human resources.

InvestKL and the Malaysian government are attracting MNCs with a suite of customized incentives to help them establish successful principal hubs in Greater Kuala Lumpur.

In April, Malaysia's Minister of International Trade and Industry announced the detailed guidelines of the principal-hub incentive that was first introduced under the Malaysia 2015 budget, affirming the government's commitment to attracting more MNCs' regional operations to Malaysia. The new principal-hub

incentive offers a three-tier corporate tax rate of 0 percent, 5 percent and 10 percent for up to 10 years. The incentive requirements include high-skilled job creation, execution of regional functions and activities, and minimum annual business expenditures.

This incentive is a game changer and will further enhance Malaysia's strategic position as a principal-hub location, especially with Malaysia as the chair of the Association of Southeast Asian Nations in 2015.

"Asean is the third pillar of growth in Asia, alongside China and India," says Zainal, "and is the seventh-largest economy in the world, with a combined gross domestic product of \$2.5 trillion. Home to a population of 633 million, a relatively young population where close to 60 percent are less than 40 years of age, Asean benefits from an emerging middle class with growing spending power."

As chair of Asean, adds Zainal: "Malaysia looks forward to elevating Asean by eliminating import duties, liberalizing the services and investment sectors, removing trade barriers, enhancing work in other areas such as intellectual property rights, competition policy, consumer protection and taxation, and strengthening economic connectivity within the region."

Asean is a prime business zone, the result of existing free-trade agreements with China, Japan, India, Australia and New Zealand, and interconnectivity between member states. Local and regional companies are also flourishing, with Asean trade hitting an all-time high of \$2.5 trillion in 2013, and intra-Asean trade making up 25 percent of the total.

"Through the implementation of the Asean Economic Community and several upcoming FTAs, the region will also enhance partnerships with major economies such as the United States and the European Union," says Zainal.

The move has been welcomed by foreign chambers of commerce in the Malaysian capital. "With the new principal-hub incentives, MNCs have received another strong signal that the Malaysian government is aware of and specifically addresses the issues at hand," says Alexander Stedtfeld, executive director of the Malaysian-German Chamber of Commerce and Industry.

Stedtfeld estimates that almost 100 German companies are already based in Greater Kuala Lumpur, operating mainly in the automotive industry, electronics, chemical manufacturing, logistics, insurance, finance and engineering.

Sanjeev Nanavati, president of the American Malaysian Chamber of Commerce (Amcham), says that strengthening trade and commercial ties between the United States and Malaysia has encouraged more businesses to establish headquarters in Greater Kuala Lumpur. The area is already a host for U.S. companies such as AIA, American Express, Boeing Aerospace, Citibank, ConocoPhillips, Dell, ExxonMobil, General Electric International, Google Malaysia, Hewlett-Packard, Procter & Gamble and Texas Instruments.

Attracting MNCs' regional headquarters to Greater Kuala Lumpur is part of Malaysia's Economic Transformation Program, launched by the government in September 2012 to raise the nation's economic status to high-income level. The government estimates that it will require \$444 billion in investment to create 3.3 million jobs and raise per capita income to at least \$15,000 by 2020, meeting the World Bank's threshold for high-income nations.

In the plan, MNCs will serve as anchor tenants, generating significant revenue, creating a large number of jobs and strengthening the local business ecosystem.

Since 2011, InvestKL, tasked by the government to attract 100 large MNCs to invest

#### GREATER KUALA LUMPUR AS A PRINCIPAL HUB

The principal hub is a **REGIONAL** hub as a centralized base for conducting regional and global business operations, and for managing, controlling and supporting key functions, including risk management, decision-making, strategic business activities, trading, finance, management and human resources.

