



ASEAN Economic Community (AEC) and its impact to Iskandar Malaysia

the 10 ASEAN member countries agreed to hasten the establishment of the AEC by 2015.

The characteristics and elements of AEC are as follows: In each of the core element, there are action plans with specific timelines.

What is AEC?

AEC stands for ASEAN Economic Community which comprises 10 nations in Southeast Asia.

The goal of establishing AEC is to transform the region into a single market and production base with a highly competitive advantage to make it a stable and prosperous region.

The 10 ASEAN member countries comprise Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, The Philippines, Thailand, Singapore and Vietnam.



Single Market and Production Base

- ✓ Free flow of goods
- ✓ Free flow of services
- ✓ Free flow of investments
- ✓ Freer flow of capital
- ✓ Free flow of skilled labour
- ✓ Priority integration sectors
- ✓ Food, agriculture and forestry

Competitive Economic Region

- ✓ Competition policy
- ✓ Consumer protection
- ✓ Intellectual property rights
- ✓ Infrastructure development
- ✓ Taxation
- ✓ e-commerce

Equitable Economic Development

- ✓ SME development
- ✓ Initiative for ASEAN integration

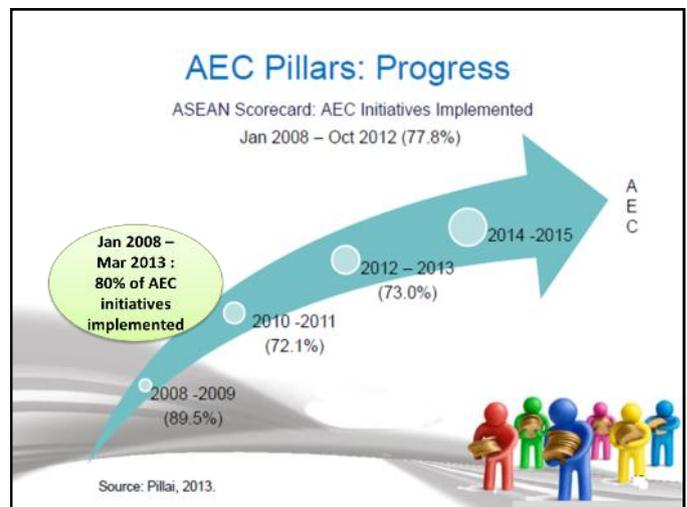
Integration into Global Economy

- ✓ Coherent approach toward external economic relations
- ✓ Enhanced participation in global supply networks

As ASEAN, it has the land, population and potential to achieve strong economic growth, akin to the European Union.

The progress of AEC can be illustrated as follows:

2012	ASEAN	EU	China	India
Population (mil)	617	502	1,354	1,223
Land area (million km²)	4.4	4.4	9.6	3.3
GDP (USD billion)	2,300	16,415	8,250	1,947
GDP per capita (USD)	3,748	32,710	6,095	1,592
Trade (USD billion)	2,400	11,741	3,870	794
GDP growth (%)	5.7	-0.2	7.8	4.9



(source: MITI slides, www.asean.org)

At the 12th ASEAN Summit in January 2007, the leaders of

For the period from January 2008 till March 2013, approximately 80% of AEC initiatives have been implemented.

ASEAN Economic Community (AEC) and its impact to Iskandar Malaysia

The progress of AEC has led to elimination of duties across ASEAN countries and also liberalization of services sector such as follows:

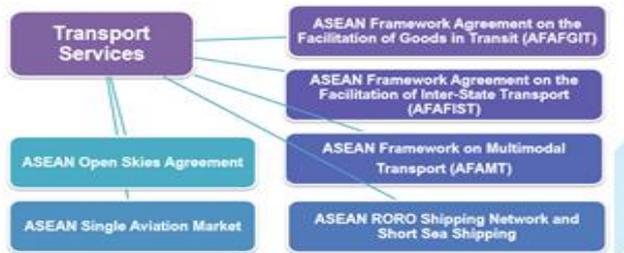
Single duty free integrated market



Liberalisation of Services Sector



On top of that, other sectors such as ICT, Energy and Minerals are expected to be liberalized come 2015.



