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INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA
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ABOUT ISIS MALAYSIA

The Institute of Strategic and International Studies (ISIS) Malaysia was established on 8 April 1983, in realization of a decision made by the Malaysian Government to set up an autonomous, not-for-profit research organization, to act as the nation's think-tank. ISIS Malaysia was envisioned to contribute towards sound public policy formulation and discourse.

The research mandate of ISIS therefore spans a wide area. It includes economics, foreign policy, strategic studies, nation building, social policy, technology, innovation and the environment.

ISIS Malaysia today fosters dialogue and promotes the exchange of views and opinions at both national and international levels. It undertakes research in collaboration with national and international organizations, in important areas such as national development and international affairs.

ISIS Malaysia also engages actively in Track Two diplomacy, fostering high-level dialogues at national, bilateral and regional levels, through discussions with influential policymakers and thought leaders.

RESEARCH

Economics

Research in this area is generally aimed at promoting rapid and sustained economic growth and equitable development in the nation. We study specific (rather than generic) issues that concern the nation's competitiveness, productivity, growth and income. Areas of research include macroeconomic policy, trade and investment, banking and finance, industrial and infrastructure development and human capital and labour market development. The objective of all our research is to develop actionable policies and to spur institutional change.

Foreign Policy and Security Studies

The primary aim of this programme is to provide relevant policy analyses on matters pertaining to Malaysia's strategic interests as well as regional and international issues, with a focus on the Asia-Pacific Region. These include security studies, foreign policy, Southeast Asian politics and military affairs.

Social policy

Demographic and socio-cultural trends are changing Malaysian society and the social policy programme was established to respond to these developments. Research in this area is concerned with effective nation building, and fostering greater national unity. In particular, we look at issues involving the youth, women and underprivileged communities. In conducting its research, ISIS Malaysia networks with non-governmental organizations and civil society groups.

Technology, Innovation, Environment & Sustainability (TIES)

The TIES programme provides strategic foresight, collaborative research and policy advice to the public sector, businesses and policy audiences, on technology, innovation, environment and sustainable development. Its focus includes green growth as well as energy, water and food security. Towards this end, TIES has been active in organizing dialogues, forums, policy briefs and consultancies.

HIGHLIGHTS

ISIS Malaysia has, among others, researched and provided concrete policy recommendations for:

- Greater empowerment and revitalization of a national investment promotion agency;
- A strategic plan of action to capitalize on the rapid growth and development of a vibrant Southeast Asian emerging economy;
- A Master Plan to move the Malaysian economy towards knowledge-based sources of output growth;
- The conceptualization of a national vision statement;
- Effective management and right-sizing of the public sector; and
- Strengthening of ASEAN institutions and co-operation processes.

ISIS Malaysia has organized the highly regarded Asia-Pacific Roundtable, an annual conference of high-level security policymakers, implementers and thinkers, since 1986.

INTERNATIONAL NETWORKING

As a member of the Track Two community, ISIS Malaysia participates in the following networks:

- ASEAN-ISIS network of policy research institutes;
- Council for Security and Cooperation in Asia and the Pacific (CSCAP);
- Network of East Asian Think Tanks (NEAT); and
- Pacific Economic Cooperation Council (PECC).

It is also a partner institute of the World Economic Forum (WEF).

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How Slow Can We Grow? World Economy in 2013

Session One was chaired by **Tan Sri Dr Sulaiman Mahbob**, Board Member, ISIS Malaysia. The speakers were **Mr Mangal Goswami**, Deputy Director, International Monetary Fund (IMF), Singapore Regional Training Institute, **Professor Dato' Dr Woo Wing Thye**, Executive Director, Penang Institute, and **Dr David Fernandez**, Managing Director, JP Morgan, Singapore. **Dr Jorah Ramlan**, Senior Analyst at ISIS Malaysia, reports.

Dr Woo Wing Thye introduced three aspects for growth opportunities in the wake of the recent re-election of the President of the United States and the change of leadership in China. He coined the terms: economic hardware, institutional software, and power supply requirements for these growth aspects.

For the US, there is a need to restore social mobility, enhance social protection, regulate Wall Street from exerting undue influence on government, and fixing the crumbling infrastructure, in particular airports and railroads. The demands of the people were overshadowed; the focus was on overcoming high unemployment by resorting to a quantitative easing (QE) policy to bring the US back to full capacity.

To further explain the US government's failure to tackle the unemployment issue, Woo went on to discuss the distribution of the global labour force for the period 1990 to 2000, a period that saw an increase in the number of people who were engaged in the international division of labour from 1.08 billion to 2.67 billion, an increase of more than 100 per cent. This contributed to globalization, and China's adoption of the market system in 1992.

Theoretically, an increase in the labour force will result in a decrease in wage rates. This however, was not the case for the US. The



Woo Wing Thye

migration of jobs from high wage nations to low wage nations due to unequal income levels and globalization did not have an adverse effect on employment in the US. Low-skilled workers moved from the manufacturing to the construction and service sectors. While the economy appeared to retain its positive momentum, the situation was not sustainable. The solution would be to invest in re-training, improve the educational level of the labour force, and to create new jobs through the macro stimulus approach.

The role of China in the global economy is more complex. It is argued that China is facing

the middle income trap. China's 'hardware failure' relates to losing control of the fiscal policy created by the strain of the 2008 financial crisis, leading to the crowding out of the private sector. The 'software failure' is in social instability caused by government incompetence, and corruption in the civil sector. The 'power supply failure' relates to protectionism due to environmental collapses, in particular the problem with water supply in areas outside Beijing, which constitutes a hindrance to economic development. In addition, the leadership is caught up with issues involving employment surplus, socio-political governance, and state-sector inefficiency.

Mr Mangal Goswami highlighted the IMF's forecast for global growth which was marked down to 3.3 per cent this year and 3.6 per cent in 2013. The forecast rested on two crucial policy assumptions: (1) that European policymakers get the Euro area crisis under control and (2) that US policymakers take action to tackle the 'fiscal cliff' and raise the debt ceiling.

Advanced economies are projected to grow by 1.3 per cent this year, compared with 1.6 per cent last year and 3.0 per cent in 2010, with public spending cutbacks and the still-weak financial system weighing on prospects. Monetary policy in advanced economies is expected to remain supportive as major central banks have recently launched new programmes to buy bonds and keep interest rates low to mitigate market and liquidity risks. The economic strain in the Euro area is expected to increase as the IMF is of the opinion that it is not possible to have a

.....improvements in external conditions, and confidence, helped by a variety of reforms announced very recently, are projected to raise real GDP growth to about six per cent in 2013



Mangal Goswami

common currency area without risk-sharing principles, in particular, fiscal and financial risk-sharing.

