



# Assessing the Impact of Increased SST on Medical Tourists in Malaysia: A Focus on Penang

*Dr. Beh May Ting*  
(Programme Coordinator & Senior Analyst,  
History & Regional Studies Programme)

**PENANG**  
INSTITUTE  
making ideas work

10, Brown Road, 10350 George Town  
Penang, Malaysia  
**T** +604 228 3306    **F** +604 226 7042  
**E** [enquiry@penanginstitute.org](mailto:enquiry@penanginstitute.org)

# Assessing the Impact of Increased SST on Medical Tourists in Malaysia: A Focus on Penang

---

*Dr. Beh May Ting (Programme Coordinator & Senior Analyst, History & Regional Studies Programme)*

## EXECUTIVE SUMMARY

- Malaysia has established itself as a leading medical tourism hub in Southeast Asia, attracting about 1.6 million foreign patients in 2024. Even during 2020 and 2021, when international travel was severely affected by the Covid19 pandemic, the country continued to receive more than half a million medical tourists each year.
- The introduction and subsequent adjustment of the Sales and Service Tax (SST) to 6% beginning 1 July 2025 on medical services for foreign patients is intended to broaden the tax base and enhance government revenue.
- This policy shift has raised concerns regarding its potential impact on the competitiveness of Malaysia's healthcare sector, the country's regional positioning relative to Thailand and Singapore, and possible spillover effects on the Penang economy, given the state's substantial share of the national medical tourism market.
- This policy paper analyses the rationale behind the increase in the Sales and Service Tax (SST) on medical tourists, and examines its potential impact on Penang's medical tourism industry. It considers the perspectives of key stakeholders, compares Malaysia's approach with that of regional competitors, and evaluates the risks and opportunities arising from this policy shift.
- Finally, it offers recommendations to mitigate potential adverse effects while ensuring that the measure contributes to long-term fiscal sustainability.

## Table of Contents

1.0	Introduction.....	3
2.0	Methodology.....	5
	2.1 Research Design.....	5
	2.2 Primary Data Collection: Ethnographic Observations.....	5
	2.3 Secondary Data Sources.....	6
	2.4 Limitations.....	6
3.0	Literature Review.....	6
	3.1 Affordability and Cost Competitiveness.....	6
	3.2 Patient Perceptions and Service Quality.....	6
	3.3 Competitiveness and Strategic Positioning.....	7
	3.4 Equity and Sustainability Concerns.....	7
	3.5 Alignment with National Policy Goals.....	7
4.0	The Medical Tourism Ecosystem in Penang.....	7
5.0	Policy Rationale.....	10
6.0	Stakeholder Perspectives.....	11
7.0	Comparative Regional Analysis.....	13
8.0	Risks & Opportunities.....	14
	8.1 Informal or grey channels.....	14
	8.2 Underutilisation of capacity .....	14
	8.3 Equity implications.....	14
9.0	Policy Recommendations.....	15
	9.1 Short-term.....	15
	9.2 Medium-term.....	16
	9.3 Long-term.....	16
10.0	Conclusion.....	17
11.0	References.....	18

## 1.0 Introduction

Malaysia is widely recognised as a leading destination for medical tourism, not only within Southeast Asia but increasingly on the global stage. In 2024, the country attracted about 1.6 million international patients, generating an estimated RM2.72 billion in revenue, a 21 percent year-on-year increase exceeding the national target by 9 percent (Zulkafli, 2025). Spillover spending by patients and their accompanying family members on lodging, food and beverage, as well as local transport is estimated to generate an economic multiplier of up to four times (Ming, 2025). This marks a significant rebound from the pandemic years and reaffirms Malaysia's competitive edge in providing high-quality healthcare at affordable prices. With RM40 billion allocated under RMK-13 to strengthen healthcare, Malaysia can leverage fiscal reforms to enhance both public healthcare sustainability and the medical tourism value chain.

The Malaysia Healthcare Travel Council (MHTC), an agency under the Health Ministry entrusted to promote Malaysia as a healthcare travel destination, is set to achieve RM12 billion in healthcare travel revenue by 2030. This target is driven by an integrated healthcare strategy that brings together modern medical treatments, traditional and complementary medicine, wellness and rejuvenation services, as well as anti-ageing care. According to the council, the most sought-after medical specialties among travellers in 2024 were gastroenterology, obstetrics and gynaecology, orthopaedic surgery, oncology, ear, nose and throat treatments, as well as cardiology.

Malaysia's five largest source markets for health tourism in 2024 are Indonesia, China, India, Singapore, and the United Kingdom.

In 2025, Malaysia was ranked the world's top medical tourism destination by Nomad Capitalist, surpassing other heavyweights such as Thailand, Singapore, India, and Turkey (Nizam, 2025). Industry projections suggest that Malaysia's medical tourism economy could reach US\$2.7 billion annually by 2030, driven by sustained demand from neighbouring countries and growing interest from the Middle East and China (Ariffin & Lam, 2025).

Compared with its regional competitors, Malaysia's success stems from its value-for-money proposition. While Thailand continues to attract higher volumes of patients with an estimated 3.4 million medical and wellness tourists in recent years (Apisitniran, 2025), Malaysia generates comparable revenue due to higher average spending per patient and efficient service delivery. Singapore, on the other hand, targets a premium niche market, focusing on complex procedures but at significantly higher costs and smaller patient numbers. Malaysia's balanced position between affordability and quality, coupled with strong government promotion through the Malaysia Healthcare Travel Council (MHTC), positions it as a formidable player in the global medical tourism market.