#### BENEFITS OF A PRINCIPAL HUB

Centralization of functions, activities, risk management and intangibles by virtue of natural business evolution or acquisition

Better sharing of services (R&D, payroll, accounting, logistics and quality control), technology and commercialization of products

A tax-efficient location with a three-tiered corporate taxation rate, specifically 0%, 5% and 10% depending on eligibility

Addressing transfer-pricing policy and passing the Base Erosion and Profit Shifting (BEPS) test

Quality and speed can be improved at lower cost

SOURCE: INVESTKL

### BUSINESS ENVIRONMENT | Access and infrastructure

## A strong, cost-competitive ecosystem for global companies

Greater Kuala Lumpur offers companies a multipronged strategy focusing on key considerations for the location of a principal hub by a multinational company: access to market, strong infrastructure, talent availability, cost competitiveness and a competitive tax regime.

"When it comes to regional expansion, MNCs want an optimized solution," says Zainal. "They want better control over their physical presence or entities by centralizing main functions and teams that undertake strategic services and business functions in the region."

Strategically located in the heart of the Association of Southeast Asian Nations, Greater Kuala Lumpur provides easy access to the region's markets. Asean encompasses a population of 633 million, with a combined gross domestic product of \$2.5 trillion, a 5 percent to 7 percent economic growth rate and a growing middle class. Malaysia is one of Asean's strongest economies and has strong historical and cultural links to China, India and the Middle East.

as one-third of that in Singapore. CBRE Research shows that office rental rates in Kuala Lumpur are the lowest in the Asia-Pacific region, lower than those in Singapore, Hong Kong, Bangkok and even Ho Chi Minh City.

With cheaper world-class hotel room rates and affordable international school fees, Kuala Lumpur comes in at 115th in Mercer's Cost of Living Survey 2014, which ranks cities by expensiveness, well below Singapore and Hong Kong, which ranked fourth and third, respectively.

Malaysia's competitive tax regime offers advantages based on the type and scale of activities undertaken and includes 72 comprehensive double-tax agreements to mitigate cross-border taxation, with another 12 under negotiation. Free-trade agreements are extensive, with bilateral agreements

covering the world's major economies and Asia's regional blocs.

"Greater Kuala Lumpur is also fast becoming the regional financial center in Asean," says Zainal, "with many local and foreign banks having regional headquarters in the city. This provides MNCs greater flexibility in financing and international trade. Greater Kuala Lumpur also leads in the Islamic finance environment. The upcoming Tun Razak Exchange financial center will complement the existing finance scene and leverage Malaysia's niche in Islamic finance."

By the close of 2014, 74 percent of Malaysia-listed companies were classified as Shariah-compliant, with market capitalization of more than 1 trillion Malaysian ringgit, or \$276.4 billion. According to the Malaysia International Islamic Finance Center, Malaysia is the largest market for Islamic bonds, or sukuk, in the world, accounting for 66 percent of global issuances. ■

Zainal Amanshah, chief executive of InvestKL.

GREATER KUALA LUMPUR AS A PRINCIPAL HUB LOCATION Greater KL's competitive advantage	
EXCELLENT ECOSYSTEM	QUALITY LIFESTYLE
<b>Location</b> <ul style="list-style-type: none"><li>● At the heart of Asean</li><li>● Easy access to Chinese and Indian high-growth markets</li><li>● Growing middle-class population</li><li>● 6th in ease of doing business among 183 countries (World Bank, 2014)</li></ul>	<b>Affordable quality living</b> <ul style="list-style-type: none"><li>● 115th in cost of living out of 211 cities (Mercer, 2014)</li><li>● Luxurious residential housing with world-class facilities</li><li>● Award-winning golf courses</li><li>● 4th best shopping city worldwide (CNN, 2013)</li></ul>
<b>Logistics</b> <ul style="list-style-type: none"><li>● Kuala Lumpur International Airport connects to over 79 Asia-Pacific cities</li><li>● Free-trade zones and warehouse storage</li></ul>	<b>Quality education</b> <ul style="list-style-type: none"><li>● 37 international schools</li><li>● 39 universities</li></ul>
<b>Stable financial system</b> <ul style="list-style-type: none"><li>● 4th among 189 countries for investor protection (World Bank, 2014)</li><li>● Liberal foreign-exchange administration policies</li><li>● Islamic financing hub</li></ul>	<b>World-class health care</b> <ul style="list-style-type: none"><li>● World's best hospital for medical tourists: Prince Court (MTQUA, 2013)</li><li>● 3rd best and most affordable health care provider in the world (International Living Annual Global Retirement Index, 2014)</li></ul>
<b>Talent availability</b> <ul style="list-style-type: none"><li>● English-proficient talent to support global business growth</li><li>● Multilingual talent to support regional business growth</li><li>● Attractive foreign talent programs</li></ul>	<b>Cultural melting pot</b> <ul style="list-style-type: none"><li>● Cosmopolitan culture</li><li>● Within an hour's drive of greenery and beaches</li><li>● Numerous recreational activities</li></ul>
<b>Cost competitive</b> <ul style="list-style-type: none"><li>● Cost of doing business is one-third of Singapore's and Hong Kong's (InvestKL, 2014)</li><li>● Least expensive in the region for office rental rates (CBRE Research, 2014)</li><li>● Competitive cost of talent</li></ul>	<b>Safe environment</b> <ul style="list-style-type: none"><li>● Free from natural disasters such as earthquakes or typhoons</li></ul>