Several economies are expected to see low but positive growth throughout 2012-13 while most economies are likely to suffer a sharp contraction in 2012, constrained by tight fiscal policies and financial conditions. The problem faced with Greece needs to be isolated from other EU countries for markets to respond positively to financial lending conditions and fiscal consolidation.

Emerging markets, although resilient, are not immune to an economic downturn. Growth in emerging markets and developing economies was marked down to 5.3 per cent, against 6.2 per cent last year. Leading emerging markets such as China, India, Russia, and Brazil will see slower growth. In developing Asia, the main driver will be China, where activity is expected to receive a boost from accelerated approval of public infrastructure projects.

The outlook for India is unusually uncertain for 2012 and real GDP growth is projected to be close to five per cent. However, improvements in external conditions, and confidence, helped by a variety of reforms announced very recently, are projected to raise real GDP growth to about six per cent in 2013.

Fiscal adjustment due to rising public debt results in negative growth impact. It is argued that the 'impact,' which refers to the fiscal multiplier, is underestimated. Debt levels in advanced economies are higher compared to those in emerging markets. Lending consolidation is tight in advanced economies while fiscal consolidation has had a negative impact on growth as fiscal expansion turned to fiscal contraction. Real credit growth in emerging markets including Turkey, Brazil, India, and China, has slowed down. Downside risks are elevated due to the possibility of higher oil prices, a persistent housing problem in the US, and increasing economic stress in the EU zone.

The remedy suggested by the IMF is to remove immediate risks. For advanced economies, this refers to managing fiscal consolidation. In the US and in Japan, gradual and sustained fiscal consolidation needs to be anchored by a detailed medium-term plan. For growth contingency, there is a need for cyclically-adjusted targets, to let automatic stabilizers operate and, where there is room, to allow for a smooth medium-term adjustment. Advanced economies need to maintain an accommodative stance where monetary policy is concerned. For emerging markets, there is a need to rebuild fiscal consolidation and to provide room for monetary policy to manoeuvre over the medium term.



David Fernandez

While the IMF growth outlook focused on the medium-term and long-term issues, **Dr David Fernandez** spoke about near-term issues of the global economy, of emerging markets in Asia, and Malaysia. Businesses and investors are concerned with near-term (three months) stimulus activities. In this respect, global growth is expected to improve from mid-2012 onwards. Despite the optimism, there is caution in the wind for the business sector, policy makers, and investors who are heavily dependent on near-term actions and results.

Advanced economies need to maintain an accommodative stance where monetary policy is concerned

The manufacturing sector is said to bear the brunt of global weakness. There is a downward trend in global manufacturing and while finished goods inventories are high, output is low. This is crucial to many economies, in particular emerging markets in Asia that rely heavily on the manufacturing sector.

Real gross domestic product has declined since 2010 and is expected to flat-line throughout 2012. Growth in emerging markets in 2012 has been very disappointing. While GDP growth in China and India tends to be less volatile, the rest of the emerging markets in Asia are expected to be highly cyclical and sensitive to domestic demand. Despite fundamental economic factors, the real driver for growth in emerging markets is political influence, particularly the change in leadership in China, the Presidential election in Korea, and the general elections in Malaysia.

On the growth outlook for Malaysia, Woo is of the opinion that one of the challenges facing Malaysia is that of the rising expectations of the people. While Government policies are not improving, neither are they getting worse. It is the

economic expectations of the people that have changed. According to Fernandez, the growth numbers for Malaysia in 2012 are not disappointing due to a favourable fiscal policy.

However, market expectation for the rate in 2013 is disappointing, at less than four per cent. This is due to the subdued global outlook and the drag in external issues. As opposed to Woo's opinion on the role of QE policy, Fernandez is supportive of QE and is of the opinion that it has contributed positively to the US and other economies, including Malaysia.

In conclusion, it appears that the outlook for the global economy in 2013 is quite gloomy but it is expected to improve later in the year. However, it is not the speed of growth that is important; it is sustaining the momentum of growth that should be of concern to most policy makers.

Despite fundamental economic factors, the real driver for growth in emerging markets is political influence

The growth rate is subjective and is based on the level of development of an economy. Under-developed and developing economies may experience a high and sustainable growth rate for a considerable period with appropriate policy tools, but they are highly susceptible to external events. Developed economies on the other hand commonly experience low growth rates and are less affected by external influence. Regardless of the development status of economies, it is important to achieve a sustainable growth rate to secure economic stability.



From left: Woo Wing Thye, Sulaiman Mahbob, Mangal Goswami and David Fernandez

Year of the 'Big Squeeze'? Malaysia in 2013

The second session of the ISIS Praxis Seminar 2013 discussed Malaysia's budget deficit and the 2013 budget. The panelists were **Mr Nurhisham Hussein** of the Malaysian Rating Corporation Bhd (MARC), **Mr Azrul Azwar Ahmad Tajudin** of Bank Islam Malaysia Bhd, and **Mr Gerald Ambrose** of Aberdeen Asset Management Sdn Bhd. **Tan Sri Datuk Dr Kamal Mat Salih**, a Distinguished Fellow of ISIS Malaysia moderated the session. ISIS Research Associate, **Justin Lim** reports.



From left: Nurhisham Hussein, Kamal Mat Salih, Azrul Azwar Ahmad Tajudin and Gerald Ambrose

Malaysia has been struggling to reduce its budget deficits for over a decade now, due to higher growth in public spending than growth in revenue. Public sector spending has in fact been on an increasing trend since 2009. The federal government is expected to reduce public spending progressively by embarking on broadening its tax base through the Goods and Services Tax and rationalising subsidies.

As such, can public spending be reduced by 2013 and can the private sector take over, thereby preventing a severe economic contraction? Would the on-going global economy continue to weigh on Malaysia's growth performance? What is the limit of government's policy in handling another crisis?

Mr Nurhisham Hussein gave his perspectives on Malaysian fiscal deficits and debt. He described the main driver of Malaysia's growth as being external trade, on which the nation is still heavily dependent and which amounts to more than 100% of GDP. Also, compared to previous

years, this year's growth was heavily dependent on public and private sector investments. He stressed that current fiscal policies such as the self-imposed 55 per cent debt ceiling, desire for faster fiscal consolidation, continuing dependence on oil revenue and the narrow tax base may inhibit future growth.