**Table 1: Volume of healthcare travellers and revenue from healthcare travellers (MYR million) in Malaysia by year.**

Year	Number of healthcare travellers	Revenue from healthcare travellers (MYR million)
2011	643,000	527
2012	728,000	603
2013	881,000	727
2014	882,000	777
2015	859,000	914
2016	921,000	1,123
2017	1,050,000	1,300
2018	1,207,000	1,400
2019	1,220,000	1,700
2020	687,000	800
2021	561,000	600
2022	865,000	1,300
2023	1,386,000	2,250
2024	1,586,000	2,720

*Source: Malaysia Healthcare Travel Council (2024), Market Research Malaysia (2025), Channel News Asia (2025)*

Barring the slowdown during 2020 and 2021, the number of healthcare travellers to Malaysia has shown a consistent upward trend, with marked growth over the past two years. The year 2026 has been designated as the Malaysia Year of Medical Tourism, coinciding with Visit Malaysia Year 2026. This promotion is timely, given several favourable developments: Singapore's gradual shift away from medical tourism due to scrutiny over the allocation of public resources; Malaysia's comparatively more affordable treatments; the recent extension of Malaysia's visa-free travel arrangements with countries such as China; and the

increasingly niche focus of neighbouring competitors, *i.e.* Singapore on specialised, complex treatments and Thailand on aesthetic medical services and wellness services. By leveraging this timing and the differentiated positioning of its neighbours, Malaysia has the opportunity to present itself as a competitive medical tourism destination for a broad range of commonly sought treatments at attractive prices.

Additionally, Malaysia's strong halal ecosystem gives it a distinct advantage in attracting Muslim medical tourists. Beyond its internationally accredited hospitals, the country offers a comprehensive halal infrastructure that ensures that Muslim patients and their families can access food, accommodation, and services aligned with Islamic principles. Halal-certified restaurants, prayer facilities in hospitals, gender-sensitive care options, and Muslim-friendly hospitality standards reduce cultural and religious barriers for travellers from key markets such as Indonesia, the Middle East, and South Asia. This holistic environment positions Malaysia not only as a provider of affordable and high-quality medical care, but also as a destination where Muslim patients feel culturally and spiritually at ease throughout their treatment journey.

## **2.0 Methodology**

This study adopts a mixed-methods approach that combines primary ethnographic observations with secondary data analysis to assess the impact of the expanded Sales and Service Tax (SST) on Penang's medical tourism sector. The methodology integrates empirical observation, stakeholder perspectives, and comparative benchmarking to ensure a comprehensive and policy-relevant analysis.

### **2.1. Research Design**

The study employs a qualitative-descriptive research design supported by both primary ethnographic fieldwork and secondary document analysis. This design is suited to capturing the multifaceted economic and social linkages between medical tourism, taxation, and Penang's broader healthcare ecosystem.

### **2.2 Primary Data Collection: Ethnographic Observations**

- Ethnographic fieldwork was conducted at selected private hospitals in Penang as well as ancillary service areas surrounding these institutions, including pharmacies, convenience stores, hotels, cafés, and restaurants frequented by medical tourists and their families.
- Courtesy Visit to MHTC: A joint courtesy visit was made to the Malaysia Healthcare Travel Council (MHTC), together with the Penang State Executive Councillor for Health. During this engagement, MHTC presented Penang-focused medical tourism data, including patient arrivals, revenue distribution, and top medical disciplines sought by international patients. A structured discussion was also held on the potential impacts of SST expansion on competitiveness, patient flows, and Penang's role as Malaysia's leading medical tourism hub. This provided authoritative institutional perspectives to complement field observations.
- Hospitals: Observations focused on patient flows, billing processes, interpreter services, and visible patient demographics (particularly foreign patients).
- Pharmacies and Clinics: Patterns of cross-border patient purchases, over-the-counter services, and reliance on translated information were recorded.
- Restaurants and Hotels: Spending behaviours of accompanying family members, preferences for halal-certified and international cuisine, and interactions with hospitality staff were noted.

- These ethnographic observations provided grounded insights into the spillover effects of medical tourism, the potential pass-through effects of SST on support services, and the day-to-day realities of international patient experiences.

## **2.3 Secondary Data Sources**

- Government and Policy Documents: Malaysia's 13<sup>th</sup> Malaysia Plan (RMK-13), Ministry of Finance reports, and Malaysia Healthcare Travel Council (MHTC) publications.
- Academic Literature: Peer-reviewed research on health economics, fiscal policy, and medical tourism trends in Southeast Asia, and benchmarking reports.
- Media and Market Intelligence: Business news (The Edge Malaysia, The Star, NST, Channel News Asia, etc) and health tourism portals providing updates on SST implementation and hospital strategies.

## **2.4 Limitations**

While ethnographic observations provided valuable real-world insights, the study did not include structured patient or hospital staff interviews due to time and access constraints. Future work could integrate surveys or interviews with international patients, local businesses, and healthcare professionals for deeper qualitative validation.

## **3.0 Literature Review**

### **3.1 Affordability and Cost Competitiveness**

Malaysia's position as a leading medical tourism destination has been well established in the literature, with Penang consistently highlighted as one of its primary hubs. Malaysia's positioning as a medical tourism destination has been largely attributed to its affordability and value-driven healthcare services. As highlighted by Tang (2017) and Kadir & Nayan (2021), the sector's competitiveness has been underpinned by favourable exchange rates and comparatively lower treatment costs relative to regional counterparts. These dynamics are further shaped by broader macroeconomic conditions, including income levels, currency movements, and service pricing, with affordability consistently identified as a central determinant of Malaysia's attractiveness to international patients. Huda & Ahmad (2023) further emphasised that affordability, combined with quality, remains a decisive factor in patient choice. However, the expansion of the Sales and Service Tax (SST) risks eroding this cost advantage if higher prices make Malaysia less competitive compared to Thailand or Indonesia, where exemptions or incentives exist to cushion the sector.

### **3.2 Patient Perceptions and Service Quality**

Beyond clinical outcomes, medical tourists are highly sensitive to their overall experience. Nazem & Mohamed (2016) showed that hospital environment and interpersonal interactions significantly shape patient perceptions, while Yong et al. (2021) found that communication, trust, and perceived fairness in

pricing affect loyalty and return intentions. Vashu et al. (2021) noted that Penang's broader destination image, including hospitality and leisure offerings strengthen its medical tourism brand. With SST expansion, there is a risk that rising costs could undermine perceptions of fairness unless hospitals adopt mitigating strategies such as absorbing the tax or offering discounts. These adaptive measures, already observed in some Penang hospitals, may help sustain patient confidence despite taxation.

