



# MALAYSIA IN ASEAN INTEGRATION AND BEYOND

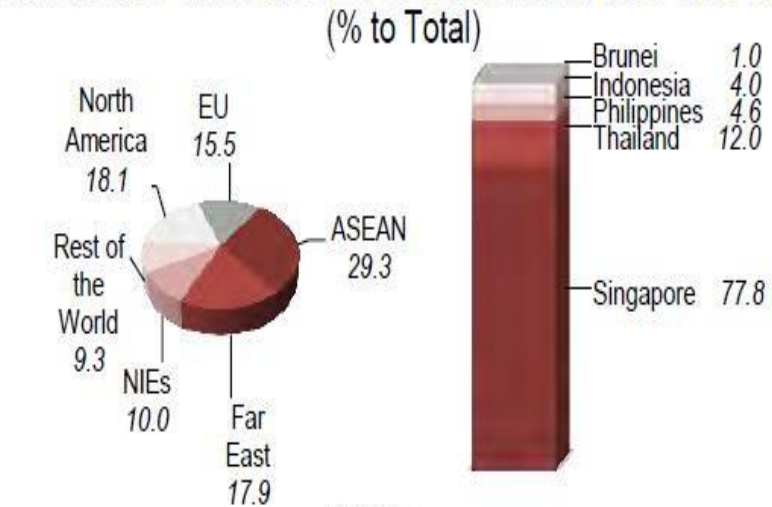
Presentation at the University of the Philippines Asian Center's Policy Forum on, "National Interest and the ASEAN Economic Community: Convergence or Competition" on August 17, 2017.

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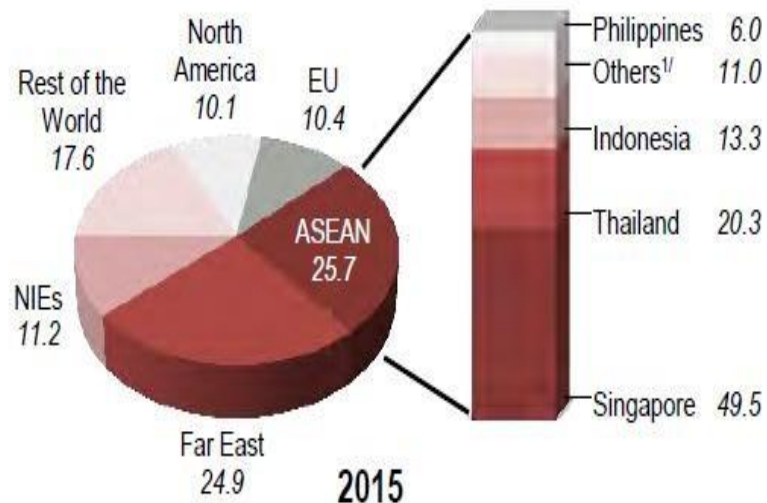
# CONTENT

1. What is Malaysia's stake in the AEC and what is it bringing to the negotiating table?
2. How is the Malaysian government preparing the domestic economy and its constituencies for the AEC integration?
3. How are they positioning themselves in the regional trade treaties in relation to the changing global economic architecture?