Does this mean there is no space to manoeuvre? Nurhisham says there is, as focusing on fiscal policies alone is not enough; the policies should be evaluated in tandem with monetary policies. Policy-making is not just a binary choice of fiscal or monetary policy, but a continuum between the two.

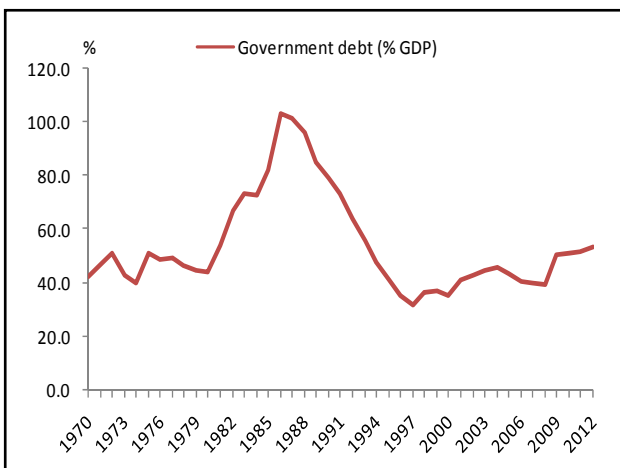
Moreover, there is no ideal policy mix, as the situation is largely dependent on the prevailing economic climate. The aspiration of faster fiscal consolidation can be achieved through corresponding looser monetary policy, achieved in turn by either increasing money supply or lowering interest rates. But such measures will result in higher leveraging by the

household and corporate sectors, and will in fact substitute government debt which would otherwise be further increased if there were no fiscal constraints. The aggregate debt of the economy still grows, irrespective of who contributes to it.

Before pursuing such expansionary policies, due consideration must be given to the prospect of looser monetary policy ultimately pushing up asset prices and consumer inflation too.

Having said that, Nurhisham said that the current debt level, which is fast approaching the 55 per cent debt ceiling, and its corresponding threat to the stability of the economy is exaggerated. (See Fig. 1)

Fig. 1 Malaysia: Government Debt



Current debt levels are actually near their historical long term average and the debt servicing ratio is at an all time low too. Furthermore debt is mainly financed domestically, with nearly 95 per cent denominated in Malaysian ringgit and this makes the economy less exposed to foreign exchange rate fluctuations and external shocks. The double digit current account surpluses that were registered consistently each year for the last decade are also more than sufficient to offset the growing fiscal debt.



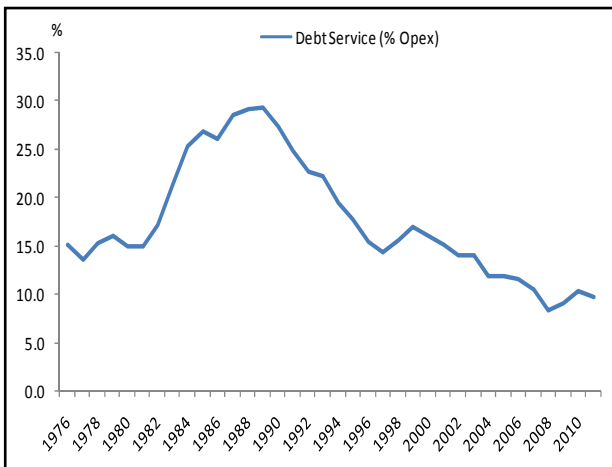
Nurhisham Hussein

The only other cause for concern is the foreign holding of Malaysian government debt, which has increased steadily since the year 2008. Thus the government is more exposed to external events which can affect the repayment ability of its debtors.

On the savings side, the private sector has been saving more during the 15 years since the Asian financial crisis and now accounts for 90 per cent of total national savings. But household savings consist of approximately two per cent only; government savings make up the remainder. Nurhisham considers this bad news as a high corporate savings rate translates to a shortfall in total national consumption and investment. Both the private sector and government have to increase spending to make up for this trend.

In concluding his presentation, he said that this trend and its subsequent effects are more worrying than the current debt level and the debt servicing ratio, and must be addressed. (See Fig. 2) This was later reinforced by the other panelists who felt that in addition to fiscal consolidation, there needs to be a further liberalization of the private sector, especially in sectors which have strong government intervention, to incentivise corporations to invest again and drive the economy forward.

Fig. 2 Malaysia: Debt Service



The second panelist, **Mr Azrul Azwar Ahmad Tajudin**, took a contrary stand to Nurhisham's and stressed that the ballooning deficit is in fact a serious concern. In arguing this, he said that it is the inherent overdependence on oil and gas revenue and the large operating expenditure incurred that makes the deficit dangerous. Also, the deficit does not take into account existing government contingent liabilities and guarantees which are estimated to be at least RM117 billion, and if these are taken into consideration, the debt-to-GDP ratio will amount to a whopping 66 per cent.

He finds the deficit reduction target of four per cent by 2013 ambitious because of the lack of fiscal reforms, and coherence in fiscal strategies. The aggressive tax collection initiative that boosted revenues in 2011 and 2012 may have reached a plateau and its maximum efficiency by this year. Also 2013 is the year the elections are scheduled to be held, and contractionary policies will not be popular among the electorate.

Azrul then outlined concrete steps that should be taken to reduce the deficit. Measures to boost revenues by diversifying the revenue base include: introducing the Goods and Service Tax (GST), a special tax on millionaires that is higher than the current top taxation rate of 26 per cent, higher 'sin' taxes, capital gains tax on the sales of

non-inventory assets such as shares and securities, and rechanneling incentives and tax breaks to higher-value added industries.

Operating expenditure must be rationalized and capped. Right-sizing emoluments and government pensions are his main thrusts and these include: temporary freezing of non-executive recruitment, not replacing outgoing civil servants, and retraining and redeploying excess staff to new job functions.

Secondly, the procurement process needs to be reviewed such that leakages and overpayments can be reduced by promoting the use of the open tender process and imposing stringent cost controls.

Thirdly, the subsidy rationalisation programmes under Pemandu should be continued and lastly non-productive capital expenditure and expenses should be eliminated.

He concluded his presentation by stating that fiscal consolidation targets are more realistic in the near-to-medium term outlook, and subsequently, we should aim for a balanced budget by the year 2020.



Azrul Azwar Ahmad Tajudin

There were comments from the floor that freezing the hiring of civil servants would not be possible given recent initiatives by the Public Service Commission (PSC) to hire non-Malay staff. The government's role in absorbing a burgeoning youth population which would otherwise not have jobs in the private sector should not be overlooked too.

