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TRADE POLICY REVIEW

REPORT BY

MALAYSIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Malaysia is attached.

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1 INTRODUCTION

1.1. This is Malaysia's Seventh Trade Policy Review at the World Trade Organisation (WTO). Trade has historically been an engine of growth and continues to play an important role in the Malaysian economy. Malaysia's trade policy is aimed at creating a free and fair trading environment with a vision to make the country one of the most competitive trading nation by 2020.

1.2. Malaysia's trade performance continued to improve during the period under review despite the uncertainty in the global market, weak aggregate demand, low commodity prices and volatile financial markets in major economies. Domestically, policies continue to focus on high value and knowledge-intensive industries. With the aim of becoming a high-income nation by 2020, emphasis has been placed on integrating Malaysian companies into Global Value Chains (GVC) and developing commercial ties with new markets.

1.3. The WTO is an important feature of Malaysia's overall trade and investment policy. The rules-based multilateral trading system creates opportunities for Malaysian business through trade liberalisation in a fair trading environment. To complement the multilateral process, Malaysia continues to negotiate bilateral, regional and plurilateral trade agreements as a means to obtain preferential and effective market access.

1.4. Apart from economic engagements with ASEAN countries and other key economic partners such as China, the European Union (EU), the United States (U.S.) and Japan, Malaysia is also actively promoting trade with new markets in Africa, Latin America and West Asia. To accelerate the growth of a new wave of exports, the services sector, and small and medium enterprises (SMEs) have been identified as the targeted areas to be promoted under the Eleventh Malaysia Plan 2016-2020 (11MP).

2 ECONOMIC DEVELOPMENT

2.1 Overview

Domestic Economy

2.1. The coherent economic and industrial planning policies introduced by the Government, specifically the five-year Malaysia Plan and the New Economic Model (NEM), identified specific economic objectives and industry guidelines for the development of the nation. The core and focus areas embedded under these policies will be aggressively implemented to achieve the projected growth targets set by the Government.

2.2. The 11MP which was launched in May 2015 emphasizes not only on economic development but also has a special focus on the need for greater inclusiveness. A monitoring mechanism has been established to ensure all the outcomes are met. In addition to the inclusive strategy, emphasis is also given to enhance productivity growth and promoting quality investment in higher value-added industries. The thrusts outlined in the 11MP and number of targeted goals (KPIs) are as follows:

Table 2.1 List of Thrusts and Number of Targeted Goals (KPIs) in the 11MP

Thrust	Details	No. of KPIs
1	Enhancing Inclusiveness Towards an Equitable Society	17
2	Improving Wellbeing for All	15
3	Accelerating Human Capital Development for an Advanced Nation	20
4	Pursuing Green Growth for Sustainability and Resilience	10
5	Strengthening Infrastructure to Support Economic Expansion	20
6	Re-engineering Economic Growth for Greater Prosperity	29
Chapter 9	Transforming Public Service for Productivity	9
TOTAL		**120**

2.3. The Government is committed to ensure the nation's economic growth despite external uncertainties. During the period under review, the Malaysian economy continued on a positive trajectory, recording an average GDP growth of 5.1% for the period 2014 to 2016. Real GDP growth was 6.0% in 2014, 5.0% in 2015 and 4.2% in 2016. The positive momentum was supported by private investment and private consumption. In 2016, the per capita Gross National Income (GNI) of Malaysia increased to US$9,850.

2.4. The Malaysian economy has been gaining momentum in the first half of 2017. In the first quarter of 2017, the economy recorded a robust expansion of 5.6% compared to 2016. The economy continued to remain resilient in the second quarter, registering a growth of 5.3%. During this period, consumer spending surged 7.1% from the previous year.

Sectoral Performance

2.5. On the production side, all economic sectors continued to expand in 2016, with the exception of the agriculture sector. Services, manufacturing and construction sectors spearheaded the economy, expanding by 5.6%, 4.4% and 7.4% respectively. These three sectors contributed 81.8% to GDP. The mining sector moderated by 2.2% while agriculture sector posted a negative growth of 5.1% as crude palm oil output was affected by the El Niño weather phenomenon.

2.6. The inflation rate increased in 2014 at 3.1%, among the highest since 2008 due to the fuel subsidy rationalization introduced and implemented in December 2014. In 2015, the inflation rate eased to 2.1% due to the collapse in global oil prices in spite of the implementation of the Goods and Services Tax (GST). The inflation rate remained stable at 2.1% in 2016 following the low base effect, the restructuring of the cooking oil price stabilization scheme effective from November 2016 as well as the rebound in petrol and diesel retail prices.

2.7. The labour force continues to show steady improvement, increasing from 13.9 million in 2014 to 14.7 million in 2016. Unemployment rate remains relatively low at 3.4% in 2016, with the services sector being the key contributor of employment at 62.2% followed by the manufacturing sector at 16.9%.

2.8. The services sector registered an average growth of 6.4% for the period 2010 to 2016. The services sector continued to account for the largest share of GDP, accounting for 54.3% of the GDP in 2016 compared to 53.5% in the previous year. The sector remains on track to meet the targeted goal of 56.5% set under the 11MP.

2.9. The overall performance of the manufacturing sector improved significantly in 2014, growing by 6.2% compared to a modest growth of 3.4% in 2013. In 2015, the manufacturing sector expanded moderately, at 4.9%, attributable mainly to the continued strength of the export-oriented industries driven by strong expansion in the electrical and electronics (E&E) cluster and sustained regional demand for chemical products. The domestic-oriented industries, on the other hand, moderated, mainly as a result of the slower growth in the consumer-related cluster. Meanwhile, in 2016, the expansion of the domestic-oriented industries has strengthened alongside the export-oriented industries - boosted by the recovery in global semiconductor demand in the second half of the year. This has supported the expansion of the manufacturing sector by 4.4%.

2.10. Manufacturing sector expanded further to 6.0% in the second quarter of 2017 from 5.6% in the previous quarter. E&E and optical products were the main impetus for this sector with a growth of 9.8%, supported by higher production of semiconductors and consumer electronics. In addition, vegetable and animal oils & fats and food processing also accelerated, to 10.4%.

2.11. The contribution of the agriculture sector to the GDP contracted to 5.1% in 2016 compared with 8.9% in 2015. Oil palm was a major contributor at 43.1%, followed by other agriculture (19.5%), livestock (11.6%), fishing (11.5%), forestry & logging (7.2%) and rubber (7.1%). The agriculture sector grew at a moderate pace of 5.9% in the second quarter of 2017 after posting a growth of 8.3% in the previous quarter. Oil palm and rubber continued to register a double-digit growth albeit at a slower momentum of 12.1% and 17.0%, respectively.

2.12. Exports of commodity and commodity-based products in 2015 increased by RM 583.9 million or 0.5% to RM 117.1 billion compared with RM 116.5 billion recorded in 2014. Exports of commodity and commodity-based products grew further by RM 4.9 billion or 4.19% to RM 122 billion in 2016. The higher exports was contributed by increased exports of palm oil and palm-based products, timber and timber-based products as well as cocoa and cocoa-based products. In the first quarter of 2017, exports of commodity and commodity-based products increased by RM 7.8 billion or 28.4% to RM 35.4 billion compared with RM 27.6 billion recorded in the corresponding period of 2016.

2.13. The construction sector registered an outstanding average growth of 10.1% during the Tenth Malaysia Plan 2011-2015 (10MP), surpassing the performance of all other economic sectors in the country. The sector maintained its double digit growth at 11.7% in 2014, making this the record for three consecutive years (2012-2014). In 2015, the last year of the 10MP, the growth of the sector slowed down to 8.2% and moderated at 7.4% in 2016 due to the easing in residential and civil engineering construction activities. In the second quarter of 2017, the sector recorded an expansion of 8.3%. The continued expansion was contributed by several mega construction projects including the Mass Rapid Transit (MRT) project, Manjung and Tanjung Bin Coal-Fired Power Plant, Pengerang Refinery and Petrochemical Integrated Development Project (RAPID), Phase 2 Duta – Ulu Kelang Expressway (DUKE), and PETRONAS LNG Train 9 project in Bintulu.

2.14. The mining sector recorded a growth of 3.3%, 4.7% and 2.7% from 2014 to 2016, respectively. The growth was mainly contributed by a higher production of crude oil and gas from new ramped up activities and new production fields. There was a significant increase in production of non-metallic minerals during the period (2014-2016) to fulfil domestic demand for mega infrastructure and construction projects identified under the Economic Transformation Programme (ETP).

2.15. Private investments for the period 2014-2016 grew in average by 9.16%. For the period January-March 2017, private investments grew by 14.8% compared with the same period of 2016. During this period, the net foreign direct investment (FDI) grew by 9.0% compared to the corresponding period of 2016.

2.16. Private consumption expenditure grew at 6.3% per annum for the period 2014 to 2016, supported by stable employment conditions, sustained wage growth, manageable inflation and governmental assistance to households. In the second quarter of 2017, the private final consumption grew 7.1% stimulated by the higher consumption on food and non-alcoholic beverages, communication, and restaurants and hotels.

2.17. Gross National Savings (GNS) continued to remain high, averaging 29.5% of GNI in 2014-2016, enabling Malaysia to finance its economic activities from domestic sources.

2.18. Malaysia maintained a current account surplus with the reserves position remaining strong. In 2014, despite a challenging trading environment particularly during the second half of the year, the current account remained in surplus, recording RM 48.6 billion or 4.5% of GNI. During the second quarter of 2017, the current account balance registered a higher surplus at RM 9.6 billion compared to RM 5.3 billion in the previous quarter. This higher surplus was due to lower deficit in the services and income accounts with higher surplus in the goods account at RM 27.0 billion.

2.19. The international reserves of Bank Negara Malaysia amounted to US$100.4 billion (equivalent to RM 431.0 billion) as at 15 August 2017. The reserves position is sufficient to finance 7.9 months of retained imports and is 1.1 times the short-term external debt.

2.20. Private investment recorded a growth rate of 10.8% for the period 2011 to 2016. This rate is double the growth rate registered for 2006 to 2010, at 5.5%. The share of private investment from total investment has also increased from 55% in 2010 to 67% in 2016. This demonstrates the confidence of the private investors in the strength of Malaysia's economy.

Transport Connectivity

2.21. Investment in transport infrastructure and development of transportation services are fundamental enablers to spur economic and social growth. During the 11MP, the transport and logistics sector continues to remain a crucial driver of growth – leveraging new investments in road, rail and air services to boost regional development.

2.22. Towards this end, Malaysia is committed to undertake the various transport infrastructure projects under the 11MP. Some of the large-scale projects have been implemented. These were the Klang Valley Mass Rapid Transit (KVMRT) Line 1, Electrified Double-Track Railway from Ipoh to

Padang Besar, Light Rail Transit (LRT) extension and Kuala Lumpur International Airport 2 (KLIA2). The future projects to be implemented during the 11MP are the Pan-Borneo Highway, Klang Valley Mass Rapid Transit (KVMRT) Line 2, East Coast Rail Link (ECRL), Electrified Double-Track Railway from Gemas to Johor Bahru and the High Speed Rail connecting Kuala Lumpur to Singapore. The expansion of these networks will create new corridors of economic activity. Better integration of these different transport modes will also create seamless connectivity for people and goods. The Government will continue to work with the private sector to create an integrated logistics system. Coupled with efficient trade facilitation, this will further boost Malaysia's trade.