## MALAYSIA'S EXPORTS BY DESTINATION, 1990 AND 2015



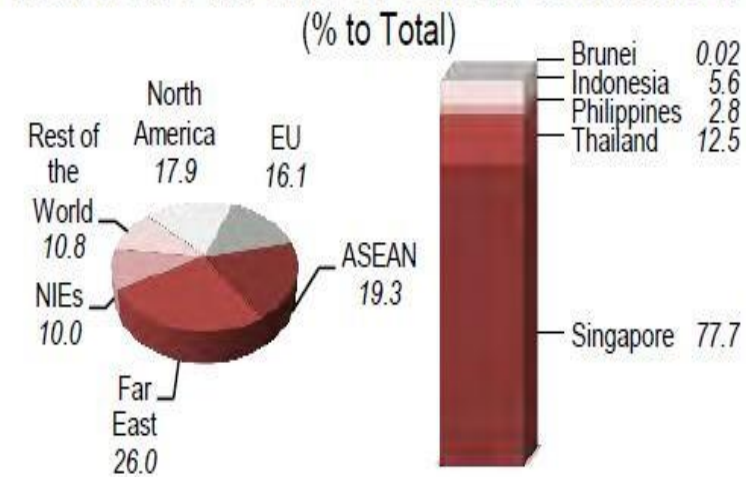
1990  
RM79.6 billion



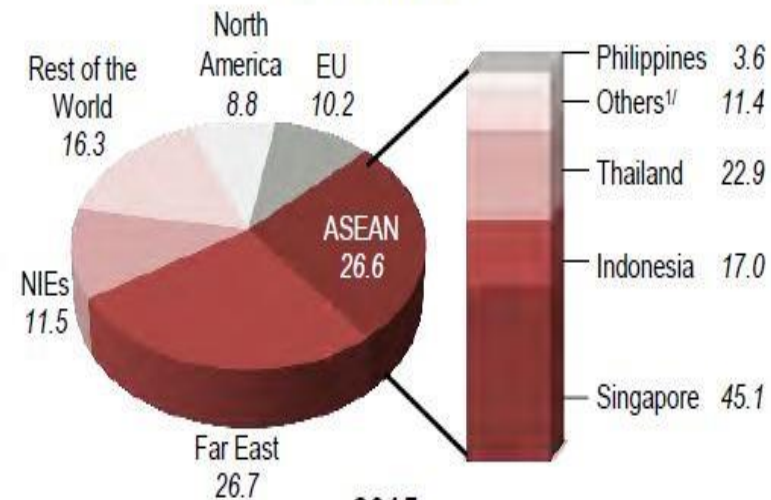
2015  
RM779.9 billion

Note: <sup>1/</sup> Including Brunei, Vietnam, Myanmar, Laos and Cambodia

## MALAYSIA'S IMPORTS BY ORIGIN, 1990 AND 2015

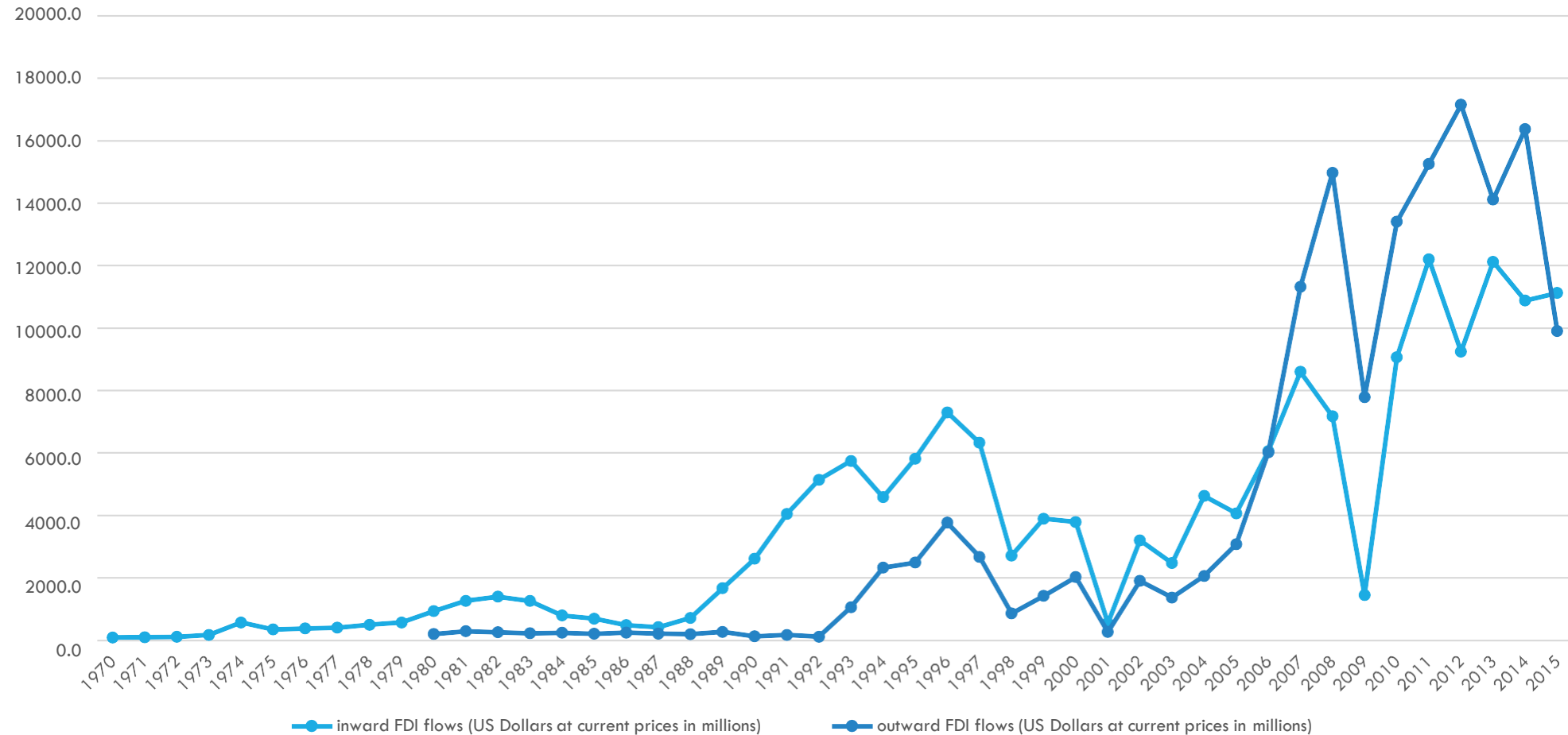


1990  
RM79.1 billion



2015  
RM685.4 billion

# FOREIGN DIRECT INVESTMENT: IN BOUND AND OUTBOUND



**Figure 1.** Malaysia's Inward FDI and Outward FDI by Flows, 1980 - 2015, USD billion  
Source: UNCTADSTAT 2015

This was presented in the policy forum **“National Interest and the ASEAN Economic Community: Convergence or Competition?”** organized by the **University of the Philippines (UP) Asian Center’s Bugkos Institutional Research Program** and funded by the UP Emerging Interdisciplinary Research (EIDR) Grant.

# INVESTMENT

## Inbound (RM Billion)

Year	ASEAN	Total	Share
2010	1844	29183	6.3
2011	8235	37325	22.1
2012	8214	28537	28.8
2013	6791	38175	17.8
2014	7451	35600	20.9
2015	11639	39377	29.6
2016	8606	47182	18.2

## Outbound (RM Billion)

Year	ASEAN	Total	Share
2010	17827	43160	41.3
2011	17932	46662	38.4
2012	12713	52952	24.0
2013	9831	44450	22.1
