

# Greater Kuala Lumpur – The Optimal Principal Hub For MNCs

In 2015, the spotlight is on Greater Kuala Lumpur (Greater KL) and Malaysia as the country takes the chairmanship of ASEAN bringing significant business opportunities for the region.

ASEAN forms a strong economic powerhouse with a combined GDP of \$2.4 trillion and projected to rank as the fourth largest economy by 2050. With increased integration between the ASEAN countries, MNCs benefit most through market access, global connectivity, a youthful population of 633 million and third largest labour force in the world.

To strengthen Malaysia's position, Minister of International Trade and Industry, Dato' Sri Mustapa Mohamed recently announced the Principal Hub incentive to attract the world's largest MNCs regional operations investments.

Greater KL being strategically located in the heart of ASEAN is one of the most sought-after locations in Southeast Asia, which to date has been chosen by many MNCs as the ideal location to establish their regional headquarters.

"With Malaysia taking the chairmanship of ASEAN this year, MNCs can grow within Asia's third pillar of economic growth by leveraging on Malaysia's comparative advantage in the integrated global supply chain," says Datuk Zainal Amanshah, chief executive officer of InvestKL.

## The Principal Hub Incentive – Greater KL's Game Changer

As Greater KL continues to attract high quality and focused investments, the Malaysian government recognizes the changing trends in regional headquarters, global supply chain models, and the upcoming AEC. In line with this, the Principal Hub incentive is developed with the aim to enhance Greater KL's competitiveness as a regional base and to attract more high value investments into the country.

The Principal Hub concept outlines how MNCs are able to establish their regional centre in Greater KL, which will be more cost effective and efficient when operating from one central location, and to streamline operations & facilitation of shared resources & services which enable the delivery of superior service experience. The Principal Hub incentive is now one-offering which replaces the Operational Headquarters (OHQ), International Procurement Centre (IPC) and Regional Distribution Centre (RDC) incentives.

The Principal Hub incentive allows MNCs to enjoy benefits such as customs duty exemptions into free industrial zones, licensed manufacturing warehouses, and free commercial zones. Other incentives include the relaxation of equity ownership guidelines in the Principal Hubs, and MNCs can also hire expatriates based on their business requirements.

From a tax perspective, Principal Hub companies are placed in a 3-tier tax scheme based on their level of value creation, under which they pay tax rates of 0% up to 10% over a 5-year period that may be extended by another 5 years, subject to the number of skilled jobs they create and their business expenditure.

To qualify for these incentives, a Principal Hub must serve and control network companies in at least 3 countries outside Malaysia, and carry out at least 3 specified qualifying services of which one must be strategic services.

Among some of the strategic services include regional P&L management, management of risks, decision making, strategic business planning and corporate development. Principal Hubs will also enjoy the flexibility in aspects such as foreign exchange administration.

"We see many companies in various sectors, from consumer goods to oil and gas, establishing Principal Hubs to improve their supply chain, margins and efficiency," adds Datuk Zainal.

## Greater KL as the ideal location for a Principal Hub

Greater KL's value proposition as a Principal Hub is clear. The city's competitive advantages in terms of its central location, stability, cost-competitiveness, access to a growing multi-lingual talent, sophisticated business ecosystem, world class infrastructure and connectivity will propel Greater KL's attractiveness to prospective MNCs with an eye towards setting up their regional headquarters for ASEAN.

"The new incentives further strengthen and will propel the city to be the optimal ASEAN regional headquarters, complementing InvestKL's efforts in attracting MNCs with high value activities to Malaysia's capital, and supporting further high-skilled regional job growth," says Datuk Zainal.

## THE PRINCIPAL HUB INCENTIVE WILL ENHANCE GREATER KUALA LUMPUR'S COMPETITIVENESS AS A REGIONAL BASE IN ASEAN



Three-tiered corporate taxation rate, specifically 0%, 5% and 10% tax rate, depending on eligibility



No local equity / ownership condition



Bring in raw materials, components or finished products with customs duty exemption into free industrial zones, LMW, free commercial zones and bonded warehouses for production or repackaging, cargo consolidation and integration before distribution to its final consumers for goods-based companies



Expatriate posts based on requirements of applicant's business plan subject to current policy on expatriates



Foreign Exchange Administration flexibilities will be accorded in support of business efficiency and competitiveness of companies under the Principal Hub



## BENEFITS OF PRINCIPAL HUB



Centralization of functions, activities, risks 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 Principal Hub entity located in a tax-efficient jurisdiction allows companies to maximize profits



Ensure global tax efficiency by adequately addressing transfer pricing policy



Quality and speed can be improved at lower cost



**Mustapa: The Principal Hub initiative will be a game changer. We are tailoring initiatives so that Malaysia can benefit from MNCs**



**Zainal: Greater KL's value proposition is further strengthened with the new incentives and will propel the city to be the optimal ASEAN regional headquarters**

The latter in particular is a key focus of the government as we seek to move towards a high-income nation."

This drive is possible through Greater KL's thriving business ecosystem, which makes it easy for companies to set up their operations here. The city has been highly-rated in the areas of business-friendliness. According to the World Bank Group Report 2015, Malaysia is ranked 1st among emerging economies in East Asia for "Ease of Doing Business" and 18th out of 183 economies worldwide.

The same report ranked Malaysia 3rd for "Getting Credit", "Investor Protection", and "Trading Across Borders" respectively in East Asia and the Asia Pacific region. Connectivity in Greater KL is also world-class as the city boasts the 12th busiest port in the world in Port Klang, while the Kuala Lumpur International Airport is the 10th busiest airport in Asia and fastest-growing in addition to the existing excellent roads and railway connectivity.

Besides connectivity, Greater KL also boasts competitiveness from a cost perspective and an attractive tax regime. The Global Competitiveness Index (GCI) 2014-2015 ranks Malaysia 20th among 144 countries, 7th in terms of efficient and competitive markets for goods and services, and 4th for a well-developed and sound financial market, which is a crucial factor in any business environment.

Malaysia has also signed 72 Double Tax Agreements to mitigate cross border taxation.

On the talent front, Malaysia produces 200,000 multi-lingual graduates annually with degrees in various fields. As a country, Malaysia is also ranked highest in Asia for English proficiency, due to the country's former British colonial past. Malaysia has also been ranked as the Most Talent-Competitive Country in Asia by IMD World Talent Report 2014.

Above all that, Greater KL is ranked 115th most expensive city worldwide by Mercer in 2014, making the capital one of the most affordable place to live and work. With 37 international schools and voted as the 4th best shopping destination in the world by CNN, expatriates can expect affordable quality living in Greater KL.

## A partnership with InvestKL

MNCs will find a highly cooperative partner in InvestKL, a special purpose investment promotion agency with a mandate to attract top MNCs to the city. Since its inception in 2011, InvestKL has facilitated the arrival of several world renowned MNCs including Schlumberger, Colas Rail, Zurich Insurance, and Clariant. The agency is instrumental in preparing MNCs with business information, legal and tax requirements, as well as facilitating liaisons between relevant government agencies and bodies.

"As we are moving up the value chain of knowledge and services operations, we are targeting high-value investments focusing on value-added strategic services, business services intellectual properties and innovation," says Datuk Zainal.

Greater KL's strong business ecosystem and cost advantages provide a competitive edge for MNCs compared to other cities in the region. The combination of these two factors from Greater KL provides a platform for MNCs to expand their presence in ASEAN and produce dynamic results for their Principal Hub operations in the region.

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InvestKL is a government initiative to attract and facilitate global multinationals investment into Greater Kuala Lumpur