2.23. Priority will also be given to the construction of roads, connecting villages as well as linking villages with the nearest towns. Under the 11MP, 3,000 kilometres of paved roads will be constructed. The linkage between rural and urban areas will be strengthened by improving connectivity and mobility to foster greater economic integration. For instance, the Pan Borneo Highway is expected to promote better connectivity for movement of people, goods and services in Sabah and Sarawak.

2.24. To further enhance rural connectivity, the Government has launched the ECRL project to connect Klang Valley to the East Coast. The ECRL, with 688-km rail that connects several townships and will be built in phases, would be a game-changer for the east coast corridor of Malaysia. The project can accelerate the GDP growth of this region by an additional 1.5% and will help reduce the gap between the west coast and east coast of Malaysia. This project is expected to be completed by July 2024.

2.25. Malaysia will continue to enhance connectivity and safety of Rural Air Services (RAS) by improving Short Take-Off & Landing Airports (STOLports). The construction of a new airport in Mukah will be completed in 2018 and the relocation of the STOLports in Sarawak to suitable sites will be carried out under the 11MP.

Introduction of Good and Services Tax (GST)

2.26. The Government implemented the GST on 1 April 2015, to replace the Sales and Services Tax regime. The GST implementation is part of the Government's tax reform programme to streamline the country's tax system so that it would be more efficient, transparent and business-friendly.

2.27. In principle, GST is imposed on all goods and services either produced in the country or imported, at a standard rate of 6%. However, certain supplies of goods and services are not subject to GST and these are classified as follows:

i. Zero-rated supplies:

- taxable supplies which are subject to a zero rate, that is not liable to GST at the output or input stage.

ii. Exempt supplies:

- non-taxable supplies which are not subject to GST at the output stage that is, when supplied to the consumer. However, the GST paid on input by the businesses cannot be claimed as tax credit.

2.28. Businesses with annual sales turnover of RM 500,000 and above are liable to be registered under GST. But, businesses having an annual sales turnover of less than this threshold amount can apply for voluntary registration. As of July 2017, 448,159 businesses (including voluntary registrants) have registered under the GST. The GST revenue collected for 2016 amounted to RM 41.2 billion and is projected to reach RM 41.5 billion in 2017.

Minimum Wage Policy

2.29. To address the inefficiencies in the labour market, the minimum wage policy was implemented on 1 January 2013. The objectives of the policy is to ensure the basic need of workers and their families are fulfilled, provide sufficient social protection to workers, encourage industries to move up the value chain by investing in higher technology and increase labour productivity and reduce the nation's dependence on unskilled foreign labour.

2.30. To achieve its objectives, the policy is further complemented by productivity enhancing measures such as the provision of training to up-skilled workers, improvements in the quality of education, and the facilitation of investment in automation and advanced technology.

Minimum Wages Order 2016

2.31. On 1 July 2016, the Minimum Wages Order came into effect. It is applied to all workers including foreigners, in formal sectors with the minimum rate of RM 1,000 per month in Peninsular Malaysia and RM 920 per month in Sabah, Sarawak and Labuan. The Government strictly enforces this Order via the statutory inspections conducted by the Department of Labour.

3 TRADE POLICY DEVELOPMENTS

3.1 Overview

3.1. In 2016, the trade value was at RM 1.484 trillion (US$357.8 billion), an increase of 3% compared with RM 1.448 trillion (US$442.8 billion) in 2014. Between January to July 2017, the trade value was recorded at RM 1.008 trillion (US$230.5 billion), expanding by 22.7% compared to the corresponding period of 2016. The expansion was supported mainly by trade with ASEAN, China, the U.S., the EU, Japan, India and Chinese Taipei.

Table 3.1 Malaysia's External Trade 2013-17

	Total Exports		Total Imports		Trade Balance		Total Trade	
Year	RM Bil	Growth Rate %	RM Bil	Growth Rate %	RM Bil	Growth Rate %	RM Bil	Growth Rate %
2013	719.99		648.69		71.30		1,368.69	
2014[a]	765.42	6.3	682.94	5.3	82.48	15.7	1,448.35	5.8
2015	777.36	1.6	685.78	0.4	91.58	11.0	1,463.13	1.0
2016[b]	785.93	1.1	698.66	1.9	87.27	-4.7	1,484.60	1.5
2016 (Jan-July)[c]	433.01	0	389.17	0	43.84	0	822.17	0
2017 (Jan-July)[d]	529.68	22.3	478.71	23.0	50.97	16.3	1008.00	22.7

a US$1: RM 3.3.
b US$1: RM 4.1.
c US$1: RM 4.1.
d US$1: RM 4.

3.2. Despite the challenges, exports increased to RM 785.9 billion (US$189.4 billion) in 2016 from RM 765.4 billion (US$233.9 billion) in 2014, while imports reached RM 698.7 billion (US$168.4 billion) from RM 682.9 billion (US$208.9 billion). For the first 7 months of 2017, exports increased by 22.3% to RM 529.6 billion (US$121.2 billion) while imports rose by 23% to RM 478.7 billion (US$109.5 billion), resulting in a trade surplus of RM 51.0 billion (US$11.7 billion).

3.3. Malaysia's trade balance expanded from RM 82.5 billion (US$25.1 billion) in 2014 to RM 87.3 billion (US$21.0 billion) in 2016. For the period January-July 2017, the trade balance increased by 16.3% from the corresponding period of 2016.

3.2 Initiatives to Facilitate Trade

3.4. Various initiatives have been undertaken to facilitate trade. Among the initiatives put in place are:

National Policy for Development and Implementation of Regulations (NPDIR)

3.5. In line with the National Policy for Development and Implementation of Regulations (NPDIR) which was launched on July 2013, the Malaysia Productivity Corporation (MPC) continues to promote Good Regulatory Practices (GRP) at Federal, state and local authorities. More than 300 Regulatory Coordinators (RCs) have been appointed from Ministries and government agencies. Ministries and government agencies were given specific training and guidance to carry out the Regulatory Impact Assessment (RIA). The Organisation for Economic Cooperation and Development (OECD) has provided support, advice and technical assistance in implementing GRP at the federal level.

3.6. Starting in 2017, GRP has been introduced at selected states as well as local authorities to integrate and establish standardised, structured and systematic way of reviewing business regulations.

Malaysia Productivity Blueprint (MPB)

3.7. Productivity has been highlighted as a game changer in the 11MP to propel Malaysia to become a high income and inclusive nation. To achieve the labour productivity growth target of 3.7% per annum under the 11MP, the Malaysia Productivity Blueprint (MPB) was launched by the Prime Minister on 8 May 2017 to provide a framework that will address productivity issues and challenges in a comprehensive and cohesive manner. It provides guided implementation to expedite productivity improvements as envisaged in the 11MP through five strategic thrusts as follows:

i. Building Workforce of Future;

ii. Driving Digitalisation and Innovation;

iii. Making Industry Accountable for Productivity;

iv. Forging a Robust Ecosystem; and

v. Securing a Strong Implementation Mechanism.

3.8. Based on these strategic thrusts, ten national initiatives and sixteen key activities will drive nation-wide productivity improvement. MPC has been given the mandate to oversee thrust 4: Forging a Robust Ecosystem. Under this thrust, two initiatives to be undertaken are:

i. accelerating efforts to enhance whole-of-government approach towards addressing regulatory constraints; and

ii. establishing an accountability mechanism for the implementation of regulatory reviews by the Government.

3.9. Under the Blueprint, six immediate priorities have been identified as game changers to move the needle on productivity improvement. The six immediate priorities are:

i. Restructure and improve the management of foreign workers;

ii. Actively encourage adoption of Industry 4.0 by companies, across main economic sectors;

iii. Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology;

iv. Embed productivity targets for enterprises into disbursement processes of new grants, incentives and soft loans;

v. Remove non-tariff measures that impede business growth and improve efficiency of the logistics sector; and

vi. Evolve governance model to drive game changing implementation of Malaysia Productivity Blueprint.

3.10. Different processes and systems in export and import licensing, permit and approval processes have been identified as a key barrier impeding productivity growth. As such, one of the priorities of the MPB is to address this issue by restructuring NTMs, including customs regulations, to ensure streamlined processes and regulations for export and import permits and regulations. Among the reform activities are:

i. accelerate implementation of a new Customs system;

ii. introduce guillotine approach to reduce regulatory burden;

iii. establish and institutionalise an innovation policy development engagement mechanism to embrace disruptive technology; and

iv. accelerate implementation of the Logistics Masterplan.

Further Liberalisation on Import Licence Requirement

3.11. As an on-going effort to facilitate trade, the Government continues to review the import licencing requirement. In this connection, the import licence requirement for motorhomes, motorcycle helmets, used tyres and flour was abolished effective 1 September 2016; and 181 tariff lines of iron and steel products effective 1 August 2017. The implementation measure is gazetted in the Customs (Prohibition of Imports) (Amendment) Order 2016 and 2017.

Customs Modernisation

3.12. Effectiveness and efficiency of customs administration and operation plays an important role in trade facilitation. The Royal Malaysian Customs Department (RMCD) continues its efforts in capacity building of customs personnel. As an active member of the World Customs Organisation (WCO), Malaysia has acceded to the Revised Kyoto Convention, SAFE Framework of Standards and supported other WCO tools and instruments.

3.13. RMCD is currently developing an integrated Customs system that will replace the existing Customs Information System. The new system will enhance the facilitation of trade by allowing traders to submit all import, export and transit information required by regulatory agencies via a single electronic gateway.

3.14. Malaysia started its Authorised Economic Operator (AEO) programme in January 2010 and to date, 59 companies comprising importers, exporters and manufacturers have been accredited AEO status. Companies accredited under this programme enjoy customs facilitation, such as reduced inspection procedure and expediting clearance of cargoes at control points. As of October 2017, Malaysia has entered into a Mutual Recognition Arrangement (MRA) with customs administration of Japan; Hong Kong, China; and Korea. Accredited companies will enjoy customs facilitation in those countries.

Export Promotion Activities

3.15. Export promotion for Malaysia is led by Malaysian External Trade Development Corporation (MATRADE) including through its representation worldwide at 46 locations in major commercial cities. The activities remain focused on international trade fairs, trade missions, specialised marketing missions and business-matching programmes. MATRADE is also actively involved in assisting foreign companies to source for suppliers of Malaysian products and services.

3.16. The Government has established the National Export Council (NEC) in December 2014 as a vehicle to enhance and accelerate the nation's export growth and to advance Malaysia's exports ecosystem to accommodate the development of local industries. Briefly, NEC, which is chaired by the Prime Minister, looks at improving the export eco-system by addressing issues that impede exports growth along the value chain. These include the need to improve the infrastructure to support trade, reduce unnecessary regulatory procedures, standards and certification, non-tariff barriers (NTBs), market access, skilled talent and access to financing.