2014	6769	53574	12.6
2015	3935	41187	9.6
2016	7860	33052	23.8

# WHAT DOES MALAYSIA HAVE TO OFFER?

As an Investment Destination

## MALAYSIA: BASIC STATISTICS

	2013	2014	2015 <sup>(p)</sup>	2016 <sup>(e)</sup>
Population (million)	30.2	30.7	31.2	31.4
Labour force (million)	13.6	13.9	14.2	14.6
Employment (million)	13.2	13.5	13.8 <sup>1/</sup>	14.1
Unemployment rate (%)	3.1	2.9	3.1	3.3-3.5
Nominal GDP (RM billion)	1,018.8	1,106.6	1,156.9	1,229.0
Nominal GNI (RM billion)	984.8	1,069.3	1,124.7	1,191.0
Real GDP growth rate (%)	4.7	6.0	5.0	4.0-4.5
GNI Per Capita (RM)	32,596	34,945	36,285	37,930
GNI Per Capita (US\$)	10,345	10,677	9,291	8,821
GNI Per Capita PPP (US\$)	23,078	24,569	25,580	26,577
Inflation (% p.a.)	2.1	3.2	2.1	2.5-3.5
Merchandise exports (RM billion)	720.0	765.4	779.9	798.7
Merchandise imports (RM billion)	648.7	682.9	685.4	719.0
Current account of BOP (% of GNI)	3.6	4.4	3.0	1.0-2.0
Exchange rate (RM/US\$)	3.15	3.27	4.29	4.11 <sup>2/</sup>

Note : <sup>(p)</sup> Preliminary <sup>(e)</sup> Estimate

<sup>1/</sup> Updated based on population estimates 2015 <sup>2/</sup> January-May 2016

Source : Bank Negara Malaysia, Department of Statistics Malaysia and the World Bank