It was agreed that despite the large workforce, at least a third of the 1.2 million civil servants are made up of teachers, the police and the armed forces, all of which are usually excluded in other countries and a direct comparison will overstate the size of Malaysia's civil service. As such, continued hiring for these key sectors is crucial but that does not eliminate the fact that certain sectors are overstaffed and these staff need to be redeployed.

However, a panelist criticised this emphasis on the public sector's role of job creation for a growing youth population. He argues that this is actually a disincentive to economic growth because the private sector is much more efficient at job creation. Also, private sector employment usually leads to higher wages and productivity as compared to public sector employment.

He said the government's role should be to promote a healthy and competitive private sector environment with less government intervention, which he said was more important than the creation of lower value-added jobs by the public sector.

Mr Gerald Ambrose provided an overview of the debt levels of countries from around the world. While debt levels of developed countries have increased, those of developing countries have decreased since the 2008 financial crisis.

His main thrust was poor investments by the private sector; investments have dropped and remained low since the 1998 Asian financial crisis. Conversely, growth has been increasingly



Gerald Ambrose

export-led and this trend is expected to continue, as can be seen by the high correlation factor of 0.96 between growth and real exports as a percentage of GDP since the year 2001.

Ambrose then described government revenue, categorised between commodity-linked and non-commodity-linked sources. His analysis showed that government revenue is highly commodity-linked and this is not good due to the highly volatile nature of the prices of commodities.

Also, operating expenditure which has ballooned and overtaken development expenditure in the last ten years does not bode well for Malaysia. Development expenditure can be compared to planting seeds for future yields, i.e. revenue; it should be given the highest priority.

In conclusion, the panelists agreed that although debt levels are alarming, structural problems that can significantly aggravate the economy or lead to a Western-type financial and economic crisis are not foreseen. However more should be done. Besides the suggestions raised earlier, we need more efficient spending, further liberalization of the private sector, better quality education and higher female participation in the workforce.

Doing Business in Myanmar

Session Three focused on Myanmar. The Session was moderated by **Dr Larry Wong**, ISIS Programme Director of Technology, Innovation, Environment and Sustainability (TIES). The three speakers were **Dr Tin Maung Maung Tan**, Senior Research Fellow, ISEAS Singapore, **Mr Aung Naing Oo**, Director General, Directorate of Investment and Company Administration, Myanmar and **Mr Ye Min Aung**, Secretary General, Myanmar Rice Federation. ISIS Analyst **Zarina Zainuddin** reports.



From left: Ye Min Aung, Larry Wong, Aung Naing Oo and Tin Maung Maung Tan

The first speaker, **Dr Tin Maung Maung Tan**, gave an overview of the current situation in Myanmar, which is attempting to reform both its economic and political systems simultaneously. It is not an easy task, given that it is military-ruled and had an inward-looking nationalistic-oriented policy in its recent past. On top of that Myanmar is a multiracial, multi-religion country with eight ethnic groups with their attendant inherited problems, all of which makes nation-building a difficult process.

Tin highlighted some of the challenges faced and responses (in the form of reforms) undertaken by Myanmar. While Myanmar is a resource-rich country with abundant land, water and natural gas, it is currently experiencing an

electricity shortage, with frequent blackouts and brownouts. The nation has responded to these problems by allowing independent power producers (IPP) to be established. This has not only lessened the number of blackouts, but has also provided 24-hour electricity supply to some areas, particularly industrial zones.

Another challenge is the difficulty in obtaining and accurately measuring key economic indicators (including GDP, exports/imports, financial accounts, reserves, etc) given the lack of experience and exposure of its technocrats and the existence of a fairly large informal economy. Such problems hamper the ability of the government to plan and implement proper economic measures.



Tin Maung Maung Tan

Tin continued to highlight political reforms. Among them is Myanmar's unique government structure. In Myanmar, elected representatives are required to resign from their jobs and relinquish party positions. Hence, effectively, the party 'does not rule'; instead Myanmar's President and members of his cabinet constitute an independent executive body.

About 25 per cent of Myanmar's parliament is comprised of military personnel, selected by the Commander-in-Chief. However, Tin believes the numbers are not important: what is important is how they perform. As long as they work for the people and for the benefit of the country, it is a situation that is acceptable. It is important not to alienate or cast aside the military, for such an action might cause resentment and result in tension. It is better to cooperate with and effectively utilize the uniformed personnel, thus maintaining a stable political environment. At the end of the day, Myanmar has 'a structure which has pluralism and multiple authority,' instead of top-down rule by the junta.

Tin also touched on the ethnic situation, with ethnic groups wanting more rights and autonomy, and on the effort needed to balance

those needs. More problematic are those groups who want to establish their own separate military alongside Myanmar's national army. There is of course the tragedy of the Rohingya.

The Rohingya problem is one of communal violence; it is not caused by sectarian or religious conflict. It is partially fuelled by misunderstanding, segregation, corruption in the past, and illegal immigration. The situation is further compounded by the inefficient registration of citizens and issuing of national identity cards, and the failure to integrate the group into mainstream society. There are no easy fixes and it will take time and considerable effort by the government for the nation to arrive at a lasting solution.

Myanmar is a classic case of a half-full-half-empty glass. What is important though, is whether there is sufficient 'liquid inside the glass' for everybody. This is his main message. In order to fill the glass, and to advance as a country, Myanmar needs a lot of investments (particularly FDI), and it needs local development, with real support in terms of 'software and hardware' development and a collaborative, stable, political environment which does not alienate any party.

The second speaker, **Mr Aung Naing Oo**, concentrated on the economic reforms of Myanmar. Many of the reforms that Myanmar undertook aimed at improving the foreign direct investment environment, he said. Myanmar's economy presents a lot of potential for investors. It is a country rich in natural resources, precious stones, gas and teak (to name a few), it has abundant land and water, a sizable population, its literacy rate is high, it has an English-speaking work force, and it has low level wages.

There are two gateways to invest in Myanmar. The first is through the MIC (Myanmar Investment Commission) which is the sole authority for permitting business investments in Myanmar. The MIC, a body made



Aung Naing Oo

up of both the government and private sectors, screens all investment applicants. The other gateway is the Directorate of Investment and Company Administration for Company

Incorporation, which issues permits and handles company registration. The difference between the two agencies is that the latter is not mandated to provide investment incentives. (See Table 1)

According to Aung, currently, numerous revisions are being made to the laws of the nation, including the foreign investment law and the special economic zone law. Various reform measures are being implemented as well. Among the highlights are added benefits for those investments beneficial to the state i.e. investments in rural areas. Investors will get additional incentives such as longer tax holidays.