3.17. Twelve national key export sectors are being focused, which include E&E, machinery & equipment, petrochemical, automotive parts & components, medical devices, palm oil, agro business, medical tourism, tourism, construction services, ICT services and education. Initiatives undertaken are aimed at moving up the products value chain through enhancing downstream activities. In terms of promotion abroad, strategies include enhancing cohesiveness and better coordination among the various ministries and agencies with the aim of strengthening nation branding and maximising the outcomes.

Promotion of Investments for Manufacturing and Services Sectors

3.18. Malaysia has adopted a more focused and targeted approach in attracting quality investments in high technology, capital-intensive and knowledge intensive industries; high value-added industries; R&D activities as well as in new growth areas. This is in line with the Government's effort for Malaysia to be a high income nation by 2020. The focus is leveraging on the megatrends development to target products with technological advancements and new product applications.

3.19. Malaysian Investment Development Authority (MIDA) is focusing on promoting niche and more complex products in the manufacturing sector. This strategic initiative has identified three catalytic subsectors of E&E, Machinery and Equipment and Chemicals as well as the two growth subsectors of Aerospace and Medical Devices. These "3+2" catalytic and growth subsectors have also been identified to help increase export activities of local manufacturing companies. As for the services sector, the focus is in the areas of Principal Hubs, Logistics, e-Commerce, Green Technology and Renewable Energy as well as Waste Management.

3.20. MIDA's function as the Principal Investment Promotion Agency (IPA) starts from approaching investors, evaluating incentives, handholding investors in implementing their projects and initial implementation of investments to ensure the conditions are met. MIDA also provides continuous support to companies post their implementation period. Among the initiatives by MIDA include:

i. fine-tuning its investment policies, as well as continuous collaboration and engagement with industry players and stakeholders to attract investors into all economic sectors;

ii. organising working visits and Trade & Investment Missions to targeted countries to attract new investment opportunities;

iii. direct cooperation between MIDA and Agencies at federal and state levels in facilitating and attracting investments;

iv. Business Process Reengineering to simplify approval process for import duty/sales tax approval; and

v. establishment of the Incentive Coordination and Collaboration Office (ICCO) in MIDA.

3.21. In order to facilitate companies, MIDA has set up the Industry Advisory Panels (IAPs) for 6 Industries, namely E&E, machinery and equipment, chemical, aerospace, medical devices and pharmaceutical. This is in line with the objective of 11MP to move up these sectors into higher value chain.

3.22. As highlighted in the last Review, the Government has established five economic growth corridors to further develop Malaysia's strategic investments regions. The five economic regions and growth corridors are:

i. Iskandar Malaysia (IM)

- Located in Johor, Iskandar Regional Development Authority (IRDA) was launched in 2006 under Iskandar Regional Development Authority Act 2007 (Act 664). To date, Iskandar Malaysia registered a total of RM 237.37 billion cumulative committed investments, of which RM 129.97 billion had been realised and 729,310 jobs had been created in various economic sectors.

ii. Northern Corridor Economic Region (NCER)

- The Northern Corridor Implementation Authority (NCIA) was launched in 2007 under the Northern Corridor Implementation Authority Act 2008 (Act 687) and is located in the northern Peninsular Malaysia. A new NCER Blueprint 2.0 had been launched in 2017, focusing on seven catalytic growth node projects, 28 transcending border projects and 45 localised high-impact projects. To date, NCIA has achieved a total of RM 84.57 billion realised investment and created 92,732 jobs in various economic sectors.

iii. East Coast Economic Region (ECER)

- The East Coast Economic Region Development Council (ECERDC) was launched in 2007 under the East Coast Economic Region Development Council Act 2008 (Act 688). It covers an area of 66,000 sq km, covering Kelantan, Terengganu, Pahang and the district of Mersing in Johor. The ECER development Masterplan focused on key initiatives related to tourism; oil, gas and petrochemical; modern agriculture; human capital; manufacturing; SME Development and Business. Some of the projects implemented during the 10MP are Rompin Integrated Pineapple Plantation, and Empower ECER. To date, ECERDC has achieved a total of RM 104.28 billion cumulative committed investments, of which RM 41.17 billion had been realised and created 151,779 jobs in various economic sectors.

iv. Sabah Development Corridor (SDC)

- Sabah Economic Development and Investment Authority (SEDIA) was launched in 2008 under the Sabah Economic Development and Investment Authority Enactment 2009. The key focus areas of SDC are agriculture, tourism, logistics and manufacturing; oil, gas and energy; higher education, and palm oil. To date, SEDIA has achieved a total of RM 162.96 billion cumulative committed investments, of which RM 62.33 billion had been realised and created 184,209 jobs in various economic sectors.

v. Sarawak Corridor of Renewable Energy (SCORE)

- Regional Corridor Development Authority (RECODA) was launched in 2008 under the Sarawak Regional Corridor Development Authorities Ordinance of 2006. It covers an area of 70,708 sq km of the central region of Sarawak. Five growth nodes have been identified namely Samalaju, Mukah, Tanjung Manis, Tunoh and Baram with different priorities and activities. For example, Samalaju is targeted as the new heavy and energy-intensive industry centre and Mukah will be developed into a Smart City. Some of the completed projects by RECODA include 66km of access road to Murum Hydroelectric Plant and Phase 1 of the Samalaju Industrial Park. To date, RECODA has achieved a total of RM 115.79 billion cumulative committed investments, of which RM 81.90 billion had been realised and 59,645 jobs had been created in various economic sectors.

3.23. Promotion measures of all the Investment Promotion Agencies (IPAs) at the federal and state levels are closely coordinated by MIDA and are aligned with the Government's overall development policy. Potential investors will be assisted through facilitation measures up to the implementation of the project. Post implementation concerns are also acted upon swiftly by MIDA together with the Ministries and relevant institutions at the federal and state levels.

3.24. In addition, the Ministry of International Trade and Industry (MITI) together with MIDA and other relevant Ministries and government agencies, organise and co-organise regular activities such as roundtable meetings and dialogue sessions with investors and industry chambers and associations to obtain updates on industries particularly issues and concerns faced by the businesses.

3.25. The Government will continue to introduce various measures to facilitate and sustain investments in the country. These measures will include fine-tuning its investment policies, enablers, fiscal and non-fiscal incentives, as well as continuously collaborating and engaging with industry players and stakeholders to attract investors in all economic sectors.

Investment Committee

3.26. The Investment Committee (IC) was established to ensure better coordination in the area of investments among all arms of the Government and investment promotion agencies. Chaired by the Minister of International Trade and Industry, the IC also monitors and ensures that the objectives and targets of the Economic Transformation Programme (ETP) on economic growth of private investments is realised fully. The IC's main functions are:

i. to collect and collate data on investment;

ii. to assess the investment gaps; and

iii. to identify strategic issues and impediments to investments and address these issues.

SME Masterplan 2012-2020

3.27. SMEs assume a pivotal role in promoting the stability and development of the nation by creating employment opportunities and fuelling economic process. SMEs account for 98.5% of the total 907,065 business establishments in Malaysia in 2016. The SME Masterplan (2012–2020) continues to provide policy direction for SMEs development in Malaysia.

3.28. Empirical evidence indicated that six growth levers namely innovation and technology adoption, human capital, access to financing, market access, legal and regulatory environment as well as infrastructure contribute to the high performance of Malaysian SMEs. Challenges faced in each of these areas that impede the performance of SMEs were also identified. The Masterplan proposed an Action Plan to address these challenges simultaneously. The Action Plan comprises six High Impact Programmes (HIPs) such as Integration on Business Registration and Licensing (HIP 1), Going Export Programme (HIP 4) and Catalyst Programme (HIP 5) and 26 other complementary initiatives which have been deliberated based on consultations with the private sector and further substantiated by evidence and best practices in other countries.

Table 3.2 6 HIPs of SME Masterplan

HIP 1: **Integration of Business Registration and Licensing**	**HIP 2:** **Technology Commercialization Platform (TCP)**	**HIP 3:** **SME Investment Partner (SIP)**
Create a single registration point through interfacing of the current National Business Registration System i.e. MyCoID and the National System Licensing System i.e. BLESS.	Establish a national network of privately-managed platform to promote innovative ideas from proof of concept to the commercialization stage.	Provide early stage financing through the establishment of investment companies to invest in potential SMEs in the form debt, equity or a hybrid of both.
HIP 4: Going Export (GoEx) Program	HIP 5: Catalyst Program	HIP 6: Inclusive Innovation
Offer customized assistance to new exporters and SMEs venturing into new markets. Export-ready SMEs can avail to comprehensive support assistance.	Create homegrown champions through a targeted approach with support in the area of financing, market access and human capital development.	Empower the bottom 40% of the income group to leverage on innovation through the transformation of rural community through hand holding approach

3.29. The Plan is progressing well with five out of six HIPs have begun benefiting SMEs. Preliminary implementation assessment of the HIPs undertaken by the World Bank showed that most of HIPs are at advanced stages of implementation.

3.30. The HIP 1 project on ease of doing business towards creating a single gateway for business registration and licensing, is being rolled out in stages. An information portal, the MalaysiaBiz Portal, was officially launched by the Prime Minister on 23 June 2016 and can be publicly accessed. To date, a total of 2,918 licenses issued by 508 local authorities have been uploaded to the portal for 1,174 activities across all economic sectors.

3.31. Notably on innovation, since HIP 2 or the Technology Commercialisation Platform (TCP) began in May 2014, 125 projects have been approved for integrated assistance, 174 license deals have been signed and 22 innovations commercialized.

3.32. Meanwhile, 156 SMEs from 12 sectors have reaped the benefit of participating in the HIP 4 managed by MATRADE, to internationalise export-ready SMEs. These companies have managed to achieve potential export sales contracts amounting to RM 57 million from 14 new countries explored.

3.33. The Green SSL/LED and BioNext Initiative under the Catalyst Programme (HIP 5) have been completed. Under the Green SSL/LED initiative, 38 products were Internationally Certified in 2016. The BioNext Initiative has also been completed with 10 participating companies in the Oxford Accelerator Programme implementing their individually designed action plans to become high growth companies. These BioNext segment was undertaken by SME Corp. Malaysia in collaboration with Malaysian Bioeconomy Development Corporation Sdn. Bhd. (Bioeconomy Corporation). For 2017, the focus will be on creating high growth SMEs in aerospace, medical devices and rail industry.

3.34. For the bottom 40% of the income pyramid (B40), innovation is facilitated through the HIP 6, which is implemented by Malaysian Foundation for Innovation, an agency under the Ministry of Science, Technology and Innovation (MOSTI). Since inception, the programme has shown positive progress with more than 1,200 innovations received. To date, 44 innovations have been shortlisted under the programme, of which 15 innovations are ready for diffusion, benefiting 620 people in 12 communities.