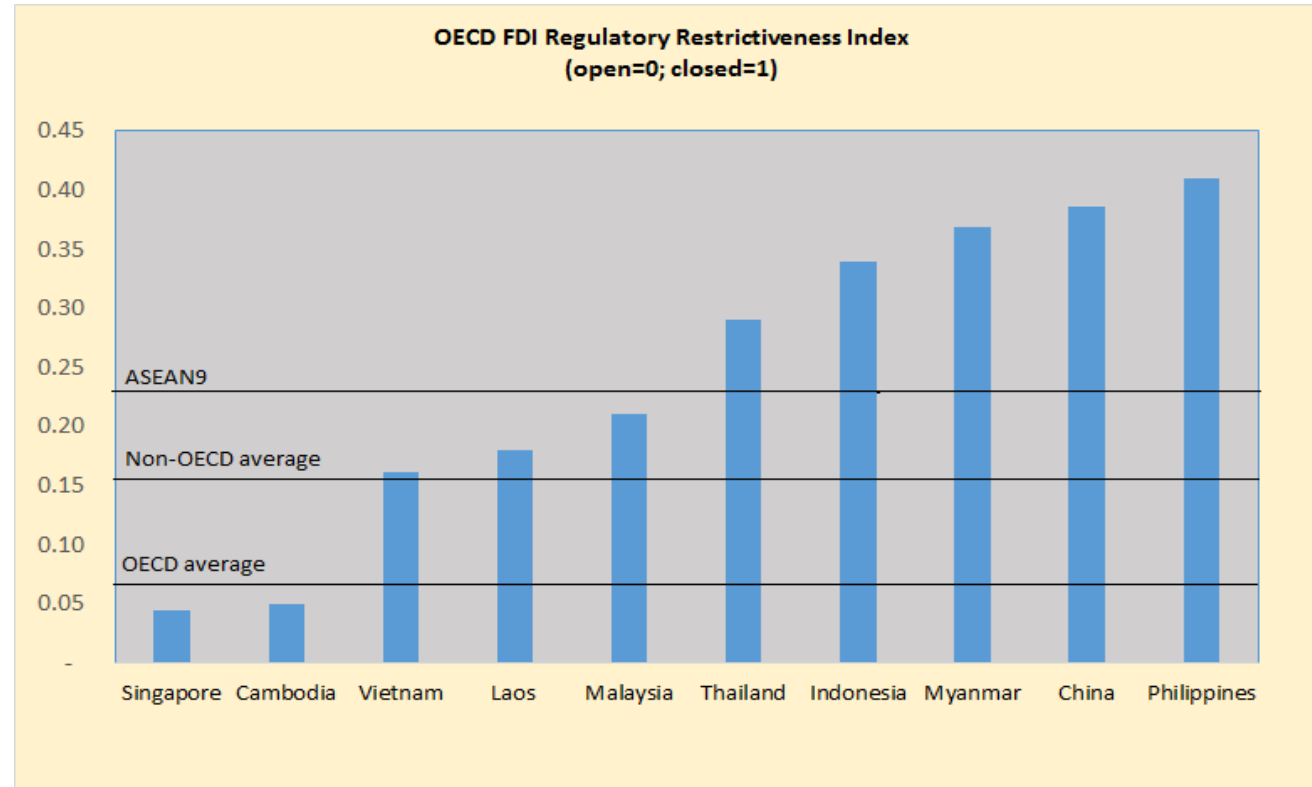
Source: EPU



# INSTITUTIONS AND INCENTIVES FOR IFDI

- Main Institution is Malaysian Investment Development Authority (MIDA). See <http://www.mida.gov.my>
- In Malaysia, tax incentives, both direct and indirect, are provided for in the Promotion of Investments Act 1986, Income Tax Act 1967, Customs Act 1967, Sales Tax Act 1972, Excise Act 1976 and Free Zones Act 1990.
  - These Acts cover investments in the manufacturing, agriculture, tourism (including hotel) and approved services sectors as well as R&D, training and environmental protection activities.
  - The direct tax incentives grant partial or total relief from income tax payment for a specified period, while indirect tax incentives are in the form of exemptions from import duty, sales tax and excise duty.
  - See <http://www.mida.gov.my/home/incentives-in-manufacturing-sector/posts/>
- Income tax: 0-28%
- Corporate tax: 24-19%
  - 19% for SMEs

# OECD FDI REGULATORY RESTRICTIVENESS INDEX



Source: OECD

- The **FDI Regulatory Restrictiveness Index (FDI Index)** measures statutory restrictions on foreign direct investment in 62 countries, including all OECD and G20 countries, and covers 22 sectors. The FDI Index is currently available for the following years: 1997, 2003, 2006, 2010-2016.



