

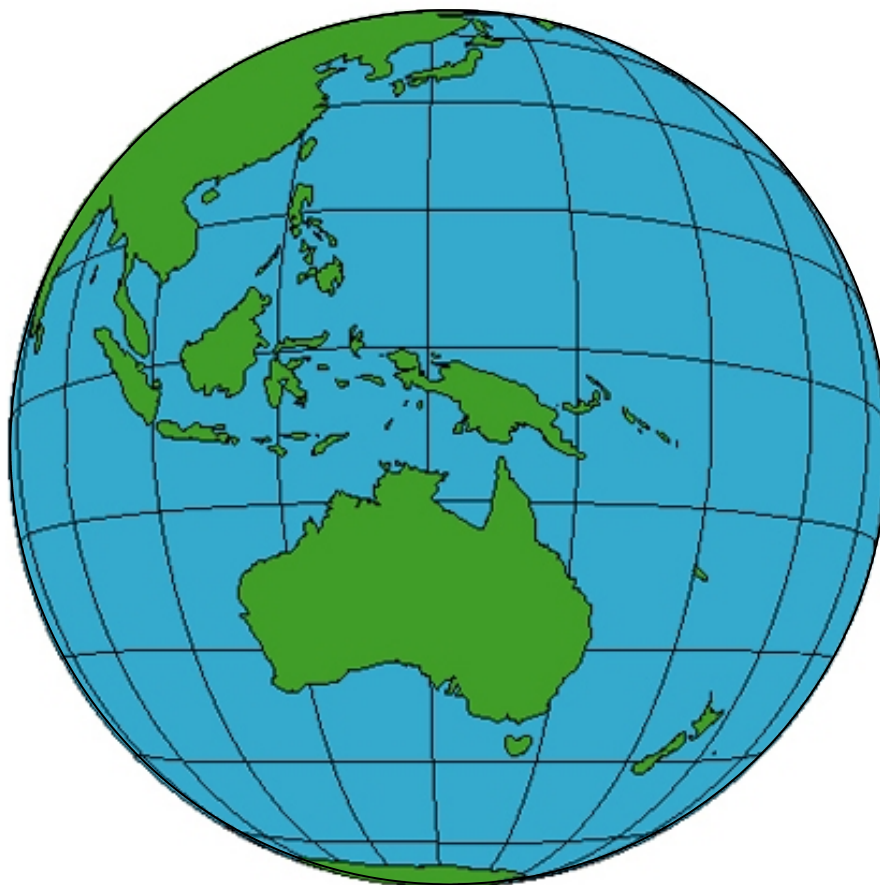
ISIS FOCUS



• PP 5054/06/2011 (028668)

• Issue No. 10 • October 2011

Asia-Pacific and Malaysia Post Crisis Trade and Investment Opportunities



INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA
www.isis.org.my

Limited Circulation



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).

Editorial Team

Mahani Zainal Abidin
Steven Wong
Susan Teoh
Thangam K Ramnath

Design

Razak Ismail
Jefri Hambali

Photography

Jefri Hambali / Halil Musa

Published by

Institute of Strategic and International Studies (ISIS) Malaysia

No. 1, Persiaran Sultan Salahuddin

P.O. Box 12424, 50778 Kuala Lumpur, Malaysia

Tel: +603 2693 9366

Fax: +603 2691 5435

Email: info@isis.org.my

Website: www.isis.org.my

Asia-Pacific and Malaysia Post Crisis Trade and Investment Opportunities: The Launch of the Asia-Pacific Trade and Investment Report 2011

IISIS Malaysia launched the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) annual publication, 'Asia-Pacific Trade and Investment Report 2011: Post-crisis Trade and Investment Opportunities.' The country launch, on 14 September 2011, was followed by a seminar outlining the report findings for Asia-Pacific and Malaysia. The seminar was chaired by Distinguished ISIS Fellow, **Datuk M Supperamaniam**. Findings on Asia-Pacific were presented by ISIS Chief Executive, **Dato' Dr Mahani Zainal Abidin** while **Prof Dr Tham Siew Yean** (IKMAS, UKM) presented the Malaysian portion of the report. ISIS Researcher **Nor Izzatina** reports.