3.35. Meanwhile, the HIP 3 is a co-funding initiative between Government and private investors to enhance access to financing for early-stage SMEs. A total of RM 15 million seed capital has been allocated under the Programme which is expected to begin towards the end of 2017.

3.36. A total of 26 supporting initiatives to reinforce implementation of HIPs in achieving the Masterplan goals are being implemented with substantive progress in the areas of policy reforms, human capital development and ease of doing business.

3.37. The ultimate goal of the Plan is to increase SME contribution to more than 40% of GDP, 65% of employment and 23% of exports by 2020. In 2016, SMEs contributed 36.6% to GDP from slightly below 30% in 2005, while employment share rose to 65.3% (2005: 56.8%) and exports to 18.6% (2010: 16.4%).

Draft National SME Development Bill 2016

3.38. Given the importance of SMEs in the economy, SME Corp. Malaysia is currently finalizing a specific Act to guide the SME industry. From the various researches conducted, the countries with their own SME Act experienced tremendous development and growth of their SMEs. A framework for the Act was developed based on the situation and business environment in Malaysia.

3.39. The draft Bill aims to improve the approach to SME and entrepreneurship in Malaysia as well as simplify the regulatory and policy environment for SMEs. It covers six (6) key areas, namely, general guidelines, institutional framework, market access, special incentives such as standard payment terms and government procurement, SME funding and responsibilities of those parties involved in the proposed Act.

Performance Management and Delivery Unit (PEMANDU)

3.40. In March 2017, the role of PEMANDU has been transitioned to the newly established Civil Service Delivery Unit (CSDU) under the Economic Planning Unit. CSDU will continue to focus on the implementation of the initiatives under the National Transformation Programme.

Malaysia Halal Council

3.41. In the move to further accelerate growth of the halal industry in Malaysia and enhance Malaysia's role in leading global halal industry development, the Government initiated the formation of the Malaysia Halal Council (MHC). The Council was established in June 2016 under the chairmanship of the Deputy Prime Minister of Malaysia. The Council acts as an "Advisor" to the Government on both religious and economic matters in relation to the halal industry within the following areas:

i. formulation of policies related to halal;

ii. monitoring the implementation of policies, strategic directions and key programmes; and

iii. matters pertaining to development and management of the halal industry.

3.42. Halal Industry Development Corporation (HDC), Department of Islamic Development Malaysia (JAKIM) and Department of Standards Malaysia are the co-secretariat for the Council. As the continuous strategic response to drive the development of Malaysia's halal industry, Malaysia has develop the 1st Halal Industry Master Plan (HIMP) (2008-2020). The objective of this Master Plan is to make Malaysia as a global reference for Halal integrity know-how, innovation, production and trade of a number of Halal related sectors. The projected contribution of halal industry under the Plan is 8.7% to GDP and RM 50 billion exports by 2020. In 2016, the Halal Industry contributed 7.5% to the country's GDP.

National Logistics and Trade Facilitation Masterplan (NLTF)

3.43. The Economic Planning Unit (EPU) has formulated the Logistics and Trade Facilitation Masterplan (NLTF) to provide the strategic framework and roadmap to elevate Malaysia to be the "Preferred Logistics Gateway to Asia" by 2020 and beyond. A total of 21 action plans for the strategic direction is to be implemented to improve overall productivity to better connect industries with their markets, both locally and internationally. These action plans are well planned to overcome barriers in the industry, stimulating domestic economic development and strengthen Malaysia's position in the Asian region.

3.44. Under the Logistics and Trade Facilitation Masterplan, MITI together with the Ministry of Transport (MOT), aims to reduce time and cost in enhancing inland transportation efficiency, improving last-mile connectivity at Port Kelang and addressing bottlenecks at the Padang Besar Terminal. The action items are in tandem with the new methodology introduced in Trading Across Borders by the World Bank Doing Business and are targeted to improve Malaysia's Trading Across Borders performance.

3.45. The implementation of the action items under the Masterplan spans beyond 2020, with focus on reducing bottlenecks; enhancing domestic growth; and creating regional footprints.

3.3 Multilateral Trading System

3.46. Malaysia has been an active Member of the WTO and also participated in various international organisations and forums. In WTO, Malaysia has been involved at various levels in several bodies and committee meetings. Malaysia was the Chairperson to the Trade Policy Review Body in 2014 and the Preparatory Committee on Trade Facilitation. Malaysia participated in the Tenth WTO Ministerial Conference (MC10) in Nairobi, Kenya in 2015. On 26 May 2015, Malaysia became the fifth member to ratify the Trade Facilitation Agreement (TFA). Malaysia ratified the Protocol Amending the TRIPS Agreement on 10 December 2015.

3.47. Over the past years, Malaysia has been involved as a third party in several trade dispute settlement cases that have a bearing on Malaysia's trade interests. These include packaging requirement for tobacco products, anti-dumping measures on bio-diesel and fatty alcohol, and incentives on solar cells and modules.

3.48. Malaysia is also involved actively in other multilateral organizations and forums such as OECD, World Economic Forum (WEF), World Islamic Economic Forum (WIEF), Indian Ocean Rim Association (IORA), Commonwealth and World Bank. Malaysia hosted the 25th WEF on ASEAN on 1-2 June 2016.

3.49. Malaysia together with 23 other WTO members had adopted the 'Ministerial Declaration on the Expansion of Trade in Information Technology Products (ITA2)' on 16 December 2015. Malaysia's commitment for the 201 products covers 410 affected tariff lines (9 digit), which 351 lines (86%) are already at zero duty (nil import duty). The remaining 59 tariff lines have current applied duties ranging from 5% to 30% which will be progressively removed within three to seven years.

Implementation of Commitment in Trade Facilitation Agreement (TFA)

3.50. Malaysia notified its list of Category A to the WTO on 22 July 2014 and officially accepted the Protocol on 26 May 2015, being the 5th WTO Member to do so. Malaysia has placed all provisions under Category A except for two provisions namely Article 7.8 on Expedited Shipment and Article 11.9 on Advance Filing and Processing of Transit Documentation.

3.51. Malaysia has established the Trade Facilitation Cluster Working Group (TFCWG) in 2015, which assumes the role of the National Committee on Trade Facilitation, to monitor the domestic implementation of the WTO TFA. The TFCWG is co-chaired by MITI and RMCD. The Working Group comprises members from the Government and the private sector to discuss issues related to cargo clearance system, paperless trading and security of trade documents, to boost trading activities and reduce cost of doing business, and monitors Malaysia's commitments under the WTO TFA as well as other international fora.

3.52. Among improvements made by Malaysia in compliance to WTO TFA include:

i. Establishing the Malaysia National Trade Repository (MNTR) in October 2015 to ensure availability of information and publication (Article 1); and

ii. Introducing GRP in public sector to provide a platform for stakeholders to comment before any laws and regulations or any review to Government's policies take place (Article 2).

3.53. Based on the WEF's Global Enabling Trade Report 2016, Malaysia was ranked 37th out of 136 countries, in terms of its capacity to facilitate the flow of goods over borders and to their destination. Most of the economies in the top 30 rankings comprise advanced countries, while among the ASEAN Member States (AMS), Malaysia was ranked second.

3.54. The implementation of the WTO TFA will expedite the movement and clearance of goods across border through the improvement in Customs procedures. This will further enhance Malaysia's competitiveness as a trading nation.

3.4 Development in FTAs

Bilateral Agreements

3.55. Since the last review, Malaysia has signed the Malaysia-Turkey Free Trade Agreement (MTFTA) on 17 April 2014. The FTA, which came into force on 1 August 2015, outlines commitments from both countries on liberalization of trade in goods. Malaysia was able to lock-in tariff preferences that were either on par with, or better than, those previously granted under Turkey's Generalised System of Preferences (GSP), which were no longer available for Malaysia, beginning 1 January 2014. As such, with the signing and subsequent entry into force of MTFTA, Malaysian exporters can continue to gain preferential market access into and also remain competitive in the Turkish market. Turkey will eliminate duties on 85.89% of tariff lines. Malaysia's commitment involves tariff reduction/elimination on 98.86% from the total tariff lines. The FTA will be realised over a period of 8 years.

3.56. The Malaysia-European Union Free Trade Agreement (MEUFTA) negotiation was formally launched on 5 October 2010. It is a comprehensive FTA covering 16 areas which include market access for goods, services, investment, competition policy, intellectual property rights, government procurement as well as sustainable development issues covering labour and environment. In 2012, the MEUFTA negotiations were suspended. There is now renewed political will to exercise flexibility in addressing the challenges and outstanding issues faced in the negotiations.

3.57. The negotiations on Economic Partnership Agreement between Malaysia and European Free Trade Area (MEEPA) commenced in March 2014. The scope of the negotiation is broad based covering several areas including trade in goods, services, investment, rules of origin and trade facilitation. To date, 8 rounds of negotiations have been held.

Regional Trade Agreements

3.58. ASEAN continues to feature prominently in Malaysia's regional trade environment. The creation of the ASEAN Free Trade Area (AFTA), which was agreed at the 1992 ASEAN Summit, is to leverage on the huge potentials and complementarities that exist in the region in order to strengthen and deepen intra-ASEAN linkages. The primary mechanism for achieving the goals of AFTA is the Common Effective Preferential Tariff (CEPT) Scheme. The CEPT Scheme has been superseded by the ASEAN Trade in Goods Agreement (ATIGA) which entered into force on 17 May 2010.

3.59. The ATIGA value-adds to the CEPT Scheme in terms of inclusion of disciplines. The ATIGA comprises several new elements to ensure the realisation of free flow of goods within ASEAN, including tariff liberalisation, removal of non-tariff barriers, rules of origin, trade facilitation, customs, standards and conformance, and sanitary and phytosanitary measures. The objective of ATIGA is to be on par with key principles of the Trade in Goods (TIG) Agreements with ASEAN's Dialogue Partners.

3.60. Besides strengthening ASEAN internal integration, ASEAN has also been actively engaging with all its dialogue partners, namely Australia, China, the EU, India, Japan, Korea, New Zealand, Russia and the US.

3.61. Over the recent years, ASEAN has reviewed its on-going regional FTAs. For ASEAN-China FTA (ACFTA), the Protocol to Amend the Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and China was signed on 22 November 2015 at the 27th ASEAN Summit. The upgrading of the ACFTA aims to further streamline and enhance economic cooperation, including amendments to the agreement on Trade in Goods, Services, Investment and Economic and Technical Cooperation.

3.62. As for ASEAN-Korea FTA, the Third Protocol to Amend the ASEAN-Korea Trade in Goods Agreement introduced new commitments on Customs Procedures and Trade Facilitation, and provided legal effect to the inclusion of the Parties' line-by-line Tariff Reduction Schedules to the Agreement. The Third Protocol has been signed by all Parties on 22 November 2015. To date, 7 Parties have ratified the Protocol i.e. Korea, Lao PDR, Malaysia, Myanmar, Philippines, Singapore and Thailand.