### **3.3 Competitiveness and Strategic Positioning**

Regional competition requires Penang to continually invest in capacity, technology, and branding. Karim et al. (2025) stressed the need for infrastructure upgrades and cross-sector collaboration, while Shaharuddin et al. (2023) highlighted the synergies between medical tourism and Penang's broader tourism services. SST expansion, if implemented without complementary policies, could slow returns on investment and discourage further capital expenditure. Yet, if tax revenues are strategically reinvested into healthcare infrastructure, research, and destination branding, the policy could also strengthen Penang's competitiveness over the long term.

### **3.4 Equity and Sustainability Concerns**

Equity remains a recurring theme in the literature. Chow (2018) warned of indirect pressures on public systems, as medical tourism may exacerbate inequalities between public and private healthcare. The expansion of SST complicates these dynamics. While international patients are the intended target of the tax, local middle- and upper-income Malaysians may also face higher costs, especially as contracted support services (e.g., cleaning, lab transport, linen supply) are subject to taxation. This could push some domestic patients back into the overstretched public sector, worsening wait times and straining limited resources.

### **3.5 Alignment with National Policy Goals**

Taken together, the literature points to the importance of aligning fiscal policy with healthcare and economic development objectives. Malaysia's medical tourism success rests on balancing affordability, quality, and sustainability. The SST expansion could disrupt this balance if poorly calibrated, but it also presents opportunities: revenues could be reinvested to improve healthcare infrastructure, strengthen public-private collaboration, and enhance Malaysia's brand as a trusted and competitive medical hub. The challenge lies in ensuring that the tax regime not only broadens the fiscal base but also sustains the long-term viability and equity of the healthcare system.

## **4.0 The Medical Tourism Ecosystem in Penang**

Within Malaysia, Penang plays a central role in the country's medical tourism landscape. The state has long been known for its concentration of internationally accredited private hospitals, advanced cardiac and oncology care, and proximity to Indonesia, which is Malaysia's largest source market for foreign patients.

Historically, Penang accounts for between 40 and 50 percent of Malaysia's medical tourism revenue. The Penang Centre of Medical Tourism (PMED) was established in 2015 as a state-level platform to promote



and strengthen Penang's position as Malaysia's leading destination for medical tourism. To date, it comprises 17 member hospitals and 17 associate members from across the public and private sectors, including healthcare providers, government agencies, industry associations, and support service providers. This diverse network enables PMED to coordinate strategies, address emerging challenges, and promote Penang as a trusted regional healthcare hub. Its mandate includes facilitating dialogue on regulatory issues, enhancing service quality and patient experience, and ensuring that Penang's healthcare sector remains competitive in the face of regional and global developments.

Penang's medical tourism ecosystem is anchored by a cluster of established private hospitals that have built strong international reputations and referral networks. Flagship providers include Island Hospital, Gleneagles Penang, Loh Guan Lye Specialists Centre, Pantai Hospital Penang, Penang Adventist Hospital, Sunway Medical Centre, and Lam Wah Ee Hospital; these institutions are consistently cited in official state health-tourism listings and industry coverage, reflecting the depth of specialist services available in the state.

Around these hospitals is a tightly knit support economy that enables seamless patient journeys—from pre-arrival inquiries to post-operative recovery. Hotels, transport operators, interpreters, community clinics, pharmacies, and wellness centres form the backbone of non-clinical services, while upstream partners in diagnostics laboratories and medical device supply ensure capacity for complex procedures. Industry analyses of Malaysia's health-travel value chain describe Penang and Kuala Lumpur as the country's two most developed hubs precisely because they pair high-quality hospitals with dense ancillary infrastructure and tourism amenities (Alvarez & Marsal, n.d.).

Penang also competes in a dynamic regional market. Thailand remains a high-volume competitor, buoyed by bundled medical-wellness offerings and an indirect-tax regime in which healthcare services are generally exempt from value-added tax, helping keep patient-facing prices competitive. Singapore positions itself at the premium end: the GST rate rose to 9 percent in 2024. While the government absorbs GST for subsidised treatment in public settings, GST is typically charged on private-sector medical services—reinforcing Singapore's higher price point alongside a strong quality perception (Ministry of Health Singapore, 2022). Indonesia, historically a major source of Penang's foreign patients, is working to stem outbound flows by upgrading domestic capacity, including launching a medical-tourism special economic zone in Bali and partnering with international brands (Lai, 2025); policymakers nonetheless acknowledge that many Indonesians will still travel overseas for care in the near term (Poo, 2023; Loasana & Tanamal, 2023). These regional dynamics underscore Penang's need to preserve its value-for-money proposition and its integrated ecosystem advantages.

**Table 2: Volume of Healthcare Tourists in Penang by for selected hospitals (PMED members)**

Data collection as of 16 August 2025; Figures constantly adjust based on incoming data. Cumulative Average Response Rate (CAGR @ 62%).

	2024		2025		YoY Comparison	
Month	No. of Health Tourists	Revenue (MYR)	No. of Health Tourists	Revenue (MYR)	Variance (No. of Health Tourists)	Variance (Revenue)
Jan	39,030	77,603,704	36,895	80,892,232	-5.5%	4.2%
Feb	31,678	64,020,816	41,184	88,106,869	30.0%	37.6%
Mar	40,560	81,640,281	39,498	89,813,059	-2.6%	10.0%
Apr	34,195	70,918,534	42,153	92,285,543	23.3%	30.1%
May	39,858	80,939,881	41,432	87,022,242	3.9%	7.5%
Jun	38,418	79,341,271	37,807	77,111,146	-1.6%	-2.8%
Jul	47,047	91,025,289				
Aug	42,027	92,304,527				
Sep	38,378	78,622,387				
Oct	43,575	95,210,624				
Nov	43,183	91,186,163				
Dec	41,783	77,069,056				
<b>Grand total</b>	<b>479,732</b>	<b>979,882,532</b>	<b>238,969</b>	<b>515,231,091</b>		

*Source: Malaysia Healthcare Travel Council (2025); data collection for April, May, and June 2025 is ongoing.*

As of 2025, both the number of healthcare tourists visiting Penang and the revenue generated from this sector have been recording steady month-on-month growth. Penang's reputation for high-quality yet affordable healthcare, robust air connectivity, and multilingual medical workforce are key attraction factors to medical tourists. The local Hokkien dialect widely used in the state which is similar to the Hokkien dialect spoken in Medan, Indonesia, is likely another reason for ethnic Chinese Indonesians to find it comfortable being in Penang. Field observations at private hospitals in the state highlight the extent to which Penang's healthcare ecosystem has adapted to one of its largest market segments—patients from Indonesia. Many hospitals are well-accustomed to receiving Indonesian patients, with nurses and service staff able to converse in Indonesian, thereby reducing language barriers and improving patient comfort. This cultural and linguistic familiarity extends beyond hospital walls: nearby eateries, pharmacies, and other ancillary service providers often display signage in Indonesian, reflecting the demand generated by this patient base.

