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The 2020 *Ease of Doing Business* Survey: How Competitive is the Malaysian Economy?

*Michael T Schaper**

EXECUTIVE SUMMARY

- Each year, the World Bank's *Doing Business* report collects standardised comparative global data on the ease of running a business.

- In the 2020 results, Malaysia was placed 12th best amongst the 190 surveyed economies. This is an improvement over its 2019 performance, when it ranked 15th.

- Malaysia is also ranked higher than every other ASEAN nation, except Singapore (which is rated 2nd globally).

- According to the latest report, Malaysia is particularly adept at dealing with construction permits; providing electricity; and offering a legal regime that protects minority investors and shareholders. However, it is weak in helping entrepreneurs start new businesses; in collecting and administering taxes; and in facilitating cross-border trade.

- Business leaders interviewed by ISEAS earlier this year suggest that continuing issues include a lack of English language education; difficulty in keeping a strong commitment to an open economy and maintaining the inflow of foreign direct investment; lack of clarity and stability in government policies; difficulties in upholding the rule of law; and variable outcomes from ongoing efforts to eliminate corruption.

- Changes in ranking in recent years have also been linked to changes in government. The business sector waits to see what policies will emerge from the new Muhyiddin administration.

** Michael T Schaper is Visiting Senior Fellow at ISEAS – Yusof Ishak Institute, CEO of the Canberra Business Chamber, and Adjunct Professor with the John Curtin Institute of Public Policy at Curtin University, Western Australia. Email: michael.schaper@gmail.com.*

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IS MALAYSIA BECOMING MORE GLOBALLY COMPETITIVE?

Just how easy is it to do business in Malaysia, and how does that compare to other nations?

Since 2002, the World Bank has been collecting and publicising standardised comparative data on the impediments to starting and operating a business around the globe. Published annually, the latest *Doing Business* report assesses some 190 countries, and indicates that Malaysia is performing well, attaining a rank of 12th globally (see Table 1). Malaysia is one of only two economies in the ASEAN region to make it into the top 15 rankings,[1] and has also seen an improvement on its score in recent years.

Table 1: ASEAN Member Rankings in *Doing Business* Results, 2020

Rank	Country	Doing Business Score
2nd	Singapore	86.2
12th	Malaysia	81.5
21st	Thailand	80.1
66th	Brunei Darussalam	70.1
70th	Vietnam	69.8
73rd	Indonesia	69.6
95th	Philippines	62.8
144th	Cambodia	53.8
154th	Lao PDR	50.8
165th	Myanmar	46.8

At first glance, then, Malaysia appears to be a globally competitive economy when it comes to starting and operating a business. But there is more to the picture, and there is still some significant policy work that the country needs to undertake.

UNDERSTANDING THE *DOING BUSINESS* FRAMEWORK

To understand the significance of these results, it is first necessary to understand how the *Doing Business* (DB) model works, what it assesses, and what its purpose is.

Since its inception in 2002, DB has been designed to provide standardised comparative data between countries on the steps needed to open and operate a business. It uses some 10 different items to develop a total composite "ease of doing business score," shown in Table 2 below (data on an eleventh variable, employment, is also collected but to date has not been added to the scoring total). The unit of measurement is the experience of a hypothetical locally-owned small- to medium-sized limited liability (*Sendirian Berhad*) company, based in the major business city of each nation (in this case, Kuala Lumpur).[2] Individual scores are calculated for each of the 10 indicator variables, as well as an overall aggregate measure (the latter of which is referred to as "the DB score"), with 100 being the highest possible score and zero the lowest in each case. It is thus possible to compare countries at the aggregate level (the economy with the highest DB score has the greatest ease of doing business), as well as on an indicator-by-indicator basis.

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Table 2: *Doing Business* 2020 Standardised Indicators

Starting a business:
Procedures, time, cost and paid-in minimum capital to start a limited liability company.

Dealing with construction permits:
Procedures, time and cost to complete all formalities to build a warehouse; quality control and safety mechanisms in the construction permitting system.

Getting electricity:
Procedures, time and cost to get connected to the electrical grid; reliability of electricity supply; the transparency of tariffs.

Registering property:
Procedures, time and cost to transfer a property; quality of the land administration system.

Getting credit:
Movable collateral laws and credit information systems.