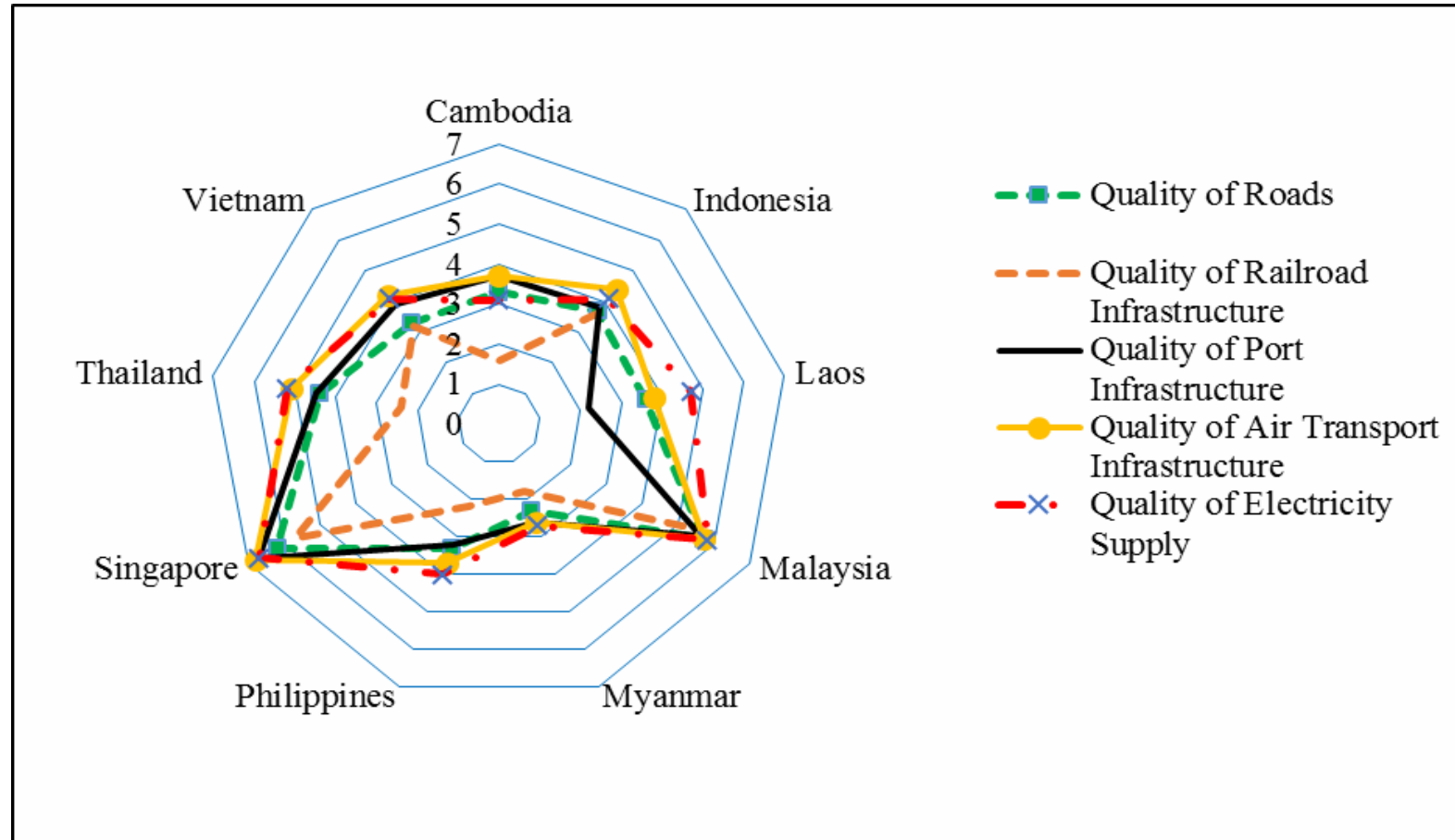
# INSTITUTIONS

	Political Stability and Absence of Violence/Terrorism: Percentile Rank (2014)	Transparency International Corruption Perceptions Rank (2015)	Rule of Law: Percentile Rank (2014)	World Bank's Ease of Doing Business Rank (2015)
Brunei	95.1	n.a.	70.2	84
Cambodia	44.7	150	17.3	127
Indonesia	31.1	88	41.8	109
Laos	61.2	139	26.9	134
Malaysia	58.7	54	75.0	18
Myanmar	11.7	147	8.7	167
Philippines	22.8	95	43.3	103
Singapore	92.2	8	95.2	1
Thailand	16.5	76	51.4	49
Vietnam	46.1	112	44.7	90

Source: World Governance Indicators, World Bank (for data on Political Stability and Rule of Law); World Bank, Doing Business; Transparency International (for the Corruption Perception Index).

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# INFRASTRUCTURE COMPETITIVENESS IN ASEAN



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# HUMAN CAPITAL INDEX RANKING, 2015

Country	Rank	Score
Singapore	24	78.15
Philippines	46	71.24
Malaysia	52	70.24
Thailand	57	68.78
Vietnam	59	68.48
Indonesia	69	66.99
Cambodia	97	58.55
Lao PDR	105	56.16
Myanmar	112	52.97
Brunei	n.a.	n.a.

*Notes: The Human Capital Index is a proxy tool to gauge the extent of knowledge and skills embodied in individuals that enable them to create economic value in a country. It captures the complexity of education, employment and workforce dynamics. The ranking is among 130 countries. The Index assesses Learning and Employment outcomes on a scale of 0 (worst) to 100 (best).*

# MALAYSIA' COMMITMENTS IN AEC

- Fulfilled tariff liberalization commitments;
- Focus on Trade Facilitation:
  - National Single Window linked to ASEAN Single Window
  - Already in the ASEAN Trade Repository (ATR)
- Investment
  - Investment Laws apply across the board for all countries
  - Investment Incentives are available for all investors from all countries
  - Regulations apply to all countries
  - Ease of Doing Business applies to all countries
- In line with ASEAN 2025 Vision:
  - Focus on NTBs in 2017: Building up databank on NTBs

# SERVICES COMMITMENTS

Mode 1: Mostly none, except for subsurface surveying services (86752); pre-erection work at construction (511); wholesale, and retail trade businesses; primary education services, other higher education services, other entertainment services; and maintenance and repair vessels

Mode 2: None

Mode 3: With Limitations

Mode 4: Mostly Unbound or with Limitations

Improved services commitments in terms of number of sectors committed (from 81 to 101 from AFAS 7 to AFAS 9); and increase in share foreign equity ownership permitted in a number of sectors

Key Barrier still lies in regulatory barriers – need for licenses

# PREPARING MALAYSIA FOR ASEAN INTEGRATION

- Dissemination of information on the AEC – MITI has an outreach program to brief the business community on the AEC; eg:

“At the MITI level, we are making efforts to disseminate related information as well as awareness to the community on the role of Asean to help them understand it.