(From left) Tham Siew Yean, M Supperamaniam, and Mahani Zainal Abidin

The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) has been publishing the annual Asia-Pacific Trade and Investment Report since 2004, with the aim of informing policymakers, governments, businesses, academia, international agencies and non-governmental organizations on issues related to trade and investment in the Asia-Pacific. The 2011 Report outlined the success of the Asia-Pacific in emerging from the Great Recession of 2009, as well as the type of investment opportunities that businesses and policymakers in Asia-Pacific should be paying attention to. At the

same time, the Report pointed out gaps that needed to be filled to ensure economies can utilize the said opportunities.

Asia-Pacific on average managed to record economic growth in the tremulous years of 2008 and 2009. In 2010, the IMF reported that the newly industrialized Asian economies managed to grow by 8.4 per cent and developing Asian economies by 9.5 per cent. The robust economic growth of Asia and the Pacific in 2010 can be attributed mainly to its trade and investment growth, as highlighted in the Report.

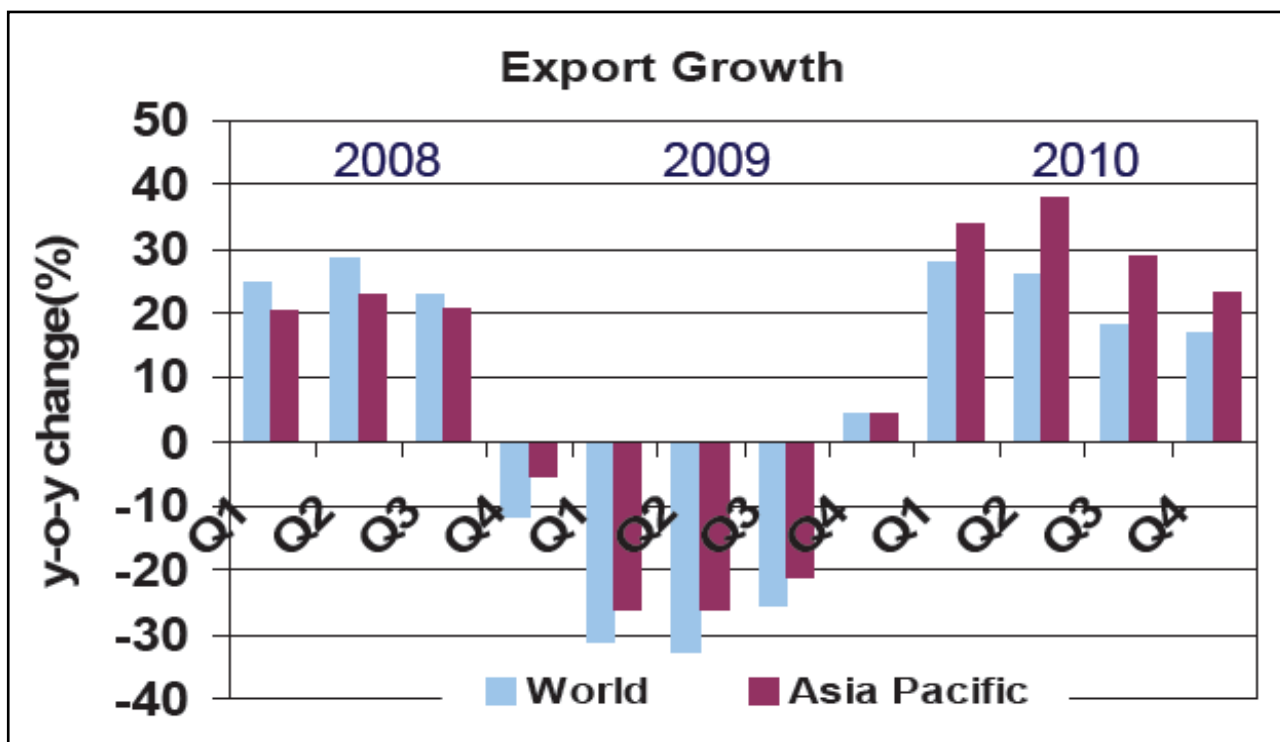


Chart 1

The Report revealed the following: i) goods trade reached pre-crisis levels in 2010; ii) trade in services is recovering, although slowly; iii) foreign direct investment has started to flow back into the region; iv) protectionism was kept at bay by economies in the region.