3.63. Following the signing by all Parties in 2014, the ASEAN and India Services Agreement and ASEAN India Investment Agreement entered into force on 1 July 2015. The ASEAN-India Trade in Services Agreement has been ratified by India and eight AMS, except for Cambodia and Indonesia. The ASEAN-India Investment Agreement has been ratified by India and seven AMS, except for Cambodia, Indonesia, and Lao PDR.

3.64. The negotiations on the ASEAN-Japan Services and Investments chapters for incorporation into the ASEAN-Japan Comprehensive Economic Partnership Agreement have been completed and expected to be signed by end of 2017.

3.65. In March 2017, during the 15th AEM-EU Trade Commissioner Consultations, Ministers have tasked the Senior Economic Officials to work out the parameters of a future ASEAN-EU FTA and to report back to the next Ministerial meeting in 2018 under the Singapore chairmanship.

3.66. ASEAN and Russia marked the 20th anniversary of their dialogue relations in 2016 with a Commemorative Summit held in Sochi, Russia on 19-20 May 2016. Russia had put forward a proposal to launch a joint feasibility study of a comprehensive free trade area between ASEAN and the Eurasian Economic Union (EAEU). At present, both Parties have agreed on the need to increase familiarisation of how ASEAN and EAEU operate before deciding on whether to embark on a feasibility study. In moving forward, in June 2017, Russia has submitted a non-paper on the EAEU's Guiding Principles on Starting the Negotiations on Concluding Free Trade Agreements with Third Countries.

3.67. On 21 November 2015, the ASEAN-US dialogue relation was elevated to a strategic level with the adoption of the Joint Statement on the ASEAN-US Strategic Partnership. The goals and vision of this Strategic Partnership is implemented through the Plan of Action to Implement the ASEAN-US Strategic Partnership (2016-2020).

3.68. The first standalone US–ASEAN Summit was held at Sunnylands in Rancho Mirage, California on 15-16 February 2016. The theme of the Summit was "Promoting an Innovative, Entrepreneurial ASEAN Economic Community". During the summit, two initiatives were announced, namely US-ASEAN Connect and the US-ASEAN Trade Workshops. The US-ASEAN Connect will provide opportunities for ASEAN and the US to stay connected through better access to expertise, information and resources of the US government and private sector in four areas i.e. Business Connect, Energy Connect, Innovation Connect, and Policy Connect. On the other hand, the US-ASEAN Trade Workshops is to help better understanding among ASEAN countries on the commitments of high standard trade agreements.

3.69. In addition to the Summit, the 3rd ASEAN Economic Ministers Meeting (AEM) Roadshow was held back-to-back with the Summit in Sunnylands, California on 17–18 February 2016. Focusing on innovation and entrepreneurship, the Roadshow further strengthened ASEAN-US connections and generated increased awareness of the presence of ASEAN as a region and a vital trading partner of the US.

3.70. Several other initiatives have also been implemented under 2016-2017 ASEAN-U.S. Trade and Investment Framework Arrangement (TIFA) and Expanded Economic Engagement (E3) Initiatives Work Plan. These include the:

i. finalization and endorsement of the texts of the ASEAN-U.S. Cooperation in Fostering Transparency and Good Regulatory Practices and the ASEAN-U.S. Cooperation in Fostering International Investment; and

ii. ASEAN-U.S. Trade and Environment Dialogue focusing on Combating Illegal, Unreported and Unregulated Fishing, which was held on 5–6 November 2015 in Kuala Lumpur, Malaysia.

3.71. ASEAN and the U.S. are currently working on the finalization of the ASEAN-US Cooperation in Fostering Cooperation in Telecommunications and Information Technology Services and to also organize a workshop on illegal wildlife trafficking in 2017.

3.72. ASEAN and its six dialogue partners (Australia, China, India, Japan, Korea and New Zealand) launched the Regional Comprehensive Economic Partnership (RCEP) negotiations in 2013. The objective of RCEP is to streamline the 6 ASEAN FTAs with its dialogue partners into a single regional trade agreement that can contribute to strengthening regional value chain in the region. To date, 20 Rounds of RCEP negotiations have been held since May 2013. The 20th Round was held from 21-28 October 2017 in Korea.

3.73. The scope of RCEP is comprehensive and covers:

i. Trade in Goods;

ii. Trade in Services;

iii. Investments;

iv. Economic and Technical Cooperation;

v. Intellectual property;

vi. Competition Policy;

vii. Dispute Settlements;

viii. Electronic Commerce; and

ix. Small and Medium Enterprises.

3.74. Two RCEP Chapters namely Economic and Technical Cooperation and Small and Medium Enterprises have been finalised and are currently undergoing legal scrubbing.

3.75. The ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA) and the ASEAN-Hong Kong, China Investment Agreement (AHKIA) was successfully concluded on 30-31 July 2017. This would enable both agreements to be signed by the Ministers at the sideline of the 31st ASEAN Summit in November 2017 in The Philippines.

3.76. Malaysia is among the 12 negotiating countries involved in the Trans-Pacific Partnership (TPP) negotiations. The other 11 countries are Australia, Brunei Darussalam, Canada, Chile, Japan, Mexico, New Zealand, Peru, Singapore, United States and Viet Nam.

3.77. Signed by the 12 countries on 4 February 2016 in Auckland, New Zealand, the Agreement has yet to enter into force following the United States withdrawal on 23 January 2017. Currently, the remaining 11 TPP countries are engaging on a possible way forward to bring the Agreement into force.

3.5 ASEAN

ASEAN Economic Community (AEC)

3.78. Economic integration is an on-going process for Malaysia and the other ASEAN Member States. The AEC established in 2015 is the beginning of this process. The ASEAN Economic Blueprint 2025 was then adopted in which it outlines the measures that will be implemented over the next ten years to create a highly integrated and cohesive, competitive and dynamic ASEAN. Under the new Blueprint, growth and the dynamism of ASEAN as an economic entity is expected to be generated or sustained through robust productivity growth, innovation, leveraging on information, communication technology, adjusting to industry 4.0 technologies, human resources development and strengthening ASEAN's global economic engagement.

3.79. The key challenges faced in implementing the AEC Blueprint 2025 measures are the timely ratification of ASEAN agreements/protocols which affect their entry into force, alignment of regional initiatives to domestic laws and regulations and domestic constraints in the implementation of regional and country-specific commitments.

3.80. In the next decade, Malaysia and ASEAN will continue to provide emphasis on the development and promotion of micro, small and medium enterprises (MSMEs) in economic integration efforts. At the same time, Malaysia and ASEAN will likewise embrace the evolving digital technology as leverage to enhance trade and investments, provide an e-based business platform, promote good governance, and facilitate the use of green technology.

3.81. ASEAN is in the right direction in pursuing deeper economic integration. However, the elimination of tariffs alone is not sufficient. Malaysia has emphasised that apart from implementing action lines under the AEC Blueprint 2025, priority must be given to address NTBs which continue to impede intra-ASEAN trade and investment. The reactivation of ASEAN Trade Facilitation Joint Consultative Committee (ATF-JCC) in 2015 was one of the initiatives taken by Malaysia to address the NTBs. The ATF-JCC will work with private sector in identifying, reducing and eliminating the NTBs.

3.82. The 32nd High Level Task Force on Economic Integration (HLTF-EI) agreed with Malaysia's recommendation for a possible framework which clearly identifies actions to be taken by ASEAN member states to monitor, reduce and ultimately eliminate NTMs/NTBs that continue to impede the expansion of intra-regional trade and investment under the AEC. The four key proposals are to:

i. develop clear guidelines in categorising NTMs as NTBs;

ii. fully implement all commitments stipulated in Article 11 (Notification Procedures), Article 12 (Publication and Administration of Trade Regulations), Article 40 (Application of NTMs), and Article 42 (Elimination of other NTBs) under ATIGA;

iii. develop a mechanism for counter notification procedures under ATIGA, i.e. an AMS may notify introduction of new NTMs/NTBs by another AMS; and

iv. improve the system for engaging the private sector in identifying NTBs.

3.83. Besides removing NTBs related to trade in goods, ASEAN is also working towards removing barriers and restrictions in trade in services. This liberalisation initiative is undertaken progressively under the ASEAN Framework Agreement in Services (AFAS) in ten packages starting from the First Package in 1995. The liberalisation covers 128 services sub-sectors, which include air transport, financial services, transport and logistics, business sector, construction, tourism, recreational facilities, hotels theme parks, restaurants, retail and wholesale distributive trade, healthcare, private hospitals and medical care and consulting services.

3.84. To date, 9 Packages of Commitments under AFAS have been concluded, the latest of which was signed on 27 November 2015 in the Philippines. In this package, AMS have made commitments to liberalise a wide range of services sector and subsectors. Malaysia's offers in the 9th Package cover a total of 101 services sub-sectors: healthcare, tourism and travel related services, computer and related services, telecommunication, business and professional services, distribution services, construction and related services, maritime transport and education. In addition, ASEAN has also signed 7 mutual recognition arrangements in engineering, accountancy, architect, surveying, dental, nursing and medical care to complement the liberalisation initiative by further facilitating the movement of professionals in the services sector.

3.85. The ASEAN Single Window (ASW) is a regional initiative that connects and integrates National Single Windows (NSWs) of ASEAN Member States. ASW provides the secure IT architecture and legal framework that will allow trade, transport, and commercial data to be exchanged electronically among Government agencies or the trading community. The ASW currently supports the exchange of the intra-ASEAN Certificate of Origin ATIGA Form D among the exchange-ready Participating Member States. The live implementation of the ASW is targeted to be operationalized in 2018.

3.86. ASEAN is also pursuing a work programme on GRP. The ASEAN Work Plan on GRP 2016-2025 is aimed at:

i. institutionalising a body to work on GRP;

ii. developing ASEAN GRP core principles; and

iii. conducting a baseline study on Regulatory Management Systems (RMS) in ASEAN.

3.6 Asia Pacific Economic Cooperation

3.87. Malaysia participates actively at the Asia Pacific Economic Cooperation (APEC) and collaborates with APEC economies to achieve free and open trade and investment in line with the

Bogor Goals. Malaysia has contributed to APEC's initiatives to advance regional economic integration in the areas of GRP, trade facilitation and internalization and integration of SMEs into GVCs.

3.88. During the review period of 2014 to 2017, Malaysia notably supported APEC initiatives by fulfilling commitments to eliminate or reduce duties to 5% on 54 products under the APEC Environmental Goods List, which came into effect on 1st January 2016. Malaysia also co-led a regional integration project focused on integrating SME automotive suppliers into the Original Equipment Manufacturers (OEM) GVCs. In the same vein, Malaysia also contributed to the SME Online-2-Offline (O2O) business model, which aims to facilitate growth of SMEs and facilitate integration and internationalisation of SMEs into GVCs.

3.89. Malaysia also initiated the MyAPEC YouthConnect Programme in October 2016, which aims to nurture Malaysia's and APEC's talents through leveraging the integration of economies in the Asia-Pacific region. To date, 28 youths have participated in the programme. In addition, Malaysia also assumed an active role in the pathways to the Free Trade Area of the Asia Pacific (FTAAP) and contributed to the Collective Strategic Study on Issues Related to the Realisation of FTAAP.