“We will also organise an Asean SME Showcase and Conference on May 26-28 next year with the cooperation of SME Corporation Malaysia,” he said. (MITI, 2014)

- Also, see example of media announcement of MITI Seminar on the AEC in May 2017
- Trade and investment missions to ASEAN member countries
- MATRADE promotion of markets in ASEAN
- MIDA - promotion of investments in ASEAN – see Intra-ASEAN Investment Forum

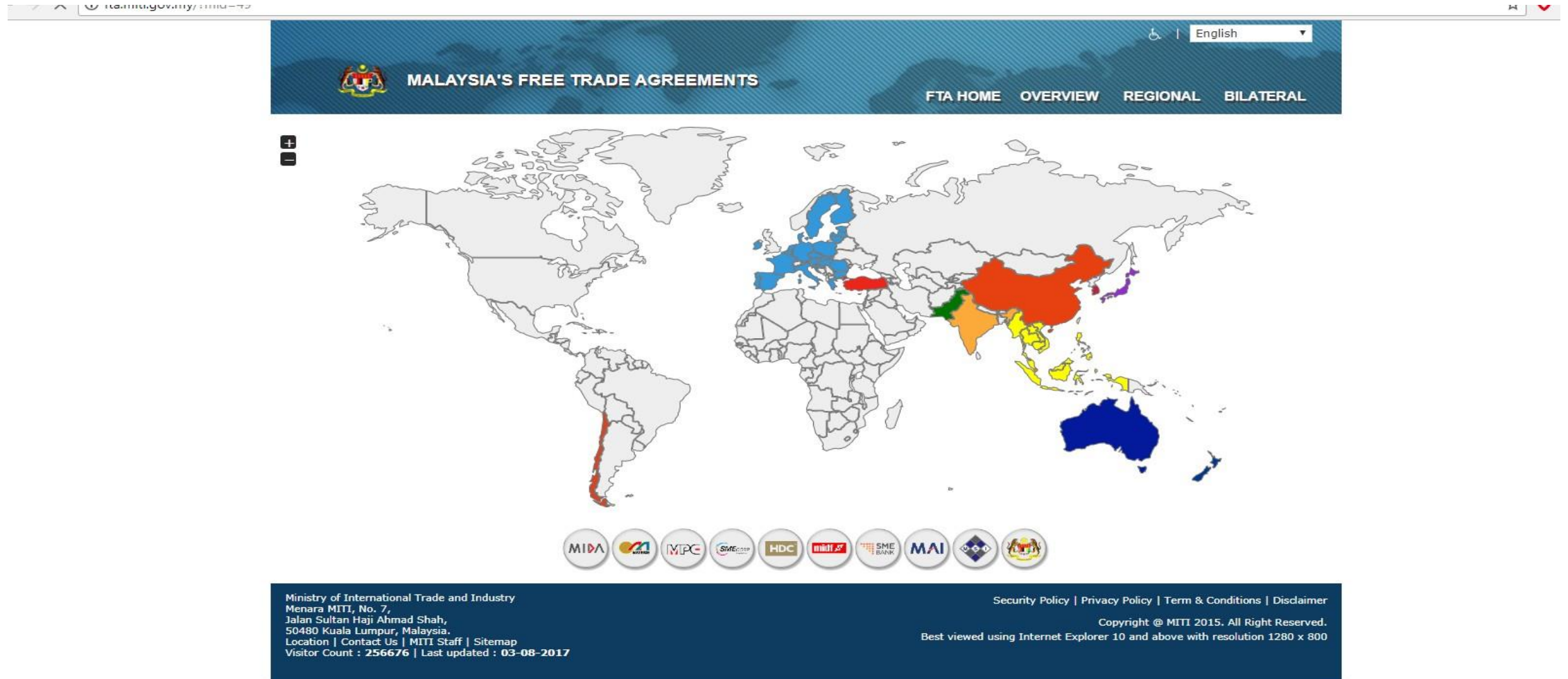
*“We are pleased to inform that in-conjunction with the ASEAN 50th Anniversary, MIDA is organizing the Intra-ASEAN Investment Forum on 10th August 2017 (Thursday) at Perdana Hall, MITI”.*