Growing Merchandise Trade

Merchandise trade in Asia-Pacific in 2010 has outperformed the world merchandise trade growth (30 per cent vs 21 per cent). Economies in Asia-Pacific recorded impressive export growth of 18.9 per cent while import growth grew by 15.7 per cent. Given robust merchandise trade growth in 2010, economies in Asia-Pacific were able to recover to their merchandise trade level prior to the 2008 Crisis. (Chart 1)

During the period 2001-2010, trade within Asia-Pacific grew robustly. Intra-regional trade in Asia Pacific grew 2.5 times more than the region's trade with the rest of the world. This growth was highly driven by growing exports to China and deepening intra-industry trade in the region.

China acted as an anchor for Asia-Pacific; both Malaysia and Asean experienced growth in intraregional trade. (Chart 2)

Geographically, merchandise trade in 2010 grew fastest in East and Southeast Asia, a large percentage of which was contributed by China. Merchandise-wise, 76.5 per cent of trade consisted of manufactured goods, 17 per cent was fuel and mining sector goods while the remainder was in the form of agricultural goods. Similar goods patterns have prevailed in the last decade. Overall, the Asia-Pacific continued to make improvements in its market share of exports to the world. For the period 2000-2009, Asia-Pacific's share of merchandise exports to the world increased from 30 per cent to 35 per cent.

For Malaysia, exports grew by 9.8 per cent from 2009 to 2010 (Chart 2). It is estimated they will grow further by 7.9 per cent and 6.7 per cent in 2011 and 2012 respectively. Malaysia's trade surplus trend continued in 2010 with US\$34 billion; at the same time its export share to GDP stood at 82 per cent.

Malaysia can be considered a highly open economy, given its share of trade to GDP ratio. Due to its competitiveness, Malaysia accounts for 19 per cent of Southeast Asia's merchandise exports and 17 per cent of its imports. On the other hand, Malaysia's merchandise exports ranked 9th in Asia-Pacific, in terms of value.

Recovering Trade in Services

As economies in Asia-Pacific grow, the portion of the services sector in the economy will become more integral to the development process. One way of developing the services sector is by establishing competency, enabling them to be exported. In 2010, Asia-Pacific exports in services rose by 18.5 per cent, the highest compared to other regions (**Chart 3**). This surge in the services sector exports was led by China, Hong Kong, Singapore and India.

However, according to the Trade and Investment Report, Asia-Pacific has yet to address the following concerns:

- Asia-Pacific trade in services is mainly with outside the region;
- Asia Pacific still has a low share of services in total exports.

As a region, Asia-Pacific is well known for its intricate and deep production networks. However, the share of commercial services exports from total exports is only at 18.4 per cent. IT and construction services in the Asia-Pacific are noted as the more dynamic and competitive export sectors. Less dynamic sectors like transportation, travel and other business services however covered two-thirds of both exports and imports of commercial services.