On the payment front, UnionPay International entered into a strategic partnership with PMED in January 2025 to streamline high-value transactions for international visitors seeking medical services in Penang (Buletin Mutiara, 2025). The collaboration is designed to offer secure and convenient payment solutions for both patients and healthcare providers. Through this partnership, UnionPay cardholders enjoy a range of exclusive benefits, including a dedicated customer helpline, priority services, and privileges across hospitals, accommodations, dining outlets, and leisure providers in Penang. This initiative not only strengthens UnionPay's role as a preferred payment channel for large medical and educational expenditures but also enhances Penang's attractiveness as a premier global medical tourism destination.

Complementing this, the adoption of the Quick Response Code Indonesian Standard (QRIS) in leading private hospitals such as Sunway Medical Centre Penang and Penang Adventist Hospital has made transactions even more seamless for Indonesian patients. By enabling payments directly in Indonesian Rupiah, QRIS integration simplifies the financial process while reflecting Penang's proactive efforts to create a patient-centred environment tailored to the needs of its largest international market.

In addition, the Penang state government, through PMED, signed a memorandum of understanding with Citilink Airlines (PT Citilink Indonesia) in January 2023, specifically to attract more Indonesian medical tourists (Malay Mail, 2023). This agreement underscores Penang's commitment to strengthening cross-border connectivity and facilitating easier access for patients traveling for treatment.

These targeted initiatives are especially significant given Penang's status as the cornerstone of Malaysia's medical tourism sector, contributing roughly 45 percent of the national market share. By consistently responding to patient needs and enhancing accessibility, Penang not only safeguards its competitive advantage but also reinforces Malaysia's broader positioning as a leading regional hub for healthcare travel.

## **5.0 Policy Rationale**

Malaysia introduced the SST in 2018 to replace the Goods and Services Tax (GST). While SST exemptions were previously given for certain sectors, medical tourism has been increasingly targeted as a source of revenue. Beginning 1 July 2025, a six percent expanded Sales and Service Tax (SST) on non-Malaysian citizens seeking medical services at private healthcare facilities with an annual revenue above RM1.5 million was imposed.

This recent increase can be justified on several grounds. First, it is intended to broaden the tax base by including high-value expenditures from non-citizens, thereby ensuring that foreign patients contribute more directly to the national revenue pool. Second, the measure is positioned to generate additional revenue to help sustain public health subsidies, particularly in light of rising healthcare costs. Third, the tax revision reflects an effort to align with principles of tax neutrality, reducing distortions across sectors and ensuring a more consistent application of taxation. Finally, it also responds to concerns that some private hospitals may have been under-reporting taxable services, thereby reinforcing transparency and compliance within the healthcare industry.

While the increase in the Sales and Service Tax (SST) on medical tourists is justified on grounds of broadening the tax base, generating revenue, and ensuring neutrality, several counterarguments merit consideration. First, higher taxation risks undermining Malaysia's competitiveness as a medical tourism destination, particularly relative to Thailand and Singapore, which already occupy strong positions in specialised or niche segments of the market. Second, the additional costs imposed on foreign patients may discourage inflows of middle-income medical travellers—Malaysia's core market—thereby reducing overall revenue from ancillary spending on accommodation, transport, food, and retail. Third, imposing SST on foreign patients could create negative perceptions that Malaysia is less welcoming or affordable, which may have reputational spillover effects on Penang, given its dominant role in the industry. Finally, stricter tax measures could strain relations with private healthcare providers, who may argue that the policy adds administrative burdens and reduces their competitiveness, especially when margins are already challenged by rising operational costs.

Some private hospitals in Penang have already begun taking proactive steps to soften the impact of the expanded SST on patients. For example, several facilities are offering promotional discounts on health screenings that exceed the additional tax imposed, ensuring that patients still perceive value despite higher statutory costs. Others have chosen to temporarily absorb the SST for selected services during the initial implementation phase, giving both patients and hospital operations time to adjust. These short-term measures not only protect patient volumes and maintain trust but also signal the sector's willingness to share the burden while longer-term policy adjustments or support mechanisms are being considered.

To ensure that the expanded Sales and Service Tax (SST) contributes meaningfully to Malaysia's healthcare landscape, a portion of the revenue collected from foreign patients should be strategically reinvested into the public healthcare system. This would not only uphold the principle of fiscal equity where high-value private sector consumption supports broader societal needs, but also help alleviate pressure on overstretched public facilities. By channeling SST proceeds into infrastructure upgrades, staffing, and service delivery in government hospitals, the policy can reinforce public trust, improve access for underserved populations, and demonstrate that medical tourism growth directly benefits the national healthcare ecosystem.

## **6.0 Stakeholder Perspectives**

The imposition of higher SST rates on medical tourists could erode Malaysia's competitive advantage in the regional healthcare market. Penang's private hospitals, many of which cater primarily to patients from Indonesia and the broader ASEAN region, have long marketed themselves as providing high-quality care at affordable rates compared with Singapore or Thailand. With the added tax burden, however, price-sensitive patients may look elsewhere, particularly for elective or non-urgent procedures. Hospital administrators have also highlighted the added compliance and administrative burden of managing SST

collections, which may require additional reporting systems and audits. The Association of Private Hospitals Malaysia (APHM) had urged the government to delay the implementation of the expanded sales and service tax (SST) on private healthcare services for foreigners. While supporting the government's aim to broaden the tax base and drive economic growth, APHM emphasized that private hospitals need additional time to adjust their operations to comply with the new rule (CodeBlue, 2025).