SOURCE: INVESTKL

Within Asean, Greater Kuala Lumpur is a leading air and sea hub, with four international airports, including Kuala Lumpur International Airport, ranked the third-busiest airport in Asean by international cargo traffic and the fourth-busiest airport in Asean by international passenger traffic. It takes only four to six hours to reach key Asian business centers such as Hong Kong, Shanghai and Tokyo. Malaysia's capital is also connected to the region via major shipping ports, including Port Klang, the 12th-busiest port in the world, as well as numerous highways and an upcoming high-speed railroad that will connect Greater Kuala Lumpur to Singapore in 90 minutes. World-class warehousing facilities include 2.7 million square feet (250,838 square meters) of warehousing space and 1,645 acres (666 hectares) of free-trade zones.

Amid world-class infrastructure, the city has created a fluid business ecosystem with one of the region's most competitive work forces. Each year, Greater Kuala Lumpur's 39 public and private universities produce 150,000 skilled and multilingual graduates from a variety of disciplines. Ranked the most talent-competitive country in Asia by the IMD World Talent Report 2014, the country also boasts the top ranking in English proficiency in Asia, according to Education First 2014.

Greater Kuala Lumpur's cost advantages include competitive residential, commercial and industrial property rentals, cost-effective talent and generally lower operations costs.

According to InvestKL, the cost of doing business in Greater Kuala Lumpur is as little

### COMPETITIVENESS | The Asian edge

## Significant tax and cost advantages

Greater Kuala Lumpur has become a reliable location for establishing a principal hub and a serious competitor to other well-known Asian locations such as Hong Kong and Singapore, says Matthew Andrew, partner and Asia-Pacific leader of operating-model effectiveness at the Asia-Pacific tax center of Ernst & Young.

"Malaysia offers a highly educated and multilingual work force, a good transportation system and communications infrastructure, and guarantees protection of intellectual property," he says.

Andrew adds that it also offers multinational companies considerable tax advantages: "The common type of incentives Malaysia offers are threefold: corporate

tax exemption, investment allowance and import-duty relief."

Specifically for headquarters or corporate support activities, says Andrew, Malaysia offers incentives for operational headquarters, international procurement centers and regional distribution centers.

"These incentives not only grant tax advantages," says Andrew, "but also allow MNCs to clear any work-permit issues for expatriate employees and any foreign-exchange-related issues to transfer cash in and out of Malaysia. From a tax perspective, it is noteworthy that these incentives provide not only a reduced tax rate, but also the possibility of full income-tax exemption on qualifying income in certain circumstances."

He notes that when choosing a location for a principal hub, MNCs consider various costs according to their needs, such as labor, office space and warehousing, intellectual property protection, data security, utilities and general cost of living.