Protecting minority investors:
Minority shareholders' rights in related-party transactions and in corporate governance.

Paying taxes:
Payments, time, total tax and contribution rate for a firm to comply with all tax regulations, as well as post-filing processes.

Trading across borders:
Time and cost to export a product of comparative advantage and import auto parts.

Enforcing contracts:
Time and cost to resolve a commercial dispute; the quality of judicial processes.

Resolving insolvency:
Time, cost, outcome and recovery rate for a commercial insolvency; strength of the legal framework for insolvency.

Employing workers:
Flexibility in employment regulation and redundancy costs.

Source: World Bank (2019b: 2)

The principal function of the scoring system is *comparative* – it allows readers to easily assess the performance of any given country with others. As a relative measurement, it shows how well (or badly) a nation's regulatory framework is faring in a given year compared to other countries.

However, the overall DB score is also an *absolute* measurement – it is meant to serve as an assessment of the total level of regulatory performance of a country at a point in time, and thus indicate the extent to which countries may still need to consider further reforms. Conceptualised another way, it is the "distance to the frontier" between a country's actual performance and very best practice in each of the variables measured (where 100 = idealised perfect regulatory outcome). This figure can be used by policymakers to help assess how much more reform effort is needed.

The World Bank is clear in its public messaging that *Doing Business* is meant to be a tool to promote a broad-based understanding of each country's performance, as well as a spur to greater economic liberalisation and regulatory reform amongst nations. As it states, "… *Doing Business* encourages economies to compete towards more efficient regulation, and offers measurable benchmarks for reform" (2019b: 3).

MALAYSIA'S VARIABLE PERFORMANCE

In the 2020 results, Malaysia was placed 12th amongst the 190 surveyed economies, and recorded an overall DB score of 81.5. This is a considerable improvement over its 2019 performance, when it ranked 15th and reported a score of 80.6.

Over time, Malaysia's rankings in the DB evaluations have fluctuated significantly. As Table 3 shows, the country has variously found itself ranked from 25th to 12th internationally over the 15 years that *Doing Business* has comparatively rated nations. Typically, it has been placed in the 20th-25th ranking segment, which is almost its default placement. In some years (such as 2012 and 2013) it achieved a sudden significant improvement, but then lapsed back later into the 20-25 band. At other times, it made more modest improvements (as occurred in 2015 and 2016), and then reverted again into its more traditional ranking. In the last two years, though, it has once more begun trending towards a significantly improved position.

Table 3: Malaysia's Annual Rankings[3]

Publication Year	Overall Global Position (DB score)
2020	12 (81.5)
2019	15 (80.60)
2018	24 (78.43)
2017	23 (78.11)
2016	18 (79.13)
2015	18 (78.8)
2014	20 (76.8)
2013	12
2012	18
2011	23
2010	23
2009	21
2008	25
2007	25
2006	25

The DB reporting framework also indicates the variables where Malaysia has key strengths and weaknesses (see Table 4). The country is particularly adept at dealing with construction permits; providing electricity; and providing a legal regime that protects minority investors and shareholders. However, it is weak in collecting and administering taxes; facilitating cross-border trade; and in helping entrepreneurs start new businesses.

Table 4: Breakdown of Scores

Source: World Bank (2019b: 4)

Paying taxes receives a low ranking due to the comparatively higher overall tax rate a typical Malaysian firm faces, the time it consumes to lodge and comply with all relevant taxation paperwork, and in dealing with any post-payment problems.

Poor border compliance issues and costs lowered the country's relative ease of trading across borders, although it still fares much better than most other ASEAN economies.

The biggest impediment, though, lies in the low scores received for ease of establishing a new commercial enterprise. Ranked 126th in the world, Malaysia's "starting a business" performance is well below the Asia-Pacific average and helps draw down its overall global standing.

It can typically take at least 17 days to comply with all the paperwork required to establish a new business venture, compared to world's best practice in New Zealand (half a day). Intriguingly, the report also notes and takes into its assumptions a unique, specific gender-based barrier in business formation: under the Islamic Family Law, women must obtain permission from their husband to leave her home.

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COMPARISON WITH OTHER COUNTRIES

Overall, Malaysia is ranked very favourably compared to most of its ASEAN colleagues. As shown previously in Table 1, it out-rates Thailand (21st), Brunei (66th), Vietnam (70th), Indonesia (73rd), The Philippines (95th), Cambodia (144th), Lao PDR (154th) and Myanmar (165th).