From the perspective of patients, higher total medical bills represent a significant deterrent. Medical tourism in Malaysia demonstrates that affordability is one of the primary pull factors influencing travel for healthcare. Even a modest increase in cost due to taxation could redirect this patient flow towards Thailand, which actively promotes tax-free bundled packages, or to Singapore, where patients are often willing to pay more for perceived higher prestige and advanced care. For middle-income patients who travel abroad for cost savings and shorter waiting times, additional charges could encourage them to remain within their home healthcare systems, especially as Indonesia is now expanding its own domestic medical tourism infrastructure in Bali and Jakarta (Bata, 2025).

The tourism industry in Penang also stands to be affected indirectly by reduced patient volumes. Medical tourists and their accompanying family members contribute substantially to the local economy beyond hospital bills, spending on ancillary services such as accommodation, food and beverage, shopping, and leisure activities. A contraction in patient arrivals due to the SST may thus ripple through hotels, transport operators, translators, and wellness providers, all of whom rely heavily on medical travellers.

Additionally, private hospitals in Malaysia function as a critical pressure valve for the overstretched public healthcare system, serving not only the wealthy but also middle-income families, employers, and patients who require timely access to essential care. While the expanded Sales and Service Tax (SST) is formally imposed on foreign patients, its indirect effects extend to Malaysians as well, since contracted support services such as cleaning, linen supply, and laboratory logistics are now taxed. These additional costs are likely to cascade into higher hospital bills, affecting local middle- and upper-income patients who turn to private facilities to avoid delays in public hospitals. In this way, the policy risks raising costs, narrowing access, and ultimately pushing more patients back into an already burdened public sector—undermining national goals of affordability and efficiency in healthcare delivery (Shadiqe, 2025).

For the government, the policy presents a trade-off between short-term revenue gains and potential long-term losses in foreign exchange earnings if patient arrivals decline. While the broadened tax base is expected to increase fiscal space to fund public healthcare subsidies, the risk is that the net effect may be negative if Malaysia loses its price competitiveness relative to regional rivals. Malaysia needs to be cautious about not undermining its medical tourism brand, which is built on the dual strengths of affordability and quality.

Finally, the local workforce is vulnerable to fluctuations in patient demand. Malaysia's medical ecosystem supports more than 300,000 direct and indirect jobs, spanning doctors, nurses, allied health professionals, and service providers in medical-related sectors (Ministry of Health Malaysia, 2024). A sustained decline in foreign patient arrivals could result in underutilisation of hospital facilities, slower recruitment, or even job losses in related industries. In the long run, this might also affect talent retention, as Malaysia competes with Singapore and other countries for skilled healthcare workers.

**Table 3: Summary of key concerns from various stakeholders' perspectives**

Stakeholder	Key Concerns
Hospitals	Loss of competitiveness, lower patient volumes, compliance burden
Patients	Higher total bills; may seek alternatives in Thailand, Singapore, or local options
Tourism industry	Spillover losses to hotels, transport, retail, wellness
Government	Revenue gains vs. potential net loss due to lower volumes
Local workforce	Potential job risks if patient numbers decline

*Source: Author's own compilation*

## 7.0 Comparative Regional Analysis

A comparative look at regional competitors highlights the policy risks Malaysia faces with the expansion of the Sales and Service Tax (SST) on medical tourists. Thailand, long regarded as a regional leader in medical tourism, exempts such services from value-added tax (VAT) under Section 81(1)(j) of Thailand's Revenue Code (Thailand Law Online, n.d.). They also actively promote wellness clusters through targeted incentives and aggressive international marketing campaigns. These measures strengthen its positioning as an affordable yet high-quality destination for foreign patients.

Singapore, by contrast, imposes a 9% Goods and Services Tax (GST) on medical services. GST exemptions largely apply only to publicly subsidised healthcare services, such as treatments at public hospitals, polyclinics, and procedures covered under MediShield Life. By contrast, private healthcare and elective cosmetic procedures remain subject to the 9% GST, reflecting a clear policy distinction between essential public care and discretionary private services (Chin, 2025). However, its strategy is built on premium branding, focusing on highly specialised, high-value medical segments such as advanced oncology, cardiology, and transplant services. This positioning allows Singapore to compete less on price and more on reputation, infrastructure, and service excellence, insulating its sector from tax sensitivity.

Malaysia's recent expansion of the SST places it in a strategic middle ground. While Thailand leverages exemptions and incentives and Singapore positions itself in premium niches, Malaysia can strengthen its competitiveness by complementing the tax policy with targeted measures. These could include incentives for hospital upgrades, coordinated branding for medical tourism, and exemptions for essential support services. Such steps would help preserve Malaysia's dual advantage of affordability and quality, and safeguard its sustained appeal in the global medical tourism market.

**Table 4: Comparison of taxation policies on medical tourism between Thailand, Singapore, and Malaysia**

Country	Taxation on Medical Tourists	Notable Policies
Thailand	No VAT on medical tourism; incentives for wellness clusters	Aggressive marketing; support for hospitals
Singapore	9% GST, but premium positioning offsets sensitivity	Heavy focus on niche high-value segments
Malaysia	6% SST (July 2025 onwards)	Strong medical tourism promotion body, still relatively affordable after SST

*Source: Author's own compilation*

## 8.0 Risks & Opportunities

### 8.1 Informal or grey channels

A well-calibrated tax regime is essential to ensure patients continue to seek care through formal and regulated channels. While there is a risk that higher costs may push some patients towards informal intermediaries who bypass SST, this also creates an opportunity for Malaysia to strengthen regulatory oversight, improve transparency in hospital pricing, and enhance the value proposition of formal healthcare providers. With the right safeguards, such as targeted exemptions or incentives, the government will be able not only to reduce the likelihood of tax leakage and patient safety concerns but also reinforce confidence in Malaysia's medical tourism ecosystem. Properly managed, the SST could serve as a catalyst for more sustainable growth by aligning fiscal goals with long-term sector resilience.