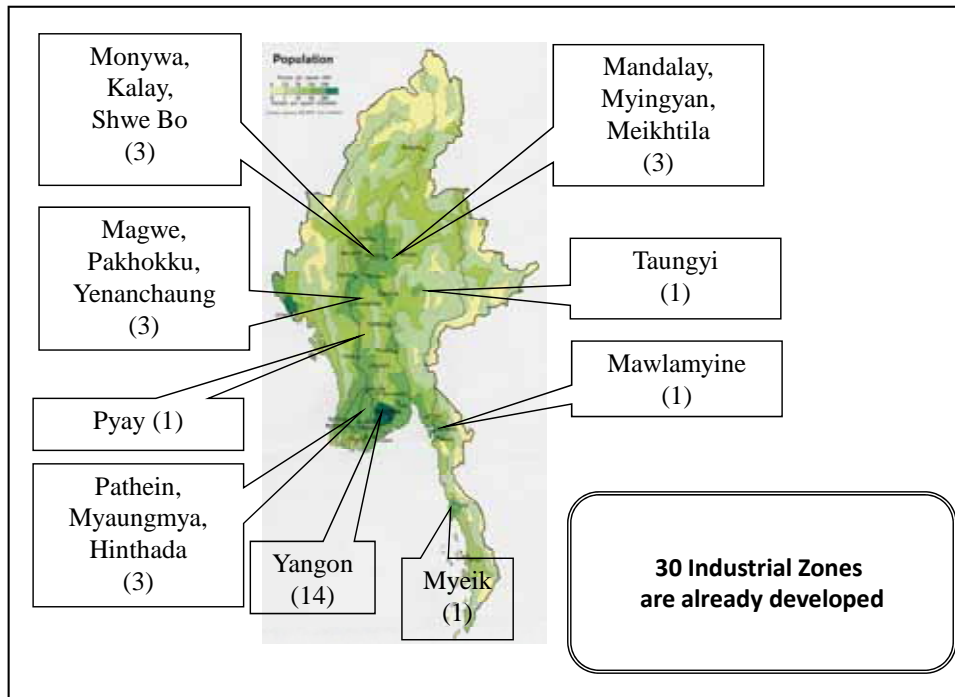
Table 1: Foreign Investments by Country

No.	Countries	Permitted Enterprises		
		No.	Approved Amount (USD in mil)	%
1	China	36	14146.529	34.41
2	Thailand	61	9568.093	23.27
3	Hong Kong	41	6372.249	15.50
4	Republic of Korea	64	2969.074	7.22
5	U.K	54	2799.185	6.81
6	Singapore	77	1853.230	4.51
7	Malaysia	43	1031.285	2.51
8	France	2	469.000	1.14
9	U.S.A	15	243.565	0.59
10	Indonesia	12	241.497	0.59
11	The Netherlands	5	238.835	0.58
12	Japan	27	225.457	0.55
13	India	8	273.500	0.67
14	Philippine	2	146.667	0.36
15	Russia Federation	2	94.000	0.23
16	Australia	14	82.080	0.20
17	Austria	2	72.500	0.18
18	Panama	2	55.101	0.13
19	Viet Nam	4	49.796	0.12
20	United Arab Emirates	1	41.000	0.10
21	Canada	15	40.791	0.10
22	Mauritius	2	30.575	0.07
23	Germany	2	17.500	0.04
24	Republic of Liberia	2	14.600	0.04
25	Denmark	1	13.370	0.03
26	Cyprus	1	5.250	0.01
27	Macau	2	4.400	0.01
28	Switzerland	1	3.382	0.01
29	Bangladesh	2	2.957	0.01
30	Israel	1	2.400	0.01
31	Brunei Darussalam	1	2.040	0.00
32	Sri Lanka	1	1.000	0.00
Total		503	41110.908	100.00

Source: Directorate of Investment and Company Administration, Myanmar

Fig 1

Industrial Zones



Source: Directorate of Investment and Company Administration, Myanmar

Among the changes are the lower start-up capital, the abolishing of custom duties for machinery and other imports for the purpose of construction, the extension of land leases for up to 50 years — renewable up to 70 years — and less red tape for profit repatriation. The government has also vowed not to resort to nationalization or expropriation of assets, and not to terminate agreements midway through contracts.

Myanmar is paying more attention to developing its Special Economic Zones. The industries targeted for these economic zones are production-based industries, services, and infrastructure construction businesses. Incentives for economic zones include tax holidays, income tax relief for export production and reinvestment, and exemption from custom duties for production inputs such as machinery, imported raw materials and vehicles. Myanmar is developing three special economic zones — Dawei, Thilawa and Kyaukphyu — another seven zones are to be developed later (see Fig 1).

Aung's office, the Directorate of Investment and Company Administration, is responsible for permits, and the registration of incorporation of companies. The types of businesses targeted are industries and manufacturing, services, construction, hotels, travel, banks, and insurance representatives. Aung said it has been a remarkable year. By the end of the fiscal year, he expects about 400 foreign companies to be incorporated in Myanmar.

As for FDI, Myanmar will initially focus on labour-intensive industries before moving to Value-Added and finally High-Tech industries. Going forward, Myanmar will:

- Draft rules for foreign investment law;
- Revise the special economic zone law;
- Upgrade the company registry system (online registration), and
- Design new company laws to meet the nation's expectations.



Ye Min Aung

Mr Ye Min Aung, the third Speaker, focused on the role that the private sector plays in developing Myanmar's agriculture, specifically the rice sector. Agriculture makes up 32 per cent of Myanmar's GDP, employs 61 per cent of its labour force, and provides 17.5 per cent of its export earnings.

The private sector initiative addressed the challenges of rice and agriculture sustainability, based on a vision of agribusiness as a positive contributor to food security, environmental sustainability and economic development. It is imperative, said Ye Min that the private sector-led and market-based solutions that are to be implemented are explicitly linked to national development priorities.

The three priority areas of the new vision are comprehensive supply chain mechanisms, value addition (value added) and investment in food and energy production industries. The new vision business strategies have a two-pronged approach:

- To transform farming from a means of livelihood to a business – in essence a transition from small-scale to commercial-scale farming;
- To transform rice processing and milling operations into food and energy production.

To implement the first approach, the various measures include forward sales arrangements for agriculture commodities, contract sales arrangements, commodity exchanges and commodity futures markets.

The second requires upgrading or investing in new facilities that would transform current rice processing and milling facilities into modern integrated complexes that will not only produce rice but will also utilize by-products to produce a range of goods ranging from animal feed to rice crackers. The facilities will be powered by the burning of rice husk which is expected to be able to generate enough electricity for the running, not only of the plants, but the surrounding townships as well. These complexes will be able to offer related activities such as farmer training centres and farm equipment rental.