However, neighbouring Singapore continues to be the world's second best ranked economy, a position it has held for the last four years.

The two biggest Asian economies continue to be ranked below Malaysia, but are climbing steadily upwards. China is placed 31st, which is a substantial improvement on its 2019 ranking of 46th. Likewise, India has moved up to 63rd place this year, compared to 77th position in 2019.

There is thus a degree of pressure on Malaysia to ensure that its relative standing is maintained and, if possible, improved. This is especially important in a region where many nations are working to improve their position. China, Indonesia, Myanmar and The Philippines all introduced notable reforms in 2019 that have helped improve their rankings. As the World Bank has noted (2020), "…while economic reasons are the main drivers of reform, the advancement of neighbouring economies provides an additional impetus for regulatory change."

Interestingly, whilst the *Ease of Doing Business* survey shows Malaysia's relative position improving, another international comparative ranking system has suggested a decline.

The *Global Competitiveness Report* (GCR), which is published annually by the World Economic Forum, uses a variety of very different measures, covering some 100+ indicators as well as interviews with in-country businesspeople (Schwab 2019). The GCR data indicate falling scores for Malaysia over time. The country was ranked 27th out of 141 surveyed countries in 2019, 25th in 2018, 23rd in 2017, 25th in 2016, 18th in 2015, and 20th in 2014.

DO CHANGES OF GOVERNMENT MAKE A DIFFERENCE?

Because it is principally a measure of regulatory conditions faced by business, rankings in the DB system are reflective of the policy, legal and licensing frameworks created and sustained by governments. Different administrations can alter this mix, and so change a country's competitive position.

At the operational level, the Malaysian government has previously shown itself adept at responding to implications of the *Doing Business* reports. After the 2007 edition was issued, for example, it set up a joint private-public sector Special Task Force to Facilitate Business (*Pasukan Petugas Khas Pemudahcara Perniagaan*, or Pemudah). Pemudah has been involved in numerous steps to reform regulations that have helped to improve the country's rankings, and it is still involved in DB-related work (Pemudah 2019).

As Table 5 shows, though, the politics of the day can also apparently have some impact. Under Prime Minister Abdullah Badawi and his Barisan Nasional (BN) administration, for example, there was no discernible improvement in the country's DB ranking (it hovered in the 21-25 band), whereas Mahathir Mohamad's Pakatan Harapan (PH) government generated significant improvements, resulting in the recent 12th and 15th global placements. Ratings under PM Najib's BN government ebbed and flowed from highly impressive results in 2013 to disappointing figures in 2018, suggesting an administration sometimes serious about reform, and at other times losing interest.

Table 5: Malaysia's DB Rankings with Changes of Government[4]

Publication Year	Global Ranking (DB score)	Prime Minister, Party
2020	12th (81.5)	Mahathir, PH
2019	15th (80.60)	Mahathir, PH
2018	24th (78.43)	Najib, BN
2017	23th (78.11)	Najib, BN
2016	18th (79.13)	Najib, BN
2015	18th (78.8)	Najib, BN
2014	20th (76.8)	Najib, BN
2013	12th	Najib, BN
2012	18th	Najib, BN
2011	23rd	Najib, BN
2010	23rd	Najib, BN
2009	21st	Abdullah, BN
2008	25th	Abdullah, BN
2007	25th	Abdullah, BN
2006	25th	Abdullah, BN

WHAT DO BUSINESS LEADERS IN MALAYSIA SEE?

A series of personal interviews with a selection of CEOs, company board members and industry association leaders were conducted by ISEAS researchers earlier this year. Amongst other things, these business leaders were asked to identify the key issues that they believe are either helping or hindering the country's international competitiveness.