In view of the coming AEC by 2015, Malaysia had gradually began to liberalise its services sector since 2009 which allowed up to 100% foreign participation in the services sector.

On top of the 27 services sub-sectors which were liberalized in 2009, additional 18 services sub-sectors have been further liberalized in 2012 while architectural, engineering and quantity surveying services are in progress to be liberalized.

27 services subsectors liberalised in 2009 (up to 100% foreign equity):

1. Consultancy services related to installation of hardware
2. Software implementation services
3. Data processing services
4. Database services
5. Maintenance and repair services of computers
6. Other computer related services
7. All veterinary services
8. Welfare services delivered through residential institutions to old person and the handicapped
9. Welfare services delivered through residential institutions to children
10. Child daycare services
11. Vocational rehabilitation services for the handicapped
12. Theme park
13. Convention and exhibition centre
14. Travel agencies and tour operator services
15. Hotel and restaurant services (4&5 star hotels only)
16. Food serving services (4&5 star hotels only)
17. Beverage serving services (4&5 star hotels only)
18. Class C freight transportation services (private carrier license to transport own goods)
19. Sports event promotion and organisation services
20. Regional distribution centres
21. International procurement centres
22. Technical testing and analysis services
23. Management consulting services
24. Rental/ leasing services of ships (excludes cabotage and offshore trades)
25. Rental of cargo vessels without crew
26. Maritime agency services
27. Vessel salvage and refloating services

18 additional services sub-sectors liberalized in 2012

Telecommunication – ASP	International schools
Tech & vocational schools including schools for special needs	Legal services
Private hospitals	Medical specialist services
Departmental & Speciality stores	Dental specialist services
Incineration services	Telecommunication (NSP & NPP)
Accounting/ Taxation	Skills training centres
Courier services	Private universities

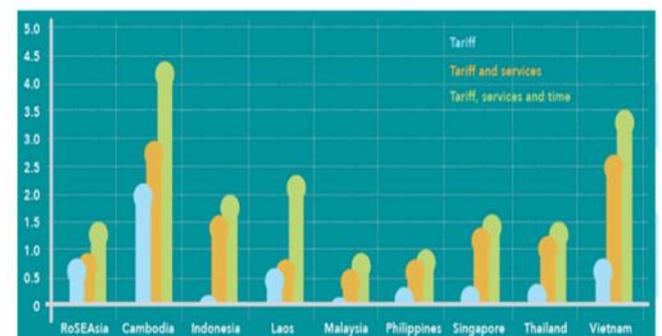
In progress with Acts currently being reviewed

- ◆ Architectural Services
- ◆ Engineering Services
- ◆ Quantity Surveying Services

The services sub-sectors highlighted in red relate directly to the promoted key economic sectors of Iskandar Malaysia which are the education and healthcare sectors.

AEC and its potential impact

POTENTIAL IMPACT OF AEC MEASURES ON THE GDP OF ASEAN MEMBER COUNTRIES (Cumulative percentage increase over baseline 2011-2015 in 2015)



Notes: Brunei is provided by 'Rest of South-East Asia' in the simulation. There are no estimates for Myanmar because of serious data problems.

Source: Mid-Term Review of the Implementation of AEC Blueprint: Executive Summary, October 2012, Eric Itakura (2012).

Source: ADBInstitute

AEC's potential will have the most impact on ASEAN's less developed members such as Cambodia, Vietnam, Laos and Indonesia.

ASEAN Economic Community (AEC) and its impact to Iskandar Malaysia

Benefits of the AEC

- It will open up opportunities for more **regional co-operation** and will improve the scale efficiencies, dynamism and competitiveness of ASEAN members. AEC will enable easier movement of goods, services, investment, capital and people. Ultimately, it will offer



new ways of coordinating supply chains, or access to new markets for established products and enhance economic growth.