Ultimately, the new vision aims at making Myanmar a rice-exporting country. Myanmar has the world's largest consumption of rice per capita, and its rice production was, until recently, sufficient only for its domestic market. The introduction of high yielding and hybrid rice crops and increasing the production of local rice, coupled with export-oriented contract farming arrangements helped to produce excess rice for export.

Contract arrangements saw five areas being zoned for planting high-yielding rice varieties, resulting in higher rice production. In 2012, Myanmar managed to produce about one million metric tons of rice in excess of local consumption, for export.

It is imperative that the private sector-led and market-based solutions that are to be implemented are explicitly linked to national development priorities

***Making Myanmar a rice exporter
..... is crucial for sustaining
business activities***

Making Myanmar a rice exporter, said Ye Min, is crucial for sustaining business activities. As for the outlook for rice exports, Myanmar has been increasing rice production yearly, targeting four million metric tons in 2020. Various measures, including investment in food and energy production, increasing the area of contract farming, and increasing the number of rice terminals were additional means to turn Myanmar into a rice exporter. Higher

productivity from agriculture translates to higher income levels for farmers and will contribute to the socio-economic development of rural areas.

Myanmar came out at the wrong time rued one speaker. Unlike its Asean counterparts whose economies took off during a period of prosperity and peace, Myanmar debuted into a depressed world economy, particularly with the lingering woes of the West. On the other hand, in times of difficulty, investors are more discerning and only the most promising areas of investment will be considered. In this regard, the number of visitors and investors, including the VIPs of the political and business worlds that have thronged to Myanmar in recent years, and the amount of investments flooding in, are testament to Myanmar's golden potential.

Malaysia's New FTAs: How Businesses Benefit?

Session Four saw panelists **Mr J Jayasiri** of the Ministry of International Trade and Industry (MITI) and **Mrs Chau Duncan** of the Australian High Commission in Kuala Lumpur discussing Malaysia's new FTAs. The session was moderated by Professor Dr Tham Siew Yean, Principal Research Fellow, Institute of Malaysian and International Studies (IKMAS), National University of Malaysia (UKM). **Firdaos Rosli**, Senior Analyst, ISIS Malaysia, reports.



From left: J Jayasiri, Tham Siew Yean and Chau Duncan

This thought-provoking session on Malaysia's New Free Trade Agreements (FTAs), set out in layman terms the technicalities of FTAs, specifically under the Trans-Pacific Partnership (TPP) and the Malaysia-Australia FTA (MAFTA).

Since becoming a member of the Asean Free Trade Area (Afta) in 1992, Malaysia has concluded a total of six bilateral FTAs and six plurilateral FTAs, said **Mr J Jayasiri**. It has bilateral FTAs with Japan, Pakistan, New Zealand, Chile, India and Australia. All of Malaysia's plurilateral FTAs, namely with China, the Republic of Korea, Japan, India, Australia-New Zealand and, of course, Afta are via Asean. There are overlapping FTAs with Japan, India, New Zealand and Australia.

Malaysia is currently negotiating bilaterally with Turkey, the European Union and the European Free Trade Area, and also

plurilaterally, i.e. Asean-Japan (Investment and Services), Asean-India (Investment and Services) and the Trans-Pacific Partnership (TPP). Malaysia's new FTAs are not old wine in new bottles.

According to MITI, Malaysia's approach in negotiating FTAs is anchored on a rules-based multilateral system with complementary agreements in both bilateral and plurilateral trade pacts. This is done by progressively adding new and more comprehensive FTAs, and embedding them into existing ones over time in order to create a much larger trade and investment framework.

This 'building-block approach' started from 'traditional areas' — duty elimination and the removal of non-trade barriers. Now, Malaysia is warming up to new areas such as government procurement (GP), competition

policy, intellectual property rights (IPR), labour, and the environment.

Today, Malaysia is playing a different ball game altogether. The country is now ready to negotiate high-quality (read deeper commitment) issues such as regional integration, regulatory coherence, competitiveness, supply chain and small and medium enterprises collaboration. In other words, Malaysia's new FTAs are also 'new' FTAs.

From Malaysia's involvement in the TPP, for example, it is explicit that the country is all geared up towards liberalizing its domestic economy more aggressively than before. To begin with, the TPP, unlike any other FTA, has no exclusion list (simply put, all tariff lines are included for duty elimination). In addition, the TPP will adopt the negative list approach that requires all services sectors to be fully liberalized from the very beginning unless specific measures are set out in the reservations list.

Contrary to its previous stance, Malaysia is also ready to negotiate specific requests and offers under the GP chapter. The government acknowledges that protectionist industrial policies cannot last forever. Home-grown players must improve their capacity by participating in larger and more competitive markets. However, it is vital that participating countries agree to a reciprocal exchange of preferential market access under the GP chapter.

As such, high-quality trade agreements must provide space for domestic SMEs to participate in the global supply chain, via capacity-building programmes with advanced economies. Market information for SMEs must

Home-grown players must improve their capacity by participating in larger and more competitive markets



J Jayasiri

be made as transparent as possible in identifying specific offensive interests, and business opportunities in each other's markets.

There are provisions under high-quality FTAs that allow the domestic industry to adjust and adapt to the new trade and investment environment. The TPP, for example, will not exceed the fundamental commitments made under the WTO.

Malaysia's big-scale FTAs are usually used as benchmarks for its subsequent trade deals. Commitments made under Afta, for example, were adopted as a point of reference in Malaysia's bilateral FTAs such as those with Japan and Pakistan.

Malaysia's commitments in FTAs are getting deeper as they progress. Its latest signing – MAFTA – marks the point of departure from its previous FTAs. According to **Mrs Chau Duncan**, MAFTA is Malaysia's most comprehensive agreement, encompassing trade in goods, services, investment, economic cooperation, IPR, e-commerce and competition policy. It was signed on 22 May 2012 and is currently being subjected to domestic



Chau Duncan

ratification procedures. The earliest the Agreement can take effect is 1 January 2013.

Australia is Malaysia's first FTA partner to eliminate all of its tariffs on goods starting from day one. It should be noted that duty elimination under the FTA with Australia has significantly deeper ramifications for Malaysia than under the Asean Australia-New Zealand FTA. Under the services sector, the Australian market will remain open with minor restrictions on its telecommunications industry.