### 8.2 Underutilisation of capacity

Private hospitals in Penang have invested considerably in expanding capacity, adopting advanced technologies, and recruiting top medical talent to meet international demand. While the expanded SST may raise concerns about underutilisation of facilities and slower returns on investment if patient arrivals decline, it may also encourage hospitals to diversify service offerings and strengthen efficiency. Sustaining competitive patient volumes will require complementary measures such as targeted incentives for specialised equipment, partnerships to enhance service delivery, and coordinated efforts to position Penang as a hub for high-value care. At the same time, retaining skilled professionals will remain a challenge, but well-supported initiatives in training, research, and regional collaboration could help turn this into a catalyst for sector-wide resilience.

### 8.3 Equity implications

While the government may view SST expansion as a way to broaden the tax base, its impact on healthcare access will depend on how the revenue is allocated. If part of the collection is reinvested into public healthcare subsidies, infrastructure, or talent retention, the policy could strengthen the overall

system and expand access. At the same time, rising costs in the private sector risk pushing some middle-income patients back into the overstretched public system, which could exacerbate wait times and resource pressures. The key lies in balancing revenue generation with reinvestment strategies that uphold affordability, efficiency, and equity in healthcare delivery, ensuring the SST contributes positively to both fiscal and social objectives.

## 9.0 Policy Recommendations

### 9.1 Short-term

#### 1. **Clear guidelines to reduce administrative burden for hospitals.**

One of the immediate challenges posed by the expanded Sales and Service Tax (SST) is the uncertainty surrounding its scope and compliance requirements. Hospitals face additional administrative costs when classifying services, handling invoices, and ensuring accurate reporting. The government could issue comprehensive, sector-specific guidelines that clearly define taxable and exempted services, accompanied by training and simplified digital reporting tools. This would reduce compliance costs, minimise errors, and allow hospitals to focus resources on patient care rather than paperwork.

#### 2. **Threshold exemptions for low-value procedures to retain price-sensitive patients.**

Introducing threshold exemptions for certain low-value or outpatient procedures could help mitigate the impact of rising healthcare costs on medical tourists. Many price-sensitive patients travel to Malaysia for relatively affordable treatments such as health screenings, dental care, and minor surgeries. By exempting or zero-rating procedures below a certain value, the government can preserve Malaysia's competitiveness in these segments while still collecting revenue from higher-value treatments. This approach would also align with the broader objective of ensuring access and affordability in healthcare.

#### 3. **Promotion of bundled packages: Encourage hospitals to bundle wellness and tourism services that might qualify for zero-rated status.**

To sustain Penang's position as a medical tourism hub, hospitals could be encouraged to develop bundled packages that integrate medical services with accommodation, wellness, and leisure activities. Such packages could potentially qualify for partial or full zero-rated status under tourism promotion schemes, depending on how they are structured. Government support for such initiatives would not only reduce the effective tax burden on patients but also deepen spillover effects in the tourism and hospitality sectors. A coordinated effort between hospitals, travel agencies, and state tourism boards could maximise this synergy.

#### 4. **Digital marketing grants: Help Penang-based hospitals target higher-value segments.**

Penang's hospitals are well placed to move up the value chain by focusing on specialised, high-value services such as oncology, cardiology, and fertility treatments. To achieve this, targeted digital marketing campaigns are needed to reach international patients in key source markets such as Indonesia, China, and the Middle East. Government-backed digital marketing grants could help hospitals scale these efforts, ensuring visibility in competitive regional markets where Thailand and Singapore are already heavily investing. By attracting higher-spending patients, Penang could offset potential declines in volume from price-sensitive segments affected by the SST.



## 9.2 Medium-term

### 1. **Reinvest SST revenue: Channel part of the collection into upgrading Penang’s medical infrastructure, research, and talent retention.**

Part of the revenue collected from the expanded Sales and Service Tax (SST) should be earmarked for reinvestment into Penang’s medical ecosystem. This reinvestment could take the form of upgrading hospital infrastructure, supporting advanced medical research, and strengthening talent retention programmes to reduce the outflow of skilled healthcare professionals. By directing funds back into the system, the government can help maintain Malaysia’s value proposition of affordable yet high-quality care. Importantly, this reinvestment would also signal to stakeholders that tax collection is not simply an extractive measure, but one aligned with long-term competitiveness and sustainability in the healthcare sector.

### 2. **Strengthen Penang Health Tourism Promotion: Public-private coordination for branding and regional outreach.**

Penang has long been positioned as Malaysia’s premier medical tourism destination, but its competitiveness increasingly depends on cohesive branding, coordinated outreach, and integration across the health and tourism value chain. Strengthening promotion for Penang’s health tourism would require structured collaboration between the state government, private hospitals, tourism operators, and related service providers. Joint marketing campaigns, data sharing, and regional branding could ensure that Penang’s offerings are clearly differentiated from rivals such as Bangkok and Singapore. By aligning public–private resources, Penang can project itself as both an affordable and high-quality medical tourism hub, attracting not just patients but also their families and companions.

### 3. **Explore bilateral arrangements: Negotiate with top source markets (e.g., Indonesia) for medical travel facilitation.**

Given that Indonesia, China, India, Singapore, and the United Kingdom are Malaysia’s top health tourism markets, there is scope for government-to-government and institutional arrangements that facilitate cross-border patient flows. For instance, bilateral agreements with Indonesia could include fast-track medical visas, streamlined insurance recognition, and direct referral systems between Indonesian hospitals and Penang facilities. Similar arrangements could be explored with China for higher-value procedures such as oncology and fertility treatments, or with Middle Eastern countries seeking premium but cost-effective care. Such agreements would not only enhance Penang’s attractiveness but also provide predictability and security for patients travelling abroad for treatment.

## 9.3 Long-term

### 1. **Regional benchmarking: Regularly review SST rates vis-à-vis competitors to maintain price competitiveness.**

Malaysia’s medical tourism appeal has long been built on its combination of affordability and quality. To safeguard this advantage, policymakers could establish a systematic mechanism for regional benchmarking of SST rates against direct competitors such as Thailand and Singapore. Thailand currently exempts medical tourism from VAT, while Singapore applies GST but offsets the cost through premium positioning and niche targeting. Without regular benchmarking, Malaysia risks pricing itself out of the market if SST rates push overall treatment costs above regional alternatives. A review process—conducted annually or biannually—would allow for policy adjustments that ensure Malaysia retains its price competitiveness while still achieving fiscal objectives.