In general, industry leaders have been supportive of much of the work of past governments to date. These included low barriers to entry for foreign firms; a liberal FDI regime; and government support of an open economy. Typical comments include the following:

> *"… all governments in Malaysia have worked hard to keep Malaysia open to trade. And there are very low barriers to entry for foreigners (foreign firms)."*

> *"… There's a long-term consensus about the need to keep the economy open and free and welcome foreign investors, regardless of the 1MDB corruption scandal."*

Other positive features include the existence of a neighbouring competitor:

> *"One of the biggest drivers is Singapore. Our main contender, our competitor, is next door, is Singapore. We can't escape that. It drives us on to constantly think about dealing with things."*

Other long-term positive features include a sound legal system and rule of law, and a supportive ecosystem for investment:

> *"… Malaysia is a natural investment destination. It's got space, decent infrastructure, technology, reliable power, an English-speaking population, international legal and accounting system, and is right in the middle of ASEAN. Cheaper than Singapore. Better infrastructure than Viet Nam. So it does tick all the boxes. Cost of living and setting up a business is low."*

At the same time, respondents also identify a number of shortfalls where further policy reform is needed, including in the areas of English-language proficiency, productivity, rising consumer incomes, preferential treatment of some local businesses, and corruption:

> *"In the 1970s-80s the government made a bad decision in deciding to use Bahasa as the principal language in the school systems … It was political. It didn't help. And we are still recovering from that."*

> *"Another major challenge going forward is to ensure that incomes rise. We are a middle income country, but the spending power of most Malaysians is still very low and many people's lives suffer as a result. They can't really afford many of the things that are needed to have a good life, like a proper education, good housing, etc."*

> *"Getting rid of corruption is important."*

> *"Yes, we are open and keen to compete. But this country still needs to aim higher. We need to seriously improve our productivity. Talent and technology need improvement here."*

> *"There is still an unspoken policy of supporting national champions… No one says it publicly, but it's there. Especially in critical industries. You need to be aware of this. Tenders are a great example of this. You can't just walk in and tender for something from government and expect to win. It's not going to happen. The national champion is usually going to win regardless, and you'll never know."*

Going forward, one issue will be that of certainty and reliability within both the political and administrative processes of government. As numerous respondents noted, several important determinants of economic success – such as FDI and local business investment – are in part driven by the predictability of government policy, as well as government's willingness to promote an open economy in future. With a new federal ministry and government just recently installed, the business sector is still waiting to see what policies will emerge in the next few years:

> *"… I think there is pent up FDI but it is looking for the political stability …"*

"Some of the old question marks are coming back up again. Will we be going back to the old days and the old ways? That's going to hold back FDI in the short and medium term."

CONCLUSION

Reform is a race that never ends. No matter how much a nation might improve, other countries will also always be seeking to raise their own relative and absolute ranking. The World Bank notes that over the last year, some 115 of the 190 surveyed economies introduced reforms to help boost their standings. Malaysia's new government must continue reform efforts if it is to maintain or improve its competitiveness.

The ease of starting a new business is one field in which the World Bank has noted a growing convergence between countries, with most nations now having introduced measures to either reduce or eliminate barriers to entry. Given Malaysia's low score in this area, it is an obvious starting point for further work.

The World Bank also notes that countries who score well on the DB indicators generally have lower levels of corruption. The new Perikatan Nasional administration would thus be well advised to continue Pakatan Harapan's anti-corruption measures.

The new Malaysian government will need to take these findings, as well as the views of its own business community, into account as it begins the process of developing its economic strategies and business development policies for the next three years until the 15th General Election.

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[1] The top ranked nation globally is New Zealand (DB score = 86.8). Other prominent Asian economies to rate well include Hong Kong SAR (3rd, DB = 85.3), South Korea (5th, DB = 84.0), and Taiwan (15th, DB = 80.9).

[2] A detailed explanation of how each of the variables is determined and measured is provided in World Bank (2019b: 5-62).

[3] The results for 2004 and 2005 are not included as they did not provide any rankings. No aggregate DB scores were publicly published until 2014. The World Bank occasionally makes minor adjustments to its methodology which alters the previously-published rankings of nations; this happened to Malaysia in 2006, 2008, 2009, 2011 and 2014. To ensure long-term equivalency, the adjusted (latter) rankings are presented here. Most significantly, the 2014 published results initially gave Malaysia a global ranking of 6th and DB score of 81.87 before methodological improvements were made, resulting in the scores shown here.

[4] Note that DB data is collected in the year *preceding* publication, so the 2019 and 2020 reports actually evaluate the PH government in office during most of 2018 and all of 2019. Likewise, the 2010 to 2018 publications best reflect Razak's time in power beginning in 2009.

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