It suffices to say that Malaysia has stepped up its FTA game with advanced countries for future trade gains. However, there was very little mention of Malaysia's next signings with Turkey and the EU, as well as the effect of MAFTA on Malaysia's future FTAs, including the TPP. The conclusion of the TPP will inevitably be Malaysia's reference point in negotiating high-quality FTAs in the future.

Deep FTA commitments can only mean one thing – in embracing the effect of globalization, the domestic economy has little room for continued government protection. Depending on the specific offensive interests of its FTA partners, the conclusion of the TPP will

eventually 'multilateralize' Malaysia's high-quality commitments to its future FTA partners.

There is a need for greater stakeholder engagement and awareness on the liberalization process, which can be achieved through reaching out to relevant members of the public. Outreach and publicity programmes must be easily accessible to the public. The Australian government publishes all information on its FTAs, including text agreements, on the website of the Department of Foreign Affairs and Trade. MITI, on the other hand, is actively engaging its industry players through interactive programmes such as FTA Pocket Talks, handholding activities and coaching clinics for all of its FTAs.

Economic liberalization will inevitably open up the domestic economy as a level playing field for foreign players. Absolute reciprocity will benefit consumers in smaller countries by allowing the flow of cheaper goods and services into these countries. By the same token, corporate efficiency will improve as a result of stiffer foreign competition.

But local players, regardless of their size, are still tiny compared to many globally-connected foreign corporations. As a developing economy, Malaysia still requires a higher degree of flexibility to allow the domestic development agenda to be implemented in an inclusive and sustainable manner. In this respect, the government could use various provisions under the TPP to protect the domestic economy from taking a beating as a result of market opening.

Depending on the specific offensive interests of its FTA partners, the conclusion of the TPP will eventually 'multilateralize' Malaysia's high-quality commitments to its future FTA partners

As a developing economy, Malaysia still requires a higher degree of flexibility to allow the domestic development agenda to be implemented in an inclusive and sustainable manner

There are usually two (or more) groups of countries in big-scale FTA negotiations. There is the group of countries which views these flexibilities as deal breakers and prefers punitive-type clauses in negotiations, and there is also the other group of countries which prefers industrial

cooperation programmes and demands a much bigger space to adapt to changes in trade and investment policies.

By the end of the session, there were still unanswered questions on Malaysia's new FTAs. How much flexibility should be given to developing economies in negotiating high-quality FTAs? Can we create trade by allowing local players to compete on a level (or maybe tilted?) playing field?

Yes, we all know that the globalization train is moving with great speed. Either we jump onto it, or risk being left behind. However, we are not alone in the global FTA game. We can always find alternatives and the right ones are usually right under our noses.

Political Outlook: What Now?

Session Five was chaired by **Mr Steven C M Wong**, Senior Director, ISIS Malaysia. The speakers were **YB Dato' Saifuddin Abdullah**, Deputy Minister, Ministry of Higher Education, **Datuk Dr Dennison Jayasooria**, Principal Research Fellow, Institute of Ethnic Studies, Universiti Kebangsaan Malaysia, and **Associate Prof Dr Andrew Aeria**, Lecturer, Faculty of Social Sciences, Universiti Malaysia Sarawak. ISIS Researcher **Mazlena Mazlan** reports.



From left: Steven C M Wong, Denison Jayasooria, Saifuddin Abdullah and Andrew Aeria

YB Dato Saifuddin Abdullah opened the session by talking about 'new politics,' a concept that emerged in Malaysia after the 1999 general elections but which became subdued after Barisan Nasional's big victory in 2004. Discussions about new politics are re-emerging in the run-up to the next general elections. Saifuddin's idea of new politics, however, does not involve a regime change, but (i) is free from any ideologies; (ii) has no specific definition; and (iii) is a healthier political culture.

Saifuddin promoted the idea of integrity in politics. This implies joining politics out of a sense of idealism and principle. Money politics should no longer be practiced. In this regard, he

commends the Prime Minister who pushed for the amendment of UMNO's constitution upon succeeding the party's presidency. Voting rights were expanded from a small number of delegates at the general assembly to the thousands of party members, making vote-buying harder.

Saifuddin also supported efforts to create a new governance framework that recognizes the importance of other stakeholders, namely the business community and civil societies in policymaking, and that draws them into the consultation process. Such processes may require a formal structure, and are held at all levels from the federal to the local level.

Nonetheless, he recognized that the country's third tier governance structure remains weak. Decision-making remains a top-down process, and regular meetings at district and local levels are merely routines amidst weak community development.

Democracy in Malaysia has evolved from representative-based to more participatory and deliberative. Most young people are cynical and sceptical towards politics, but the belief in democracy remains intact. As such, the decision-making process needs reform. Innovations are needed in our approach to democracy. Nonetheless, little improvement has been made in widening the 'invited space' for civil societies to participate in democracy. For this reason, initiatives to engage stakeholders are an important step forward.

Saifuddin painted an optimistic picture for the next elections. Regardless of the victor, we can expect good checks and balances. Without Barisan Nasional winning a two-thirds majority, the transformational agenda will continue to advance. In addition, new politics will have a better chance as both sides find ways to engage each other in a more civilized manner.

Datuk Dr Denison Jayasooria found that tremendous grievances remain on the ground over unresolved issues among the various ethnic communities. These include indigenous groups, as well as communities such as taxi drivers. For instance, Sabahans and Sarawakians who, in the past, have been positive in hoping that the federal government would address their issues, are now expressing dissatisfaction, which they have threatened to reflect in the next elections if they feel that their plight falls on deaf ears. Such dissatisfaction may greatly impact the outcome of the next elections.

Anger evident amongst the Indian community pre-2008 elections has now lessened as issues such as citizenship, the demolishing of temples, religious conversion and Tamil schools have faded. The Prime Minister directly intervened in issues affecting the Indian community and responded to the lower segment of the community that had hoped to be heard. Efforts such as increased funding and the establishment of a cabinet committee and a taskforce for the Indian community have drawn support.



Denison Jayasooria and Steven C M Wong



Saifuddin Abdullah and Andrew Aeria

However, the Prime Minister's attention has greatly polarized the Indian community as much as it has drawn support towards Barisan Nasional. Most popular leaders in the Indian community are in Pakatan Rakyat. Tamil newspapers strongly cover opposition-friendly news. Middle and upper class Indian communities remain sceptical of the Barisan Nasional despite the Prime Minister's popularity.