**2. Position for niche markets: Focus on premium segments (oncology, cardiology, complex surgeries).**

While affordability remains a central driver, Malaysia cannot rely solely on low-cost positioning in an increasingly competitive market. Penang, in particular, should strengthen its presence in premium healthcare segments such as oncology, cardiology, fertility, and complex surgeries. These are areas where patients tend to prioritise quality, specialised expertise, and treatment outcomes over marginal cost differences. By developing centres of excellence, investing in advanced technologies, and showcasing internationally accredited expertise, Penang can attract patients who value reliability and specialised care. This would help reduce vulnerability to price-based competition while strengthening the state's long-term brand equity in the medical tourism sector.

**3. Sustainable growth: Integrate medical tourism with Penang's broader tourism ecosystem — e.g., wellness, retirement villages, rehabilitation.**

For medical tourism to deliver sustainable and inclusive growth, it must be more than hospital-based care. Penang is uniquely positioned to integrate medical services with its wider tourism ecosystem—leveraging its reputation as a cultural, wellness, and retirement destination. Policies should encourage the development of complementary offerings such as rehabilitation centres, retirement villages, wellness resorts, and post-treatment recovery packages. This not only extends patient stays and increases spending but also creates multiplier effects across accommodation, food and beverage, transport, and cultural tourism sectors. By embedding medical tourism within a larger lifestyle and wellness framework, Penang can capture higher economic value while promoting sustainable growth that benefits a wider range of local stakeholders.

**4. Reinvest SST revenue: Allocate funds to upgrade public healthcare capacity**

A designated portion of the revenue collected from the expanded Sales and Service Tax (SST) should be ring-fenced for reinvestment into Malaysia's public healthcare system. This would include upgrading hospital infrastructure, expanding critical care capacity, improving medical equipment, and funding workforce development to reduce shortages of doctors and nurses. Such targeted reinvestment would not only strengthen the quality and accessibility of public healthcare but also signal that revenue raised from foreign patients directly benefits Malaysian citizens. By positioning the SST as a redistributive mechanism rather than a purely extractive measure, the government can enhance public trust, improve equity outcomes, and demonstrate that fiscal reforms are aligned with broader national health objectives.

## **10.0 Conclusion**

The increased SST on medical tourists may provide a modest fiscal boost for the government but risks dampening Malaysia's attractiveness in an intensely competitive regional market. Penang, being one of the nation's top medical tourism hub, faces disproportionate risks if proactive measures are not taken to neutralise the risks. A balanced approach combining clear taxation guidelines, targeted exemptions, reinvestment, and strategic positioning will be essential to sustain growth in Penang's medical tourism sector while achieving fiscal objectives.

## 11.0 References

- Alvarez & Marsal.(n.d.). Medical Tourism in Malaysia: Tail Winds Driving Growth. Retrieved from <https://www.alvarezandmarsal.com/sites/default/files/article/pdf/Malaysia%20Medical%20Tourism%20report%20fifth%20designed%20draft%20-%20April%2019%2C%202024.pdf>
- Apisitniran, L. (2025, February 8). Medical tourism boost wins support. *Bangkok Post*. Retrieved from <https://www.bangkokpost.com/business/general/2956588/medical-tourism-push-wins-support>
- Ariffin, A. & Lam, K. (2025, April 8). Malaysia aims to generate US\$2.7 billion in annual medical tourism revenue by 2030. *Channel News Asia*. Retrieved from <https://www.channelnewsasia.com/asia/malaysia-medical-tourism-healthcare-treatment-5051111>
- Bata, A.( 2025, June, 25). Indonesia Launches First Medical Tourism Hub in Bali, a Flagship Project for Danantara. *Jakarta Globe*. Retrieved from <https://jakartaglobe.id/lifestyle/indonesia-launches-first-medical-tourism-hub-in-bali-a-flagship-project-for-danantara>
- Buletin Mutiara. (2025, January, 8). *Strategic collaboration to boost Penang's medical tourism industry*. Retrieved from <https://www.buletinmutiara.com/strategic-collaboration-to-boost-penangs-medical-tourism-industry/>
- Chin, L. (2025, January 22). A Complete Guide to SG GST-Exempt Goods and Services. *Sleek*. Retrieved from <https://sleek.com.sg/resources/gst-exempt/>
- Chow, S. L. (2018). Public health concerns and implications of medical tourism in Penang. *Turkish Journal of Public Health*, 16(3), 237-240. Retrieved from <https://dergipark.org.tr/en/download/article-file/602395>
- CodeBlue. (2025, June 11). APHM Wants Delay Of SST Expansion On Private Health Care For Foreigners. Retrieved from <https://codeblue.galencentre.org/2025/06/aphm-wants-delay-of-sst-expansion-on-private-health-care-for-foreigners/>
- Huda, N. B., & Ahmad, S. Y. (2023). Systematic Article Review On The Factors Influencing The Demand For Medical Tourism In Malaysia. *Jurnal Pengguna Malaysia*, 39(2), 53-71. Retrieved from [https://macfea.com.my/wp-content/uploads/2024/07/1JPM-JILID-2-VOL-39-DIS-2023\\_lengkap.pdf#page=57](https://macfea.com.my/wp-content/uploads/2024/07/1JPM-JILID-2-VOL-39-DIS-2023_lengkap.pdf#page=57)
- Kadir, N., & Nayan, S. (2021). International demand for medical tourism in Malaysia: evidence from panel data. *International Journal of Business and Society*, 22(3), 1240-1255. Retrieved from <https://publisher.unimas.my/ojs/index.php/IJBS/article/view/4298>
- Karim, R. A., Ab Kadir, M. S., Aziz, A., Najihah, I., Hanapiyah, M. Z., & Abdulah, M. S. (2025). A Conceptual Framework For Sustaining Penang's Medical Tourism Growth. *Information Management and Business Review*, 17(2), 183-189. Retrieved from <https://ojs.amhinternational.com/index.php/imbr/article/view/4536/2977>
- Lai, S. (2025, June 26). Indonesia launches first medical tourism special economic zone in Bali. *Arab News*. Retrieved from <https://www.arabnews.com/node/2605894/world>
- Loasana, N. & Tanamal, Y. (2023, March 10). Indonesia vows to improve facilities to curb medical tourism. *The Jakarta Post*. Retrieved from <https://www.thejakartapost.com/paper/2023/03/10/indonesia-vows-to-improve-facilities-to-curb-medical-tourism.html>
- Malay Mail. (2023, January 2). *Penang inks MoU with Indonesia's Citilink airlines to boost medical tourism*. Retrieved from <https://www.malaymail.com/news/money/2023/01/02/penang-inks-mou-with-indonesias-citilink-airlines-to-boost-medical-tourism/48112>
- Malaysia Healthcare Travel Council. (2024). *Statistics*. Retrieved from <https://www.mhtc.org.my/statistics/>
- Malaysia Healthcare Travel Council. (2025, August 4). *Experience Malaysia Healthcare* [PowerPoint slides].
- Market Research Malaysia (2025, May 15). Malaysia Medical Tourism Market Soars with Healthy Promise. *Eurogroup Consulting*. Retrieved from <https://marketresearchmalaysia.com/insights/articles/malaysia-medical-tourism-market-soars>
- Ming, C.S. (2025, August 6). Malaysia's healthcare travel industry eyes RM12 bil by 2030. *Focus Malaysia*. Retrieved from <https://focusmalaysia.my/malaysias-healthcare-travel-industry-eyes-rm12-bil-by-2030/>
- Ministry of Health Malaysia. (2024). *Health Facts 2024*. Retrieved from [https://www.moh.gov.my/moh/resources/Penerbitan/Penerbitan%20Utama/HEALTH%20FACTS/Health\\_Facts\\_2024.pdf](https://www.moh.gov.my/moh/resources/Penerbitan/Penerbitan%20Utama/HEALTH%20FACTS/Health_Facts_2024.pdf)
- Ministry of Health Singapore. (2022, October 25). GST for government subsidy schemes at GP clinics absorbed. Retrieved from <https://www.moh.gov.sg/newsroom/gst-for-government-subsidy-schemes-at-gp-clinics-absorbed>
- Nazem, G., & Mohamed, B. (2016). Understanding medical tourists' perception of private hospital service quality in Penang Island. *Asian Culture and History*, 8(1), 100-111. Retrieved from [https://www.researchgate.net/profile/Badaruddin-Mohamed/publication/283478536\\_Understanding\\_Medical\\_Tourists'\\_Perception\\_of\\_Private\\_Hospital\\_Service](https://www.researchgate.net/profile/Badaruddin-Mohamed/publication/283478536_Understanding_Medical_Tourists'_Perception_of_Private_Hospital_Service)

