MALAYSIA

Malaysia’s economic freedom score is 74.0, making its economy the 22nd freest in the 2019 Index. Its overall score has decreased by 0.5 point, with declines in scores for monetary freedom and trade freedom exceeding improvements in judicial effectiveness, government spending, and fiscal health. Malaysia is ranked 6th among 43 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

The trade regime is relatively open. There is no mandated minimum wage, and labor regulations are not rigid. The judicial system’s vulnerability to political influence is a significant challenge to the rule of law. Government priorities in 2019 include consolidating high public debt and attracting additional investments in the production of high-technology and knowledge-based goods and services that have made Malaysia an upper-middle-income country. To enhance competitiveness, the government plans further liberalization of some services subsectors, tax reform, and subsidy reductions.

<table>
<thead>
<tr>
<th>WORLD RANK: 22</th>
<th>REGIONAL RANK: 6</th>
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</thead>
<tbody>
<tr>
<td>ECONOMIC FREEDOM STATUS: MOSTLY FREE</td>
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**ECONOMIC FREEDOM SCORE**

<table>
<thead>
<tr>
<th>REGIONAL AVERAGE</th>
<th>WORLD AVERAGE</th>
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<tr>
<td>60.6</td>
<td>60.8</td>
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**HISTORICAL INDEX SCORE CHANGE (SINCE 1995):** +2.1

**CONCERNS:** Financial Freedom and Government Integrity

**RELATIVE STRENGTHS:** Tax Burden and Property Rights

**QUICK FACTS**

- **POPULATION:** 32.1 million
- **GDP (PPP):** $930.8 billion
  - 5.9% growth in 2017
  - 5-year compound annual growth 5.2%
  - $29,041 per capita
- **UNEMPLOYMENT:** 3.4%
- **INFLATION (CPI):** 3.8%
- **FDI INFLOW:** $9.5 billion
- **PUBLIC DEBT:** 54.2% of GDP

**BACKGROUND:** In 2018 elections, the opposition Alliance for Hope stunned the long-ruling National Front, bringing 93-year-old Prime Minister Mahathir Bin Mohamad back to office for a second time. During his 1981–2003 tenure, Mahathir diversified the economy away from dependence on exports of raw materials and expanded manufacturing, services, and tourism. Running on his economic record, he was able to craft a winning political coalition in the wake of a massive scandal involving the state-run development board. Mahathir has already announced his intent to transfer power to Anwar Ibrahim, a previously imprisoned former deputy prime minister and opposition leader. Malaysia’s top exports include electronics, petroleum, chemicals, and palm oil.

2017 data unless otherwise noted. Data compiled as of September 2018.
Malaysian courts protect real property ownership rights, but protection of intellectual property rights is weaker. The judiciary is nominally independent but strongly influenced by the executive. Arbitrary or politically motivated verdicts are common. Favoritism and blurred distinctions between public and private enterprises create conditions conducive to corruption. Journalists and opposition politicians have been harassed or prosecuted.

The top individual income tax rate is 25 percent; the top corporate tax rate is also 25 percent. Other taxes include a capital gains tax. The overall tax burden equals 13.8 percent of total domestic income. Over the past three years, government spending has amounted to 23.7 percent of the country’s output (GDP), and budget deficits have averaged 2.7 percent of GDP. Public debt is equivalent to 54.2 percent of GDP.

Steps to introduce greater regulatory efficiency have been implemented in recent years, but the pace of business reform has slowed. With no minimum capital required, it takes fewer than 10 procedures to start a business. There is no national minimum wage, and restrictions on work hours are relatively flexible. The government has allocated $760 million to subsidize gasoline and diesel prices through the end of 2018.

The combined value of exports and imports is equal to 135.9 percent of GDP. The average applied tariff rate is 4.0 percent. As of June 30, 2018, according to the WTO, Malaysia had 69 nontariff measures in force. Domestic equity requirements that restricted foreign investment have been eliminated. The financial sector has undergone regulatory adjustments that include the easing of limits on foreign ownership in financial subsectors.