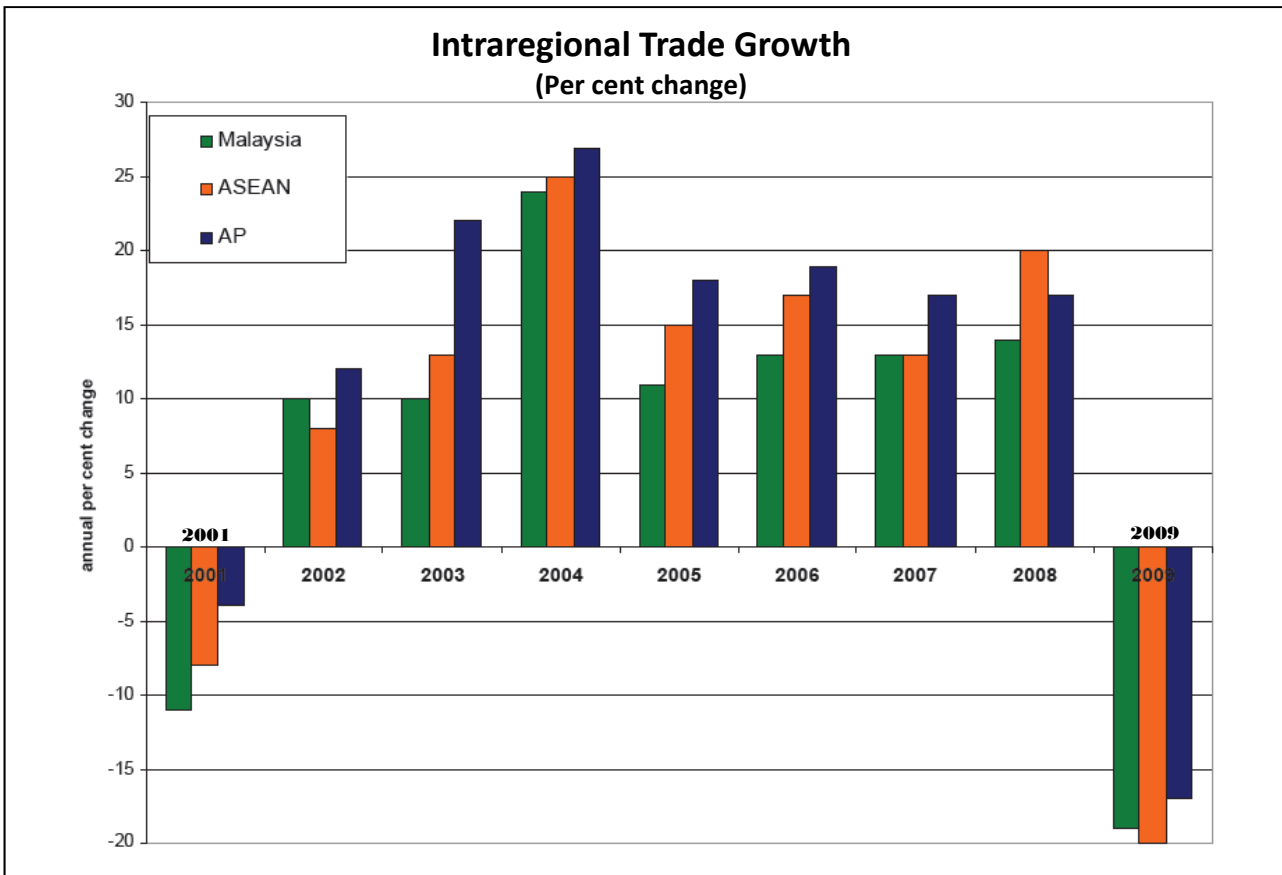


Chart 2

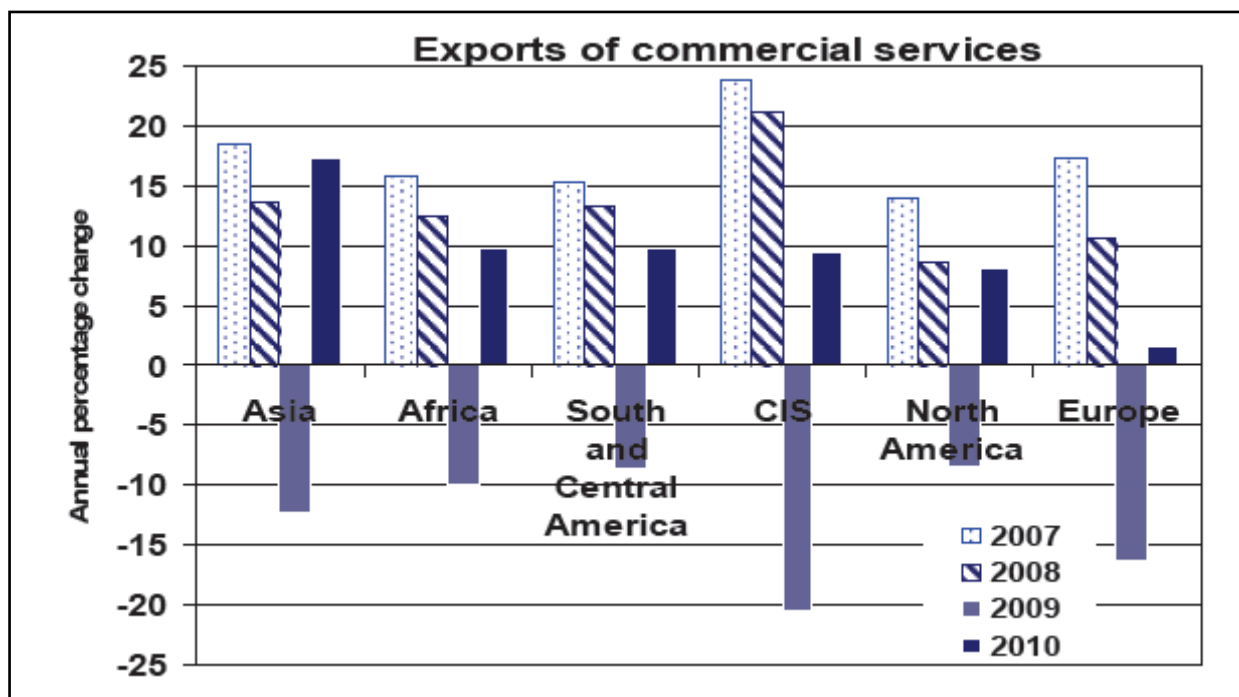


Chart 3

Malaysia in 2010 was not able to make any strong improvement in its services exports. Despite that, Malaysia is still ranked 11th in exports of commercial services with an export share of 3.2 per cent in Asia-Pacific. Malaysia’s services trade direction is still dominated by the advanced economies while its relative comparative advantage (RCA) is in travel services, proven by the high contribution of travel services to Malaysia’s exports. Efforts to branch out into other services trade such as health and education have yet to show encouraging results.

Return of FDI to Asia-Pacific

FDI inflows to Asia-Pacific improved in 2010, after the drop experienced in 2009, with East and Southeast Asia dominating the flow. It is reported that 75 per cent of FDI inflows to Asia-Pacific was absorbed by China, Hong Kong, Singapore, Russia and India. For both China and India, huge flows of FDI can be partly explained as being due to market-seeking FDI as opposed

to efficiency-driven FDI that flowed into countries like Malaysia or Thailand. **(Chart 4)**

The UNESCAP report also pointed out an emerging trend of intraregional FDI in Asia-Pacific. Malaysia is identified in the report as both an outflows and inflows country. Between 2005 and 2009, Malaysia’s outflow of FDI increased at a growth rate of an average 28 per cent per year. In the same period, Malaysia also attracted US\$ 27 billion worth of FDI.

Rising Protectionism in the Region

The Report touched on the threat of protectionism. Due to weak recovery experienced by advanced countries and increasing competition among developing countries, several countries have been turning to protectionism in order to keep their exports high and imports low. Discriminatory measures in the form of ‘green’ clauses and murky protectionism are on the rise all over the world and even in the Asia-Pacific. **(Chart 5)**