- With AEC, all ASEAN countries will be an important investment destination **to foreign investors** with access to a larger regional market of nearly 600 million people (size of ASEAN population) and an increasing middle class population. The ASEAN Free Trade Agreement will be expanded to zero tariffs on almost all goods by 2015. ASEAN plans to remain engaged with the global economy through regional level free trade agreements. Today, ASEAN has such agreements with China, Japan, Korea, India, Australia and New Zealand.
- The United States International Trade Commission ('USITC) report on ASEAN: Regional Trends in Economic Integration, Export Competitiveness and Inbound Investment for Selected Industries Report noted that AEC is coming at a time when it is recognized that **investment in emerging markets is more desirable than in the US and Europe.** "There will be no shortage of funding coming from within ASEAN, the Asia Pacific or even the US and Europe. These investments can bring about badly needed capital for some ASEAN countries, allowing them to leapfrog from the 20th century into the 21st century in terms of competition in mature countries such as Thailand and Malaysia" said the report.

Indicators	Malaysia	ASEAN
Market size	30 million	617 million
Total trade	USD424 bil	USD2.4 trillion
GDP	USD305 billion	USD2.3 trillion
GDP growth	5.1%	5.7%

- As a small country in ASEAN, Malaysia has much potential to tap onto the larger ASEAN market and play a crucial role as part of the supply chain in manufacturing and services.
- Malaysia's political stability and good infrastructure and connectivity will offer strong value propositions to foreign investors looking to base in ASEAN for the growing Asian market.

Some Areas of Opportunities

Tourism

- Asians travels more in the region and there are more travelers from other countries outside ASEAN that have begun to reach out to Asia as new visitors. The trends were evident at the recent Hub City Forum held by the Pacific Asia Tourism Association (Pata) where more than 100 travel industry executives discussed the tourism potential, government's spending to upgrade facilities both for leisure attractions like museums and also MICE facilities such as convention centers. MICE tourism opportunities are particularly large with ASEAN offering the added component of 'exotic destination'.



Internationalization of healthcare

- Linked closely with tourism opportunities is the liberalization of healthcare services in ASEAN countries. ASEAN countries especially Thailand and Singapore are fast becoming destination for healthcare tourism. With patients travelling from one country to another seeking better healthcare at



lower cost. The legal and licensing frameworks are still needed to be worked out.

- Malaysia is already tapping onto the healthcare tourism segment with the setting up of the Malaysia Healthcare Travel Council.
- Malaysian multinational corporations in healthcare such as Ramsay Sime Darby, KPJ and IHH (Gleneagles) are already expanding to ASEAN and beyond.

Professional Services (source: MITI, except from article by Tan Sri Sulaiman Mahbob, Chairman MIER titled 'Promoting Professional Services in the Economy')

With commitment to liberalise services (Mode 4—movement of natural persons), there is good potential for the growth of services sectors to bring the nation to become a high income nation. Mode 4 liberalization is confined to movement of professionals and progress have been achieved in the Mutual Recognition Agreements (MRAs) of the following professional services:

- Engineering, architecture, surveyors
- Nursing, medical practitioners, dental practitioners
- Accountancy services

While there may be concern on the possible movement of Malaysians to other ASEAN countries with AEC, the possibility of professionals from ASEAN moving into Malaysia and other more developed ASEAN countries is higher. The inflow of professionals with high skills and expertise will help build a foundation to help transform the Malaysia economy into a high quality tradable services economy.