- [Quality in Penang Island/links/57104eec08ae19b186938c29/Understanding-Medical-Tourists-Perception-of-Private-Hospital-Service-Quality-in-Penang-Island.pdf](#)
- Nizam, H.H. (2025, May 28). Malaysia tops medical tourism ranking. *New Straits Times*. Retrieved from <https://www.nst.com.my/news/nation/2025/05/1222759/malaysia-tops-medical-tourism-ranking>
- Poo, C. (2023, August 16). Recovery of Malaysia's medical tourism sector in the bag, more markets targeted. *The Edge Malaysia*. Retrieved from <https://theedgemaalaysia.com/node/677849>
- Shadiqe, J. (2025, July 22). SST on private healthcare may drive up cost. *New Straits Times*. Retrieved from <https://www.nst.com.my/news/nation/2025/07/1248334/sst-private-healthcare-may-drive-cost>
- Shaharuddin, N. S., Abas, S. A., Mohamed Rani, Z., & Abd Halim, N. (2023). Exploring the nexus between healthcare tourism services and tourists' behavioural intentions in Penang: a comprehensive analysis. *e-Academia Journal*, 12, 26-47. Retrieved from <https://ir.uitm.edu.my/id/eprint/88683/1/88683.pdf>
- Tang, C. F. (2017). Modelling the Demand for Inbound Medical Tourism: The Case of Malaysia. *International Journal of Tourism Research*, 19(5), 584-593. Retrieved from [https://www.researchgate.net/profile/Evan-Lau-2/publication/318187406\\_Modelling\\_the\\_demand\\_for\\_inbound\\_medical\\_tourism\\_The\\_case\\_of\\_Malaysia/links/5c751ff8299b1268d25ecf8/Modelling-the-demand-for-inbound-medical-tourism-The-case-of-Malaysia.pdf](https://www.researchgate.net/profile/Evan-Lau-2/publication/318187406_Modelling_the_demand_for_inbound_medical_tourism_The_case_of_Malaysia/links/5c751ff8299b1268d25ecf8/Modelling-the-demand-for-inbound-medical-tourism-The-case-of-Malaysia.pdf)
- Thailand Law Online. (n.d.). *Chapter 4: Value Added Tax*. Retrieved from <https://www.thailandlawonline.com/revenue-code/value-added-tax-vat-law>
- Vashu, D., Masri, R., Cham, T. H., & Lee, K. C. S. (2021). Destination image as a healing destination among medical tourists: An exploratory case study of Penang, Malaysia. *ABAC Journal*, 41(2), 156. Retrieved from [https://d1wqtxts1xzle7.cloudfront.net/88338714/426980676-libre.pdf?1657215692=&response-content-disposition=inline%3B+filename%3DDestination\\_Image\\_as\\_A\\_Healing\\_Destinati.pdf](https://d1wqtxts1xzle7.cloudfront.net/88338714/426980676-libre.pdf?1657215692=&response-content-disposition=inline%3B+filename%3DDestination_Image_as_A_Healing_Destinati.pdf)
- Yong, S. P., Goh, Y. N., Ting, M. S., & Lunyai, J. (2021). Revisit intention for medical services: an investigation on Penang as a medical tourism hub. *Malays J Consum Fam Econ*, 26, 127-157. Retrieved from <https://majcafe.com/wp-content/uploads/2022/11/Vol-26-2021-Paper-6.pdf>
- Zulkafli, I. (2025, May 30). Industry revenue soars to new record of RM2.7billion in 2024. *The Sun*. Retrieved from <https://thesun.my/malaysia-news/industry-revenue-soars-to-new-record-of-rm27-billion-in-2024-NB14159455>