"Based on our experience," he says, "we notice that Greater Kuala Lumpur is becoming a more and more realistic option for multinationals. MNCs are genuinely interested in knowing more about Greater Kuala Lumpur and its advantages, especially because the city has more competitive labor and lease costs than either Singapore or Hong Kong. This is becoming an increasingly important factor at a time when Asia is seeing slowing revenue growth opportunities from Australia and China." ■

### QUALITY OF LIFE | The Chamber of Commerce view

## Greater KL offers 'best overall package' for foreign executives

In choosing a location for a regional or strategic base in the Asia-Pacific region or Southeast Asia, German companies take a careful approach, meticulously assessing the options, says Alexander Stedtfeld, executive director of the Malaysia-German Chamber of Commerce and Industry.

"Greater Kuala Lumpur's and Malaysia's main strength is in its best overall package," says Stedtfeld. "In other countries, while tax may be lower, investment incentives higher or the general cost or salary levels lower, Malaysia ranges within the top three to five in most relevant areas."

The factors he cites apply to Malaysia as a whole, such as a welcoming culture for foreign business, a stable economic and political environment, a strong industrial base and prudent fiscal and budget policies. He adds: "Greater Kuala Lumpur offers especially high scores in infrastructure, the availability of highly qualified people and a broad base of relevant agencies which were specifically set up by the government to support private business."

His opinions are echoed by the American Malaysian Chamber of Commerce. "Greater Kuala Lumpur's business-friendly environment is the greatest value proposition for American businesses," says Amcham's president, Sanjeev Nanavati. "Competitive tax incentives, the availability of highly qualified local talent, existing and ongoing infrastructure improvements and continued support from local, state and federal governments to maintain stable and transparent regulations and policies are factors that play a decisive role for multinational companies establishing headquarters in Malaysia's capital."

He adds: "The possibilities for innovative collaborations with Malaysian companies and public organizations headquartered in Greater Kuala Lumpur facilitate industry leaders in sharing international best practices with the public and private sector, helping to improve the local supply chain. The new principal-hub initiative provides customized incentives that promote investment opportunities through centralization of business activity and cost competitiveness, and improves the overall quality as well as speed of doing business through consolidation."

Gilles Waeldin, vice president of the Malaysian French Chamber of Commerce and Industry, adds: "While most of the neighboring countries can be attractive for specific operations, Greater Kuala Lumpur is gradually taking over from Singapore as a regional headquarters location for MNCs' regional management operations, including strong logistic-hub capacities."

How does Greater Kuala Lumpur stack up in terms of quality of life for expatriate executives? "Having arrived in Kuala Lumpur in 2008, and looking back at my living and working experience in other Asian capitals, I am sure that expats cherish the same things that my family and I do," says Stedtfeld. "Getting around with a car in Greater Kuala Lumpur or out of the city to the western or eastern coasts is usually quick and hassle-free. Some of the other factors making Greater Kuala Lumpur and

its surroundings a highly livable place are a wide selection of international schools and universities, attractive housing at competitive costs, appealing shopping and entertainment outlets and, last but not least, a delectable range of culinary delights reflecting the diverse cultural and ethnic environment of Malaysia."

Says Waeldin: "Greater Kuala Lumpur is a very cosmopolitan city where families can enjoy a high level of comfort, including affordable international schools and groceries from all over the world. The central position of Greater Kuala Lumpur allows for easy escapes from the city to the surrounding greenery and sandy beaches."

Amcham's Nanavati adds: "Greater Kuala Lumpur provides MNCs with a high standard of living compared with other cities in the region. In addition to modern and efficient infrastructure, expats employed by MNCs enjoy Greater Kuala Lumpur's dynamic society, with its unique cultural heritage and lively multicultural environment. The cost of living in Greater Kuala Lumpur is relatively affordable compared with other metropolitan cities in Asia." ■

#### 'Greater Kuala Lumpur provides MNCs with a high standard of living compared with other cities in the region'

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