# Malaysia's FTA Involvement

- International trade is an important contributor to Malaysia 's economic growth and development.
- Malaysia 's trade policy is to pursue efforts towards creating a more liberalizing and fair global trading environment.
- While Malaysia continues to accord high priority to the rule-based multilateral trading system under the World Trade Organisation (WTO),
- Malaysia is also pursuing regional and bilateral trading arrangements to complement the multilateral approach to trade liberalisation.
- Free Trade Agreements (FTAs) are generally aimed at providing the means to achieve quicker and higher levels of liberalisation that would create effective market access between the participants of the FTA. Traditionally confined to trade in goods, with the establishment of the WTO, trade in services has been included in many FTAs.
- Today, FTAs currently pursued with selected countries are not confined to liberalisation and market opening measures alone. They are comprehensive and include investment, trade facilitation, intellectual property rights (IPR) as well as economic cooperation seek better market access by addressing tariffs and non-tariff measures;
- Objectives for FTAs – ASEAN, ASEAN Plus and seven bilaterals
  - further facilitate and promote trade, investment and economic development;
  - enhance the competitiveness of Malaysian exporters; and
  - build capacity in specific targeted areas through technical cooperation and collaboration.



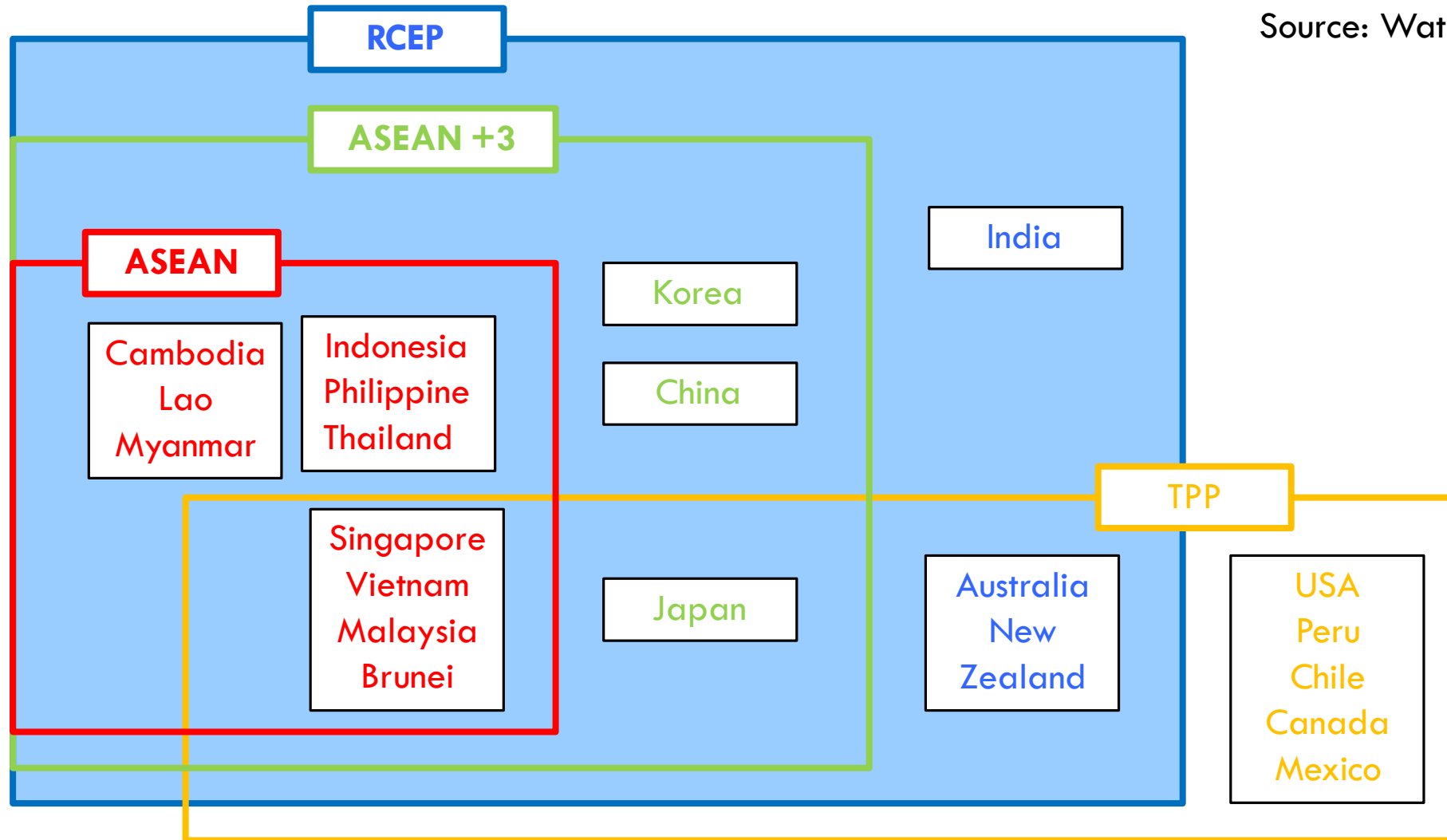
# Reach of Malaysia's FTAs



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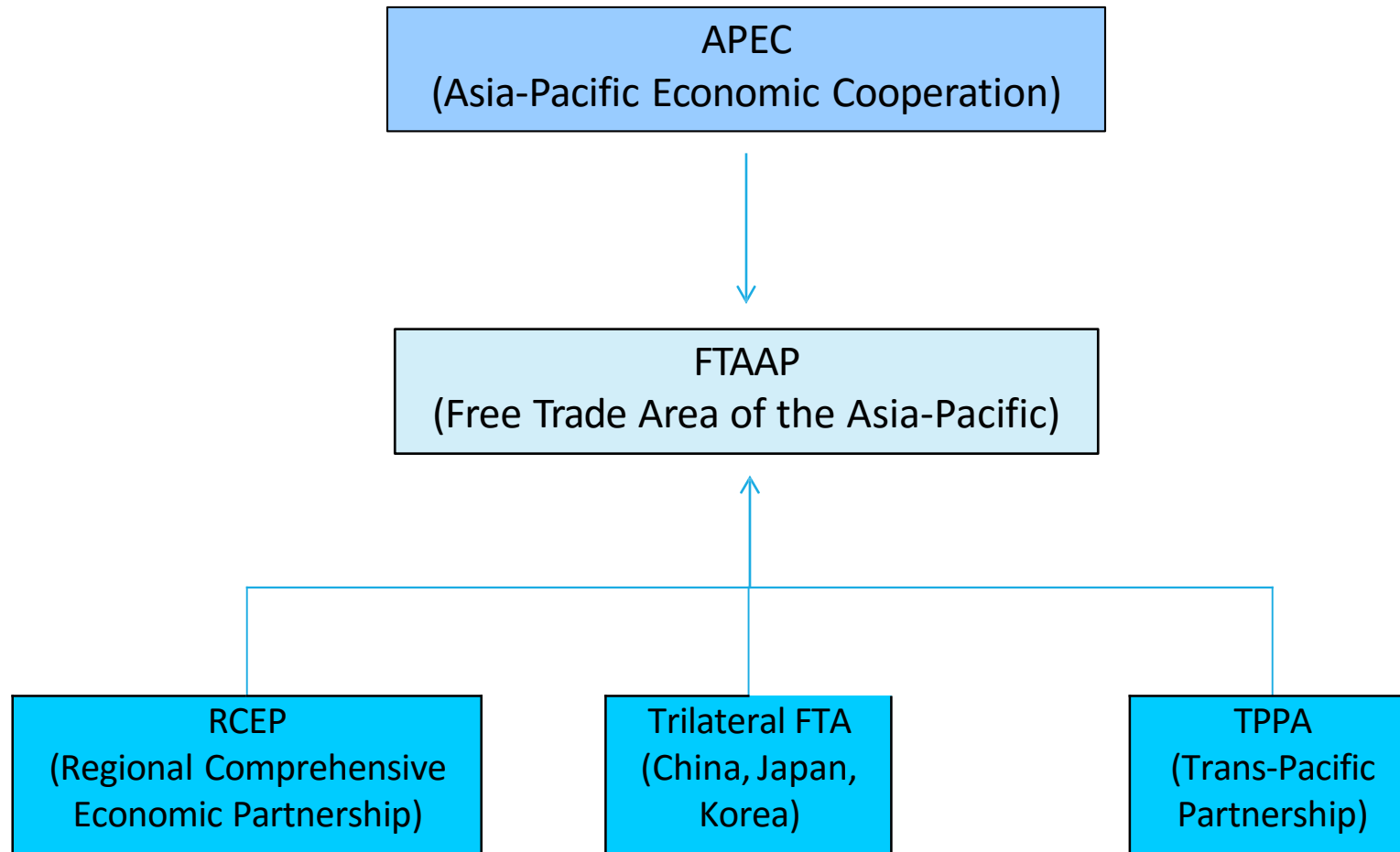
# ASEAN +1 FTAS AND EVOLVING REGIONAL INTEGRATION FRAMEWORK

Source: Watanabe (2014)



# Moving Towards a Free Trade Area of the Asia Pacific

ASEAN+1 FTAs and Evolving Regional Integration Framework



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# CONCLUSION

- As a small open economy, Malaysia is engaged in multilateral, regional and bilateral initiatives for liberalization
- Malaysia has always supported ASEAN integration for peace and regional stability and for market access
- SMEs generally favor exploring the Singapore market first before the rest of ASEAN for geographical and cultural proximity reasons
- Malaysia also positions itself as a gateway to the ASEAN Market

*Thank you!!*