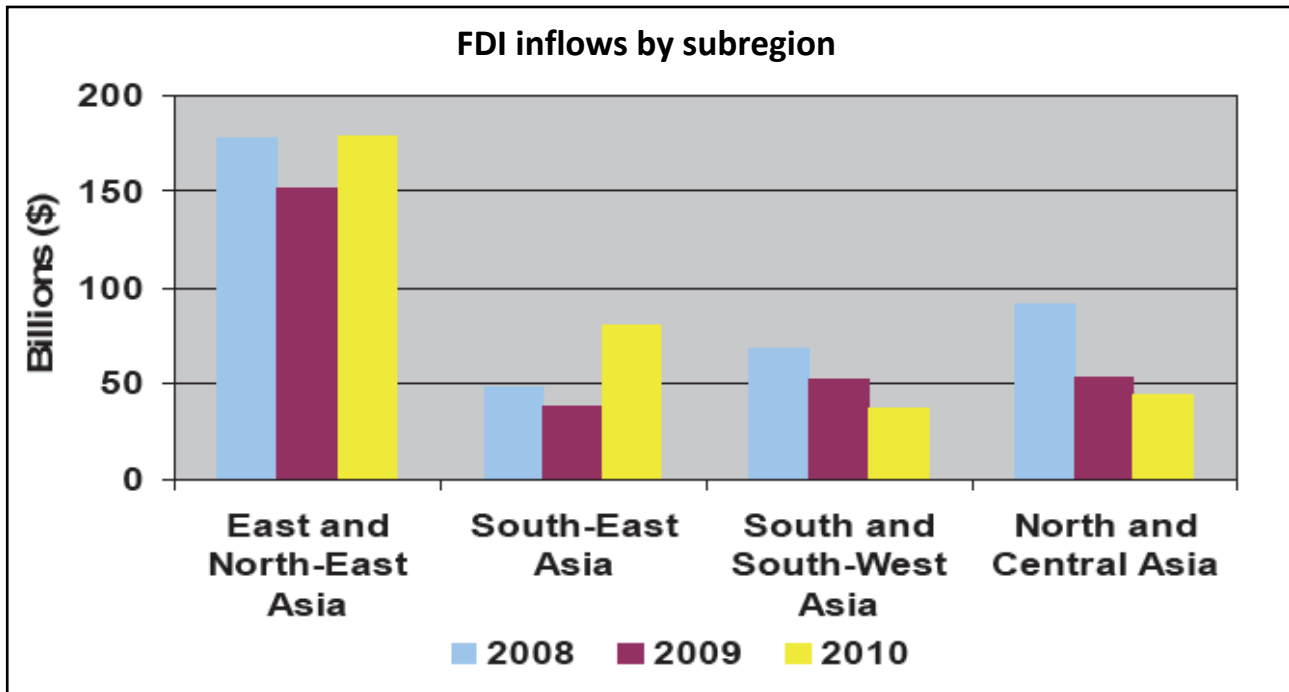


Chart 4

The Report also identifies three areas of emerging opportunities for Asia-Pacific economies. These opportunities can be found in:

- i) Rising intraregional demand;
- ii) Booming services trade; and
- iii) Climate-smart goods and technologies.

Rising Intraregional Demand

Growing populations, coupled with improvements in standards of living in Asia-Pacific have created environments where the demand for goods and services has grown. Given the established production networks all over Asia-Pacific, the potential is high for greater and deeper intra- and inter-industry trade to expand even further. The Report provided evidence that only around 50 per cent of the region's demand is matched by supply from within the region. Improving the ratio will enable Asia-Pacific to compensate for the weak demands from the US and the EU.

The intra-regional trade share for Malaysia is better than that for the Asia-Pacific. Between

2005 and 2009, it improved from 61.5 per cent to 66 per cent. Calculations made on trade patterns showed that Malaysia's exports are well-matched with import demand, given high complementarities with Singapore (72 per cent), Japan (57 per cent), Korea (55 per cent), Thailand (54 per cent) and Hong Kong (54 per cent). The opportunity exists for Malaysia to diversify its capabilities to meet intraregional demand from other major importers like Australia, China, India, Indonesia, Russia and Turkey.

Booming Services Trade

Another area of opportunity for Asia-Pacific is to improve the services trade's share of exports. Most Asia-Pacific economies can utilize the opportunities provided by low-skilled services sectors like tourism, back office ICT services and construction. The Report also pointed out that proper regulatory reform is the key to the expansion of trade in services. Attention should be focused on the removal of bottlenecks in infrastructural services like communications, transport, energy and water, financial services