4 CHALLENGES AND OPPORTUNITIES OF EXTERNAL ENVIRONMENT

4.1 Overview

4.1. There are concerns that the global economic growth, including for developing countries like Malaysia will be affected by major policy decisions made by other countries. These include BREXIT, the new US trade policy, the uncertainty of the TPP, the structural changes introduced by China and the volatility of oil prices. Nevertheless, Malaysia's trade in 2016 remained resilient despite continued uncertainties in the global environment. As a highly open economy with diversified exports and markets, Malaysia's trade structure has partially mitigated the adverse effects arising from policy developments in some of the major export partners.

4.2. The Government is also responding to these global dynamics through advancing structural reform measures that promote trade and investment diversification and competitiveness, as well as moving up the value chain of industries. The Government continues to adopt the necessary policy responses to ensure Malaysia's exports are not being discriminated, and compete at a level playing field, while continuing to maintain conducive environment for trade and investment. Malaysia firmly believes that a free, fair and predictable trade environment is vital for its participation in international trade activities.

4.2 BREXIT

4.3. The impact of BREXIT on Malaysia's trade and investment is still uncertain given the early stages of negotiations between London and Brussels. In addition, given that the UK has only recently started discussing its commitments under the WTO, it is still not clear how BREXIT will impact Malaysia. Indeed, from our preliminary consultations with the business community, generally the sentiment is quite positive.

4.4. Malaysia's trade with the UK stood at US$3.7 billion in 2016. For the period January-August 2017, Malaysia's trade with the UK increased by 8.3% from the corresponding period of 2016. In 2016, among the EU countries, the UK was Malaysia's third largest trading partner and third largest source of investment.

4.5. BREXIT could also provide opportunities for Malaysia. Malaysia could be an investment attraction point for the UK in some high value added, technological oriented and services sectors. In 2016, FDI from the UK to Malaysia was RM 5.2 billion (US$1.25 billion), while FDI from Malaysia to the UK was registered at RM 3.3 billion (US$0.8 billion).

4.6. There are also higher chances of the UK to have more targeted bilateral trade arrangements with Asian economies, including Malaysia. The UK businesses may also explore new opportunities in a more competitive and business-friendly environment like Malaysia which could serve as the gateway to expand their business within ASEAN. Notwithstanding the outcomes of BREXIT, Malaysia will continue to enhance its regional engagements with the EU and foster bilateral relationship with the UK towards providing a transparent and liberal trade and investment environment for mutual benefit.

4.3 U.S. Trade Policies

4.7. Malaysia and the U.S. have long enjoyed a favourable and successful partnership in trade and investment. The U.S. is among Malaysia's top three trading partners, while Malaysia is among the top 20 trading partners for the U.S. However, currently there is still a lack of clarity on US' trade and investment policies towards ASEAN, including Malaysia.

4.8. The 'America First' policy introduced by the U.S. is a major concern for a small trading nation like Malaysia. In addition, the U.S. new tax reforms may also impact the business decisions of multinational companies who have established strategic regional operations in Malaysia.

4.9. Nevertheless, Malaysia is committed to promoting a transparent and liberal trade and investment environment, especially within the rules-based multilateral trading system of the WTO. Malaysia looks forward to establishing a structured, and fair trade and investment partnership with the U.S. by building upon existing bilateral, regional and multilateral platforms such as the Trade and Investment Framework Agreement (TIFA), APEC and WTO.

4.4 Belt and Road Initiative

4.10. Malaysia and China enjoy a long history of partnership in various fields. In 2016, China was Malaysia's second major export country with total exports worth RM 98.56 billion (US$23.72 billion). For the period January to July 2017, Malaysia's trade with China expanded by 27.7% to RM 163.0 billion compared with the corresponding period of 2016. Exports to China surged by 39.4% to RM 69.2 billion, due to higher exports of E&E products, petroleum products, rubber products, chemicals and chemical products as well as LNG. Imports from China increased by 20.3% to RM 93.9 billion.[1]

4.11. To further enhance Malaysia's partnership with China, on 13 May 2017, Malaysia signed an 'MoU on Promoting Mutual Economic Development Through the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative' (OBOR MoU). The MoU outlined areas of cooperation such as facilities connectivity, cross-border e-commerce, information connectivity, quality investments and encouraging utilization of local supply chain and other areas. The OBOR MoU is expected to create and expand business opportunities for the countries along the 21st Century Maritime Silk Road and Silk Road Economic Belt.

4.5 EU's Resolution on Palm Oil and Deforestation of Rainforest

4.12. On 4 April 2017, the European Parliament adopted the Resolution on Palm Oil and Deforestation of Rainforest as a move to introduce minimum sustainability criteria for palm oil and palm oil-based products that enter the EU market. According to the EU, this is to ensure that palm oil imported into the EU has not led to deforestation and not given rise to economic, social and environment problems and conflicts, such as child and forced labour. To achieve this, various measures were proposed by the EU, including the ban of palm oil in biofuels, switching to a single EU-wide sustainability certification, introduction of discriminative tariffs between certified and sustainable palm oil (CSPO) and non-CSPO and allowing only sustainable certified palm oil to be imported into the EU after 2020. The EU explained this is part of their commitments in various international sustainable-related agreements, such as the Paris Agreement and the 2030 Agenda on Sustainable Development.

4.13. The EU is the third largest market for palm oil, while Malaysia is one the largest producers and exporters of palm oil products in the world. The EU Resolution is seen as discriminatory to palm oil and would result in NTBs that have adverse impact on Malaysia's palm oil exports to the EU. As part of Malaysia's commitment to sustainable oil palm cultivation, the Malaysian Sustainable Palm Oil (MSPO) Scheme on a voluntary basis has been implemented since January 2015. MSPO has been developed based on domestic laws and regulations, and best practices on

[1] Malaysia External Trade Statistics: Trade Performance for the Month of July 2017 and the Period of January-July 2017.

sustainability. To support MSPO implementation, the Malaysian Palm Oil Certification Council was also established in 2014. To promote certified sustainable palm oil and further strengthen the image of the palm oil industry, in 2017, the Government announced the mandatory implementation of MSPO certification to nationwide palm oil producers and processors by 31 December 2019.

4.14. Other initiatives include a joint seminar by the Friends of Palm Oil (FPO), namely Malaysia, Indonesia, Thailand, Colombia, Guatemala, Ecuador, Costa Rica and Honduras on "Sustainability and NTBs to Trade – The case study of palm oil" held on 26 September 2017 on the side-lines of the WTO Public Forum. The session involving presentations by nine panellists from the Government and private sectors, as well as non-governmental organisations (NGOs), was held to negate and correct the negative perception on palm oil based on factual and scientific evidence, showcase respective Governments' initiatives towards various sustainability criteria, as well as challenges faced by FPO due to unjustified NTBs imposed by some WTO members.

5 SECTORAL POLICIES

5.1 Manufacturing Sector

5.1. The manufacturing sector continued to be the mainstay of Malaysia's economy during the period under review amid headwinds and uncertainties in the global economic landscape. The manufacturing sector accounted for 82.2% of the country's total export and 23% of the country's GDP in 2016, recording a steady growth of 4.4%.[2] Total workforce in the manufacturing sector grew by 2.7% to approximately 1,051,923 persons as of May 2017.

5.2. Under the 11MP, Malaysia aims to energise the manufacturing sector in order to sustain Malaysia's resilience and long-term competitiveness, and contribute to leading-edge, high-paying job opportunities for Malaysians. The manufacturing sector is expected to grow at 5.1% annually to the year 2020, contributing 22.1% or RM1.4 trillion to GDP, and accounting for 2.8 million jobs to 18.2% of total employment.[3]

5.3. The transition of the manufacturing sector towards creating a more high-value, diverse and complex products will be driven by E&E, machinery and equipment, chemicals, medical devices and aerospace sub-sectors. These industries were identified due to their cross cutting linkages with all economic segments such as the primary, manufacturing and services sectors. Increasing efforts are being undertaken to make Malaysia the leading hub for high technology products and activities in the region.

5.4. Among major initiatives to develop the E&E subsector is the implementation of the tariff elimination commitment of the ITA2 on 1 July 2016. With this, Malaysia's ICT industry will have easier access to a wider market globally for its products and will provide market opportunities for more than 600 local producers to boost their exports to participating countries.

5.5. In 2017, the largest growth in the E&E sub-sector is expected to come from memory and sensors. Malaysia is poised to reap the benefits of a rise in global demand for electronic products. However, the immediate need is to implement targeted strategies to close the gap in the E&E eco-system. It is noted that the sub-sector continues to face tough challenges such as securing adequate talent with the right skill sets for the supply, research, design and development aspect of the industry. Another challenge is to ensure that regulatory policies enforced are conducive to promoting business. With the advent of the Internet of Things (IoT) and Industry 4.0, this sub-sector will continue to evolve and drive innovations in other areas such as automotive, aerospace and medical devices.

5.6. The Government is also undertaking steps to further develop the Aerospace industry in Malaysia. To ensure a steady and consistent growth of the Aerospace industry, in 2015 the government launched the Malaysian Aerospace Industry Blueprint 2030. The Blueprint lined up strategies and key initiatives to enable the industry to become a robust high technology sector that supports the comprehensive aero-systems life cycle, taking advantage of the rapidly growing

[2] MITI Report 2016.
[3] Eleventh Malaysia Plan 2016-2020.

air transportation industry. It is made up of five subsectors, namely aerospace manufacturing; Maintenance Repair & Overhaul (MRO); Engineering & Design; Systems Integration and Training & Education with clear objectives and targets.

5.7. To spearhead the coordinated development of the aerospace industry, MITI established the National Aerospace Industry Coordinating Office (NAICO) in August 2015. NAICO assumed a critical role as the focal point for linking aerospace industry enterprises, relevant Ministries/Agencies and academia to collectively work to boost the capability and capacity of Malaysia's aerospace industry. NAICO's initiatives included the Aerospace Industry Collaboration Programme (ICP) Strategy which would be the strategic reference for future aerospace ICP projects. NAICO also collaborated with TalentCorp Malaysia to develop a Critical Occupation List (COL) for the aerospace industry, which would serve as a strategic reference for human capital development programmes for the aerospace industry.[4]

5.2 Agriculture Sector

5.8. The agriculture sector remains as an important sector to Malaysia's economic development, particularly in providing employment to the rural community and towards achieving the national food security objectives. Agriculture also assumes an important role in the Government's effort to uplift rural incomes and eradicate poverty.

5.9. Palm oil contributes to more than 40% of the country's GDP in the agriculture sector for the past few years. In 2016, Malaysia was also ranked the second largest palm oil exporter in the world. Apart from palm oil, contributions of other agriculture sectors are relatively small, due to the fact that most of these sectors consist of small-scale farmers and lack of large, industrial-scale companies.

5.10. Exports of commodity and commodity-based products grew by RM 4.9 billion or 4.19% to RM 122 billion in 2016. The higher exports were contributed by increased exports of palm oil and palm-based products, timber and timber-based products as well as cocoa and cocoa-based products.