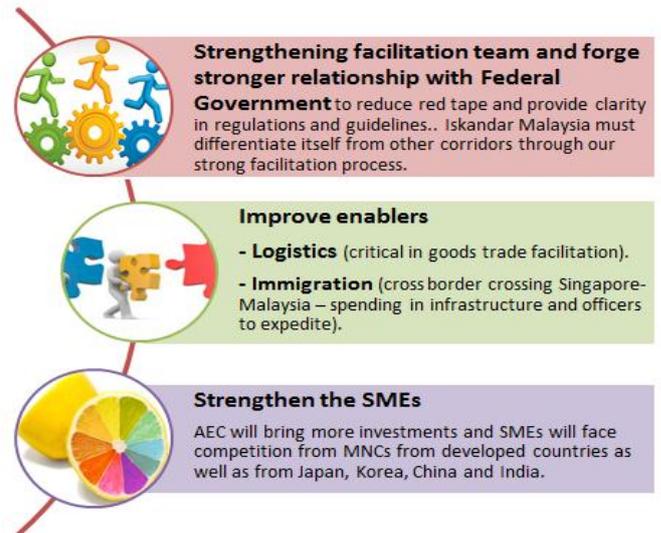
ASEAN Economic Community (AEC) and its impact to Iskandar Malaysia

BizWatch

Impact to Iskandar Malaysia



What should Iskandar Malaysia do in anticipation of the AEC 2015?



Investments

- AEC will bring positive impact to Iskandar Malaysia especially when we are already focused to develop services sectors.
- With Iskandar Malaysia already well in the radar of foreign investors when deciding a choice location in ASEAN, the push for AEC will continue to focus the spotlight to Malaysia and Iskandar Malaysia.
- Thus, sectors such as **tourism, healthcare and creative sectors will be attractive sectors.**

Talent

- The liberalization in MRA4 (movement of natural persons) is confined to professionals. As Malaysia being the second highest per capital ASEAN nation (after Singapore), we will attract more professionals from other ASEAN countries than losing our professionals to Singapore. This will help build the current talent pool and help grow our services sectors further
- At the same time, we are growing our education hub in Iskandar Malaysia and the education eco-system will bring more qualified professionals and create the competitive environment to enhance economic growth.

Improve Facilitation Services

- This would entail strengthening the facilitation team both at IRDA and the Johor State level and to work closely with both State and Federal Ministries/Agencies to reduce red tape and provide clarity to processes and guidelines. This is especially important where every other ASEAN countries will be reducing red tapes and improving the ease of doing business in their respective countries. Malaysia and Iskandar Malaysia are now attracting more investments because other ASEAN countries are having their internal challenges (example: Thailand, Indonesia)

Strengthening the SMEs

- SMEs accounts for 96% of enterprises and between 50—85% of domestic employment across ASEAN.
- For equitable AEC development, the SMEs need to be strengthened to compete internationally.
- Integrating these SMEs and supporting them in the initial period will be a challenge through ASEAN and in particular, in the lesser developed ASEAN countries.
- For Iskandar Malaysia, being next to Singapore, the need to develop our SMEs further is more critical.

BizWatch

The ASEAN Economic Community (AEC) is coming soon and it will definitely benefits its members not only in terms of GDP growth but also in terms of improvement in trades, movement of labor and etc.

AEC in 2015 will open up more opportunities and will be positive for Iskandar Malaysia. Investors are already looking at those opportunities especially in tourism, education and healthcare.

It is therefore vital for Iskandar Malaysia to strengthen itself and to ride on the current positive investment trend.

The above have been prepared based on the following documents, slides and materials:

- MITI, ASEAN Economic Community Factbook, slides presentation by Minister of International Trade & Industry dated 5 March 2014, MIDA and article by Tan Sri Sulaiman Mahbob on “ Promoting Professional Services in the Economy’

Editorial

Economics and Investment
Iskandar Regional Development Authority

Low Mei Leong meileong@irda.com.my
Arif Kasmuri arif.kasmuri@irda.com.my

Articles are adapted from public documents. Comments are personal views of authors and professional advice should be sought when making business decisions. IRDA will not be liable for the accuracy and/or validity of the above statements.