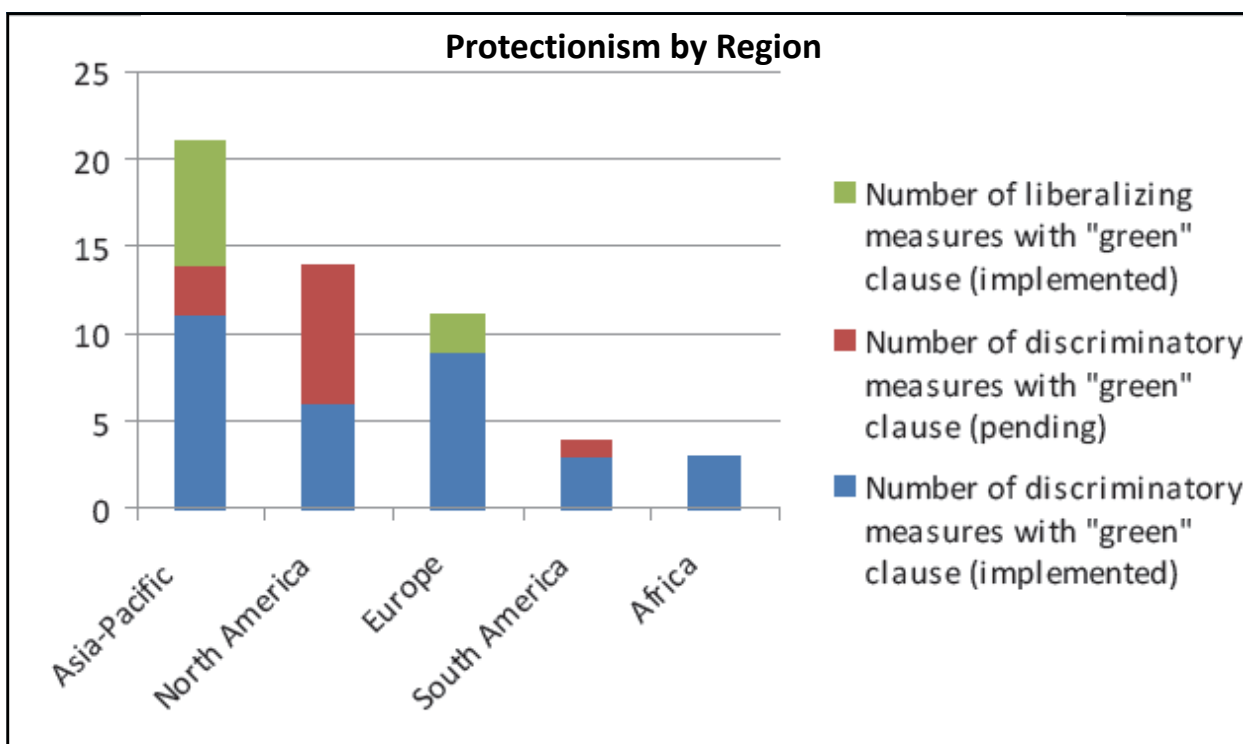


Chart 5

and other related services, given the positive effect of these on national economic efficiency.

Climate Smart Goods and Technologies

The third area of opportunity is in developing the innovative and creative capacity of local producers to engage in the production of climate-smart goods and technologies (CSGT). With the creation of regional climate-smart value chains, and with the growing technological capacity of China, Japan and Korea, the less developed economies in Asia-Pacific will get the opportunity to become parts and components suppliers to the leading CSGT exporters. The Report mentioned that countries like Vietnam, Malaysia, Thailand and India have great potential in supplying solar photovoltaic systems, Sri Lanka and Thailand in efficient lighting, and New Zealand and Singapore in clean coal technologies.

Actions Needed

The third part of the Investment Report is on actions that need to be taken to improve trade and investment growth in Asia-Pacific. The first area of action is that of trade facilitation. Trade costs are part of trade facilitation, and the costs between Asean and Northeast Asian countries are reported to be 30 per cent higher than those between Asean and EU, or USA. The report also pointed out that at least 90 per cent of trade costs come from non-tariff barriers.

Improvements in customs procedures, transportation networks and immigration check points are included as improvements in trade facilitation. The Report recommends the following actions: accelerating the implementation of national electronic single windows for trade documents, developing a regional agreement for the cross-border