5.11. As reported in the previous review, Malaysia has identified the agriculture sector as one of the National Key Economic Areas (NKEA) under the ETP. Under this programme, the Government is now focusing on the transformation of the agriculture sector from fragmented and small-scale farms to an integrated and market-centric model by capitalizing on Malaysia's competitive advantages, tapping on premium markets, aligning food security objectives with increasing GNI and participating in the regional agricultural value chain by 2020.

5.12. To complement the implementation of the ETP, the Government is also currently implementing the 10 year National Agrofood Policy (NAP) which was launched in 2012, with the aim to further improve the competitiveness of the agro-food industry along its value chain and to create a more productive and knowledge intensive industry. There are seven strategies outlined under the NAP, as follows:

i. ensuring national food security;

ii. increasing the contribution of the agro food industry;

iii. completing the value chain;

iv. empowering human capital;

v. strengthening the activities of R&D, innovation and the use of technology;

vi. creating the environment for private sector led businesses; and

vii. strengthening the delivery system.

[4] MITI Report 2016.

5.13. The NAP also emphasised on food safety and nutrition by implementing Malaysian Good Agricultural Practices (MyGAP). This implementation will be gradually expanded to all Permanent Food Production Parks and Aquaculture Industrial Zone before extending to other commercial farms.

5.3 Services Sector

Autonomous Liberalisation

5.14. The Government's on-going efforts to empower growth and improve quality, standards and competitiveness of the sector include the unilateral or autonomous liberalisation of a number of services sub-sectors in Malaysia. As reported in the last Review, 27 sub-sectors were liberalised for foreign participation up to 100 per cent in 2009. A further 18 services sub-sectors were autonomously liberalised in 2012.

5.15. Allowing foreigners to own businesses in Malaysia or in partnership with locals in these services sub-sectors have provided opportunities for Malaysians to form strategic alliances and other arrangements with leading international firms to upgrade and facilitate knowledge sharing and cultivate best practices and establish a viable presence into larger markets overseas through the creation of new areas of practice, products and broadened clientele base. Additionally, these initiatives have in turn provided access to a wider choice of services and providers and assisted in promoting Malaysia as the preferred investment destination.

Services Sector Blueprint

5.16. With the aspiration of becoming a high-income economy and transforming Malaysia into a knowledge-intensive and services-driven economy, the Government has formulated the Services Sector Blueprint (SSB) 2015-2020 which was launched by the Prime Minister on 16 March 2015. The SSB 2015-2020 is a set of horizontal strategies and action plans to address obstacles which potentially hinder further growth of the services sector. Among the challenges encountered by Malaysia in the sector include shortages in skills including skills mismatches, bottlenecks in the regulatory environment and tendency for Malaysian service providers to be inward oriented in terms of export services. At the same time, the development of the services sector as the key driver of economic growth was also emphasised under the 11MP and guided by the SSB. Under the 11MP, the sector is targeted to grow at 6.9% per annum, contributing 56.5% to GDP by 2020, and providing 9.6 million jobs. For the period 2010 to 2016, the services sector has recorded an expansion with an average growth of 6.4%.

5.17. To achieve these targets, a total of 29 Action Plan Items (API) were recommended for implementation under the SSB through four policy levers or strategies, namely:

i. Internationalisation strategy that aims to significantly increase the number of service providers in Malaysia as well as broaden their reach by addressing existing gaps in capabilities and external readiness. The API include creating partnerships of strength to increase competitiveness among services providers such as large corporation-SME partnership programme and opening up and harmonising markets through G-to-G negotiations;

ii. Effectiveness of investment incentives mechanisms will be enhanced by increasing transparency, eliminating duplication and linking to performance;

iii. Human Capital Development which aims at producing, attracting and retaining skilled talent. Among the AIPs that are recommended under the SSB include improving the industry readiness of new graduates by fostering greater collaboration between the industry, unlocking the potential of alternative talent pools by investing in development and training for all employees, and raising the bar for productivity and capability of the current workforce by encouraging SMEs to provide training for employees; and

iv. Sectoral Governance Reform to cultivate an efficient, facilitative policy environment and machinery that would provide a thriving and competitive environment for the services sector to develop positively. This strategy requires Malaysia to accelerate and increase the efficiency of sectoral governance reform, ensuring the best regulatory development practices are in place for new regulations by expanding and accelerating the adoption of the NPDIR, and increasing the transparency, accessibility and user-friendliness of regulations through the introduction of MyRegulations portal.

5.18. Since its inception, SSB has achieved commendable progress. In 2016, services export recorded 7.5% growth and productivity growth increased by 2.8% to RM 68,166 from RM 66,328. Hence, more than 350 services SMEs gained easy access to financing under credit guarantee scheme and 10 SMEs succeeded in participating in large corporation-SME partnership to undertake large-scale projects. Five new centres of excellence on high-value R&D work in strategic technology areas have been established to provide training and product development. In addition, Governance reform on regulation through adoption of NPDIR has been extended throughout the states and incentive management being improved through the establishment of ICCO to incentivise the services sector growth potential.

5.19. The implementation of the SSB with other national masterplans, such as the Logistics and Trade Facilitation Masterplan would ensure a well-planned and integrated approach to accelerate growth in the services sector.

<u>Financial Services Sector</u>

Banking and insurance sector

5.20. The financial sector continued to contribute positively to the GDP. The real value-added of financial services to GDP stood at over RM 75.3 billion in 2016, accounting for 6.8% of real GDP. The Malaysian financial system has also weathered episodes of financial turbulence, weaker growth and compressed margins in recent years supported by the strong financial buffers and the continued observance of prudent risk-taking. The facilitative business environment in Malaysia continues to encourage significant foreign participation in the financial sector with 27 out of 56 financial institutions (including conventional, Islamic and investment) being fully-foreign owned as of the end of July 2017. In the insurance and takaful sector, 31 out of 55 institutions are foreign-owned.

5.21. During the period under Review, there has been steady progress to increase the resilience, efficiency and competitiveness of Malaysia's financial sector, as envisioned in the Financial Sector Blueprint (2011). Progress has been most notable in the areas of financial inclusion, regulation and supervision, regional financial integration and migration to electronic payments. These include:

i. widening outreach of financial services through growing presence of agent banks following the implementation of the Agent Banking Framework that is in line with the Bank's agenda;

ii. enhanced regulatory and supervisory practices focusing on governance and risk management through the amendment of the Development of Financial Institutions Act 2002 (which came into effect on 31 January 2016) and continued adoption of strengthened global standards;

iii. greater economic efficiency through electronic payments, with the implementation of the Payment Card Reform Framework and migration to Chip and PIN; and Malaysian Chip Card Specification;

iv. higher empowerment of consumers, supported by the operationalisation of the Ombudsman for Financial Services beginning 1 October 2016;

v. more effective financial intermediation with the implementation of reforms under the Life Insurance and Takaful Framework; and greater flexibility for insurers and takaful operators resulting from the liberalisation of the motor and fire tariffs;

vi. strengthened regional and financial integration through greater expansion of Malaysian banks in the ASEAN region under the ASEAN Banking Integration Framework; and

vii. operationalisation of the Investment Account Platform to channel local and foreign Shariah-compliant investments in financing various currencies intermediated by Islamic banks from different countries.

5.22. In embracing financial technology, Bank Negara Malaysia implemented a Regulatory Sandbox Framework on 18 October 2016 to enable the experimentation of fintech solutions in a live environment, subject to appropriate safeguards and regulatory requirements. This framework is expected to spur the growth of fintech innovations that could be a game changer with significant impacts in the banking landscape. As one of the pioneers to implement this in a rapidly changing environment, Malaysia is prepared to adapt and to develop mutually beneficial relationships with foreign and domestic investors whilst ensuring that there are pragmatic and agile policies to protect the interests of all.

5.23. In order to promote Malaysia's interest to deepen the onshore financial markets, there has also been a concerted effort in recent years to promote a stronger alignment of interests and shared responsibility among key stakeholders. Thus, a committee consisting of representatives from Bank Negara Malaysia, financial institutions, corporations and other key stakeholders in the financial market was formed in 2016. This committee, which is known as the Financial Market Committee (FMC) is responsible for formulating recommendations to foster the development of Malaysia's financial market. Following its inception, a series of measures have been introduced since December 2016 including:

i. allowing exporters to retain up to 25% of export proceeds in foreign currency with the balance to be converted to Ringgit. Exporters are allowed to reconvert at the same rate to finance up to 6 months of their foreign currency obligations in cases where retained foreign currency is insufficient;

ii. requiring payment by resident exporters for settlement of domestic trade in goods and services to be made fully in Ringgit;

iii. according flexibility for non-bank entities and resident investors to undertake hedging transactions to manage foreign currency exposure;

iv. promoting fair and effective financial markets through global best practices and ethical standards; and

v. allowing all residents to participate in regulated short selling of securities in the wholesale money market.

5.24. Moving forward, priorities for the development of the financial sector include the following:

i. developing a vibrant alternative financing and fintech ecosystem to support future innovation;

ii. developing market-based funding solutions for SMEs and frontier industries;

iii. strengthening the role of development financial institutions to better serve and support the development of targeted socio-economic sectors;

iv. continue developing deep and liquid financial markets, including ensuring the availability of cost-effective hedging instruments to manage risk exposure; and

5.25. elevating the role of insurance and takaful to meet the protection and risk management needs of Malaysian households and businesses.

Capital Market Sector

Phased and Pragmatic Liberalisation

5.26. Guided by the Capital Market Masterplan (CMP) (2001-2010) and Capital Market Masterplan 2 (CMP2) (2011-2020), Malaysia has undertaken a process of phased and pragmatic liberalization in the capital market to derive maximum value from globalisation, while ensuring that the transition to a more liberalised market environment does not give rise to undue adjustment difficulties for the domestic capital market and the broader Malaysian economy.

5.27. In tandem with this strategic approach, Malaysia has fully liberalised all limitations on foreign equity shareholding in the capital market. Foreign equity restrictions in unit trust management companies were lifted in 2014 and most recently full foreign ownership in credit rating agencies were allowed as of 1 January 2017. With the implementation of these liberalisation measures, all existing foreign equity restrictions in the capital market have been removed.

Growth with Governance

5.28. The CMP2 outlines the growth strategies to expand the role of the capital market; and formulation of governance strategies for investor protection and market stability. On 26 April 2017, the SC released the new Malaysian Code on Corporate Governance (MCCG). The aim was to place greater emphasis on the internalisation of corporate governance culture not just among listed companies, but also encourages non-listed entities including state-owned enterprises, SMEs and licensed intermediaries to embrace the code. It also sets an important milestone for Malaysia in promoting good corporate governance to ensure sustainability and resilience of the capital market.