The choice of candidates on both sides of the political divide is crucial. Indian voters make an important difference at a time of deep division in Malay votes and a complete swing in Chinese votes. It is becoming more challenging for politicians, especially from Barisan Nasional, to champion race-based issues while appealing to a broader section of voters. Resolved issues were mostly short-term, whereas long-term issues such as leadership in the Malaysian Indian Congress (MIC) remained outstanding. The Indian community was not seeing sufficient changes on the ground, especially in relation to political interaction and engagement. Nonetheless, they were mindful that they lacked a bargaining position and would therefore be cautious in giving either side of the divide their fullest support. Should the federal government

change hands, Denison predicted a critical period of unrest. The royalty and older leaders may need to play a crucial role then.

Denison shared Saifuddin's view that the 'invited space' for participatory democracy has dwindled. Most mainstream media were tighter in choosing their panelists. Unlike civil society, the civil service was not ready for public discourse. Where avenues exist, implementation and delivery of findings have met with resistance.

Dr Andrew Aeria described Barisan Nasional's position in Sabah and Sarawak as unfavourable. He attributed this to the Chief Ministers, Datuk Musa Aman and Tan Sri Abdul Taib Mahmud, respectively. Besides overstaying, both are faced with allegations of money laundering, corruption, nepotism, cronyism and the wrongful accumulation of wealth by close family members and other Barisan Nasional leaders. These have posed major challenges to the ruling party, particularly as these allegations were backed by evidence from reliable sources such as court proceedings and reputable non-government organizations.

Despite the challenges, the ruling coalition remained largely coherent thanks to its incumbency, its reliance upon its civil service and its ability to tap into federal and state financial resources. However, Sabah and Sarawak are no longer fixed deposits for Barisan Nasional, and this is reflected by the defections to the opposite camp.

Pakatan Rakyat's state of leadership in both states, however, similar to the ruling coalition's leadership, was also unfavourable. Its leaders showed little sign of meeting regularly, cooperating strategically, or communicating with one another. Political decisions were dictated by the leadership in Kuala Lumpur, as opposed to the autonomy principle long held by the people and therefore created much tension in these states.

In addition, Pakatan Rakyat has shied away from working with local opposition parties such as STAR, SAPP and SNAP that may disrupt electoral outcomes for both Barisan Nasional and the Pakatan Rakyat. Without co-operation with local opposition parties, Pakatan Rakyat's prospect of victory in these states in the coming elections will be jeopardized. This is because a multi-corner fight can split the votes. A one-to-one contest is crucial in ensuring that Pakatan Rakyat makes headway in the polls. Moreover, many potential leaders were of variable quality, having previously failed to rise in other parties.

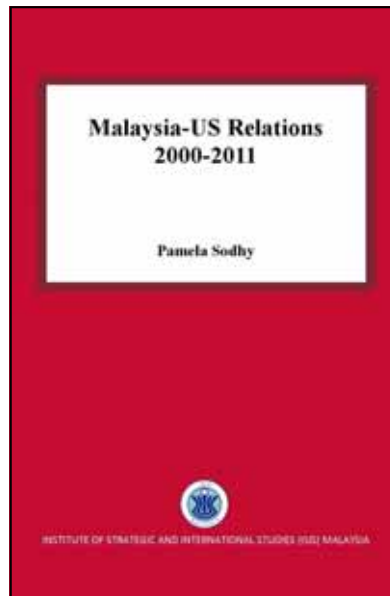
Barisan Nasional's manifesto, on the one hand, carried a transformational agenda, although it maintained its approach to race-

However, the Prime Minister's attention has greatly polarized the Indian community as much as it has drawn support towards Barisan Nasional

based policies and was driven by large infrastructure development. Pakatan Rakyat's manifesto, on the other hand, was a reform-oriented agenda, but with little indication on ways to deliver on their promises.

Despite the different agendas, however, both parties would have to address the burning issues -- some longstanding -- of persistent poverty and income inequality, proprietary rights to land, access to and quality of healthcare and education services, documentation of citizenship which impacts access to public services, and labour issues such as employment, migrant labour and minimum wage.

In closing, Dr Andrew remarked that the next elections will be extremely crucial. Governments derive legitimacy from the conduct of clean, free and fair elections. One cannot merely take the Election Commission's word that the elections are conducted in a fair and clean manner. These qualities in an election should be perceived by all stakeholders, including ordinary citizens and the international community.

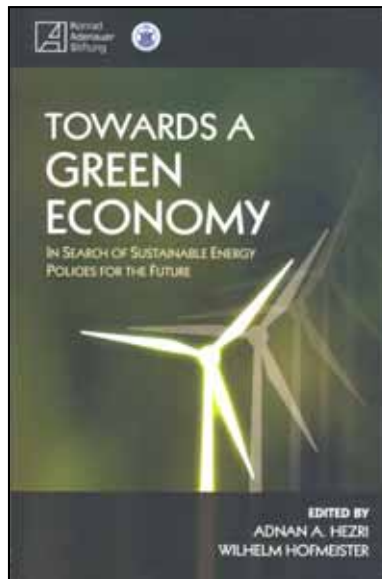


Malaysia-US Relations 2000-2011
By Pamela Sodhy

Kuala Lumpur: ISIS Malaysia, 2012
126 pages e-book

This monograph looks at the political, economic and socio-cultural relations between Malaysia and the United States during a decade-long period that covers the prime ministerships, in Malaysia, of Dr Mahathir Mohamad, Abdullah Ahmad Badawi, and Najib Tun Razak, and the presidencies, in the United States, of George W Bush and Barack H Obama.

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Towards a Green Economy: In Search of Sustainable Energy Policies for the Future

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[Available from ISIS Malaysia]

The transition to sustainable energy systems is still at an embryonic stage. As this energy transition involves hard choices politically, economically, and technologically, countries can benefit from a comparative lesson-drawing across geographical divides. In thirteen chapters, this book documents the vagaries of problem framing and policy responses by nine countries, all of which are guided by recurrent themes of energy transition, policy choices and green economy. The book’s analytical scope goes well beyond the commonly addressed structural issue in energy policy to encompass innovation in processes, institutions and new policy instruments for sustainable energy systems. Chapters 3 to 4 demonstrate the struggles of major energy consumers such as United States, China, India and Brazil in switching to cleaner energy sources. Chapters 7 and 8 concentrate on the cases of Malaysia and Laos. These two Southeast Asian countries are currently at different stages of economic development but share the common trait of a rising energy demand and associated social issues. The last four chapters (9-12) of the book present innovative energy policies by pioneering states such as France, Germany and Australia. Evidently from all chapters, there is no one-size-fits-all policy. The subtitle of the book—in search of sustainable energy policies for the future — reflects the tentative nature of policy experiments undertaken so far.



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