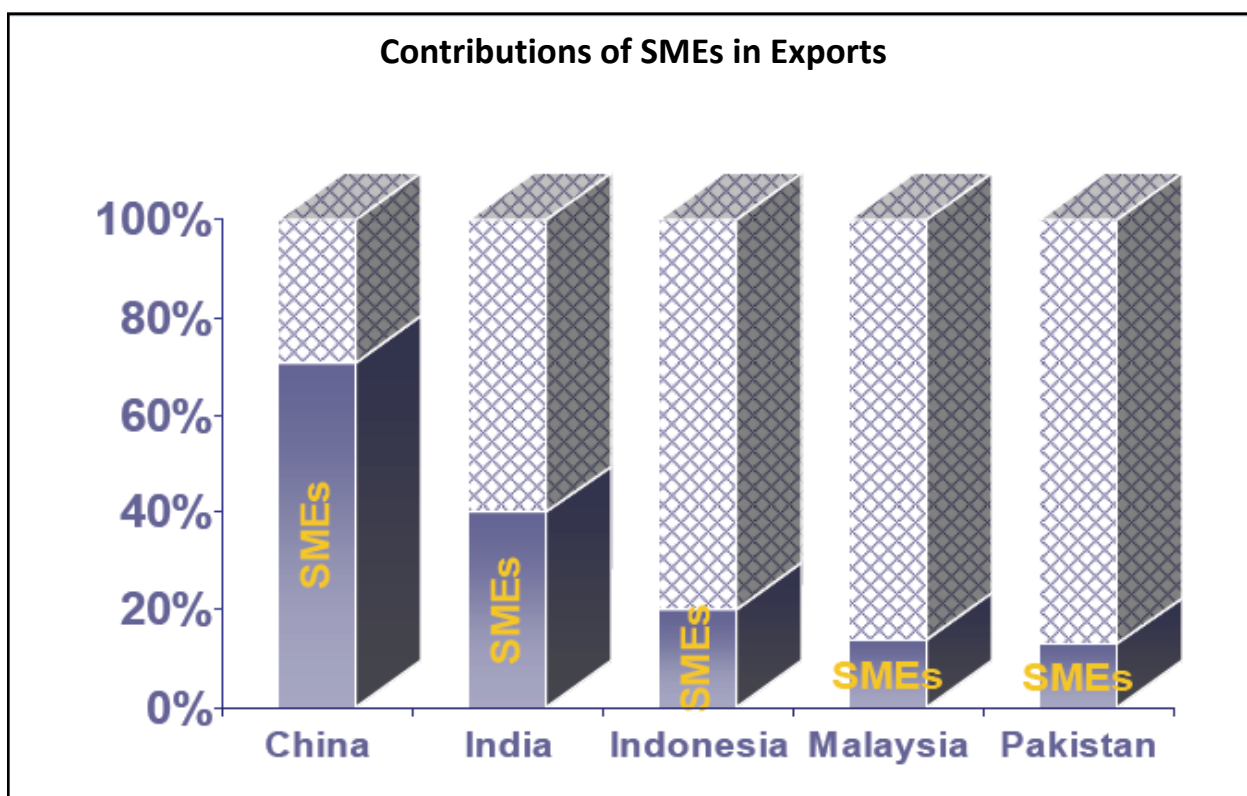


Chart 6

exchanges of electronic trade data and documents, and including transit facilitation measures in bilateral and regional trade agreement negotiations in the region.

The second action recommended by the Report is integrating the small and medium enterprises (SMEs) into global value chains. The Report stated the need for a more systematic and comprehensive policy framework in order for SMEs in Asia-Pacific to be engaged in export activities. The chart gives examples of contributions of SMEs in exports in the region, ranging between 14.2 per cent in Malaysia and 69.2 per cent in China. **(Chart 6)**

The third area of action recommended by the Report is to strengthen and consolidate regional trade agreements (RTAs) as building blocks of the multilateral trading system. While Asia-Pacific signed and entered into 50 per cent of all RTAs in the world, the utilization of preferences

under those RTAs remains low. Among the main reasons for the low utilization rate are the complex rules of origin while costs of compliance often exceed the preferential benefits. The Report estimates the costs of compliance to range from three per cent of export values in developed countries to eight per cent for those in low income countries.

The Report suggested several possible steps that can be taken to improve the effectiveness of RTA. These are:

- Time-bound MFN exemptions of preferentially negotiated concessions, after which these preferences would be automatically multilateralized;
- RTA commitments should always at least match, if not improve, the signed multilateral commitments;

- Financial compensation in the case of negative impacts of an RTA on low-income or LDC non-members; and
- Inclusion of smaller and low-income countries in the cooperative arrangements.

Conclusion

The Asia-Pacific Trade and Investment Report 2011 concludes that the Asia-Pacific will continue to rely on an export-led growth strategy. However for growth to continue and be comprehensive, economic, trade, and investment balancing will have to take place in the Asia-Pacific, and economies in the region need to be highly engaged in it.



(From left) Tham Siew Year, Mahani Zainal Abidin and M Supperamiam

NOTES



INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA
No. 1, Persiaran Sultan Salahuddin
PO Box 12424, 50778 Kuala Lumpur
Malaysia
Tel : +603 2693 9366
Fax : +603 2691 5435
Email : info@isis.org.my
Website : www.isis.org.my