Digitalisation Agenda to Power Growth of the Capital Market

5.29. One of the key drivers of the SC's developmental strategy is the digitalisation agenda. Since 2014, the SC has embarked on efforts to enable both businesses and investors to benefit from a regulatory framework that will facilitate wider accessibility to market-based financing avenues as well as utilizing technology to enable greater investor participation. This has led to the introduction of an equity-based crowdfunding (ECF) framework in February 2015. In Malaysia, the growth of ECF activities has been encouraging where as of end July 2017, 30 issuers have succeeded in collectively raising a total of RM 19.9 million through six registered ECF operators. The ECF platforms are expected to gain further momentum over the coming years.

5.30. In 2016, the SC focused its efforts to facilitate peer-to-peer (P2P) financing, a form of digital innovation which broadens the ability of entrepreneurs and small business owners to unlock capital from a pool of individual investors in small amounts. The P2P framework was launched in April and expected to be fully operational by the end of 2017.

5.31. The launch of the Digital Investment Management (DIM) framework in May 2017 is part of the SC's on-going efforts to bring financial inclusion to the masses through the use of technology. DIM is a fund management business which incorporates innovative technologies into discretionary portfolio management services. This framework aims to increase investors' participation by providing them with a new mode of investment, which is more convenient, affordable and accessible to manage and grow their wealth.

5.32. As part of the SC's initiative to catalyse greater interest and visibility towards nurturing the development of digital finance, the SC launched the Alliance of FinTech Community (aFINity) at the World Capital Market Symposium (WCMS) in September 2015. To date, over 100 industry participants have registered with aFINity.

5.33. In June 2017, the SC entered into an Innovation Cooperation Agreement with the Australian Securities and Investment Commission (ASIC) to further promote innovation in financial services. Under the agreement, the SC and ASIC will work closely to share information on emerging trends and regulatory issues in digital finance. Both regulators will also facilitate referrals of innovative businesses seeking to operate in each other's jurisdictions, as well as explore potential joint innovation projects relating to the application of new technologies.

Greater Capital Market Interconnectivity

5.34. Recognising the importance of green finance as a new asset class, the SC through the ACMF took a leadership position in driving the agenda in the ASEAN region, beginning with its efforts to develop ASEAN Green Bond Standards (GBS). In March 2017, an announcement on the cooperation between ACMF and the International Capital Market Association (ICMA) was made to introduce ASEAN GBS that will be applied across capital markets in ASEAN. This initiative will facilitate ASEAN capital markets in tapping green finance to support sustainable regional growth and as an avenue to meet investors who are interested in green investments. It is also a part of ACMF's broader efforts in developing green finance for the region.

Widen Islamic Capital Market's International Base

5.35. The Islamic Capital Market (ICM) is a significant pillar of Malaysia's well-developed Islamic finance industry, in which Malaysia is widely recognised as the leading centre for innovation in Shariah-compliant products and services. Based on this, greater internationalisation of the capital market is a critical aspect of the strategy to strengthen Malaysia's position as a global ICM hub.

5.36. The implementation of CMP and CMP2 recommendations has underpinned the healthy growth of Malaysia's ICM. Over the past decade, the ICM in Malaysia has more than tripled in size between 2005 and 2015. During this period, it registered a compounded annual growth rate (CAGR) of 11.7% with the market capitalisation of Shariah-compliant equities and the value of sukuk[5] outstanding in Malaysia increasing at a CAGR of 9.5% and 17.6% respectively. By end 2015, Malaysia's ICM reached a size of RM 1.7 trillion and accounted for 60.1% of the total size of the Malaysian capital market.

5.37. To further drive the development and growth of Malaysia's ICM, the SC launched a five-year Islamic Fund and Wealth Management Blueprint (Blueprint) on 12 January 2017. The Blueprint identifies strategies and key initiatives to strengthen Malaysia's positioning as a global hub for Islamic funds. It also aims to establish Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment (SRI), leveraging Malaysia's position as the largest SRI market in Asia.

5.38. The SRI Sukuk Framework launched on 28 August 2014 is an extension of the existing sukuk framework, and aims to facilitate the financing of sustainable and responsible investment initiatives. The Framework identifies four broad areas for determining project eligibility namely natural resources, energy-related, social impact and waqf.[6]

5.39. Sukuk that has been issued under the SRI framework include a social impact sukuk as well as Malaysia's first green sukuk which was issued on 27 July 2017. The green sukuk is envisaged as an innovative instrument to address global funding gaps in green financing.

Promote Capital Formation

5.40. To further enhance investors' awareness as well as giving due recognition to the mid and small-cap companies that have been generally under-researched, on 25 May 2017, the SC launched the Mid and Small Cap (MidS) Research Scheme together with Bursa Malaysia and industry.

5.41. The MidS Research Scheme was initiated with the primary objective of creating better value recognition of mid and small-cap companies as they form an important segment of the listed equity asset class within the overall capital market. Under this Scheme, an inaugural batch of 100 mid and small-cap public listed companies (PLCs) will receive independent analyst coverage by licensed research houses.

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[5] Means certificates of equal value which evidence undivided ownership or investment in the assets using Shariah principles.

[6] Islamic endowment – a voluntary and irrevocable endowment of Shariah-compliant assets for Shariah compliant purposes.

5.42. The SC also introduced the private retirement scheme (PRS) in 2012 to allow a wider cross-section of the public to access the capital market for their retirement needs. PRS serves as the voluntary pillar in Malaysia's retirement ecosystem. Collective efforts by the SC, PRS Providers and the Private Pension Administrator (PPA)[7] in growing the PRS industry have seen the industry expanding to over 250,000 members with total assets crossing RM 1.7 billion as of July 2017.

6 OTHER DOMESTIC POLICIES

6.1 Competition Act 2010

6.1. The Malaysian Competition Commission (MyCC) which is under the purview of the Ministry of Domestic Trade, Cooperatives and Consumerism is an independent body established to enforce the Competition Act 2010 (the Act) since 1 January 2012. The Act is implemented to stimulate economic development by creating healthy competition which would in turn stimulate productivity, innovation and entrepreneurship. Thus, the Act enhances consumer welfare through creating wider choices of products with better quality and reasonable prices, and also provides foreign investors more confidence in the country's business practices. There have not been significant changes to the regulatory framework since the previous TPR of Malaysia[8], except for the publication of several new implementation guidelines by MyCC. The First Schedule of the Competition Act does not apply to commercial activities regulated by the following legislations, namely the Communications and Multimedia Act 1998, Energy Commission Act 2001, Petroleum Development Act 1974 and Malaysian Aviation Commission Act 2015.

6.2. MyCC has undertaken various advocacy programmes to raise awareness and inculcate a culture of compliance of the Competition Act 2010 in Malaysia. These include conducting local and international advocacy programmes for various sectors of the economy and government bodies (totalling 215 events for the period January 2011-July 2017); signing Memorandum(s) of Understanding (MOU) with BNM in 2014 and public/private universities in 2015; implementing MyCC's "Strategic Plan for Competition Advocacy and Communication 2015-2017"; and undertaking market reviews for various industries or market conditions such as broiler chicken industry in West Malaysia (2012), price-fixing by professional bodies (2013), pharmaceutical sector in Malaysia (2017), and building materials in the construction industry (2017).

6.3. For the period January 2012 to July 2017, MyCC has successfully resolved or closed 93% or 297 out of 319 complaints, as well as investigation of 40 infringement cases out of 45 cases which have been brought to its attention. Final decisions issued by the MyCC under Section 40 of the Competition Act 2010 (Finding of Infringement) included high-profile cases such as those against Malaysia Airline System Berhad, AirAsia Berhad and Air Asia X Sdn. Bhd. (MAS) (March 2014); Tube Ice Manufacturers (January 2015); Container Depot Operators Penang (June 2016) and My E.G. Services Berhad (June 2016). Section 40(4) of the Competition Act 2010 grants MyCC remedial powers to impose financial penalty not exceeding 10% of the world-wide turnover of an enterprise found to have infringed the prohibitions of the Act over the period during which the infringement occurred.

6.2 Strategic Trade Act 2010

6.4. As part of fulfilling Malaysia's commitment in implementing the United Nations Security Council Resolution 1540 (UNSCR 1540), the Strategic Trade Act (STA) 2010 has been implemented since January 2011. The legislation provides control over the export, transit, transhipment and brokering of strategic items, including arms and related material and other activities that will or may facilitate the design, development and production of Weapons of Mass Destruction (WMD) and their delivery systems. The focal point for the implementation of STA 2010 in Malaysia is the Strategic Trade Secretariat (STS) established in MITI. The implementation of STA 2010 has benefitted Malaysia in enhancing and promoting its image as a safe country to trade with, which has aligned with its efforts to facilitate trade in a secure trading environment and building confidence among foreign investors.

[7] The Private Pension Administrator Malaysia (PPA) is the central administrator for the Private Retirement Schemes (PRS).

[8] WT/TPR/G/292/Rev.1.

6.5. After six years of implementation, STA 2010 underwent the GRP-RIA process to review and amend the legislation to ensure that it becomes more trade-facilitative in governing the industry and export communities while simultaneously not compromising the trade security elements. The amendments include the reduction of penalties and introduction of compoundable offences, exclusion of ancillary services from the registration of broker, waiver of the requirement of providing an End-User-Statement and introduction of new sections such as section on presumption of export. The amendment Bill was tabled and approved by the Parliament in April 2017, published in the official gazette on 21 June 2017 and came into effect on 8 September 2017.

6.3 National Policy on Biological Diversity 2016-2025

6.6. As one of the 17 megadiverse countries globally, Malaysia's biological diversity is among the richest in the world – harbouring an enormous range of plants, animals and marine life, which has created a unique ecosystem. However, Malaysia's biodiversity has continuously faced challenges and threats caused by internal and external factors, including environmental changes brought about by socio-economic and trade activities of the people.

6.7. To mitigate the impacts of such changes, the Government introduced the National Policy on Biological Diversity 2016-2025 (NPBD) to serve as a national guide for biodiversity management over the next 10 years. It also reflects the Government's effort and initiative to strongly and continuously emphasize on continued conservation, sustainable utilization and shared benefits from biodiversity in a fair and equitable manner, as well as to strengthen the involvement and participation of all relevant stakeholders. More recently, the NPBD is also becoming a template for economic drive for sectors related to conservation, preservation and protection of biodiversity such as ecotourism.

6.8. The Ministry of Natural Resources and Environment (NRE) plays the leading role in the implementation and monitoring of the NPBD, including providing overall direction, coordinating stakeholder actions, establishing the appropriate institutional platforms, facilitating resource mobilisation and initiating review of the Policy as necessary. NRE undertakes this role in consultation, coordination, cooperation and partnership with state governments, relevant government bodies, private sector, civil society, as well as indigenous people and local communities.

6.4 Companies Act 2016

6.9. The new Companies Act 2016 was passed by the Parliament in April 2016 pursuant to corporate law's regulatory review and reform process since 2003. It has been enforced by the Companies Commission of Malaysia (CCM) since 31 January 2017 (except section 241 on mandatory registration of companies' secretaries with the Registrar, and Division 8 of Part III on Corporate Rescue Mechanism). The new Act encapsulates the dynamic business environment in today's global corporate scenario, as well as Malaysia's consistent economic growth.

6.10. As a legislation which is at par with the global standards, it modernizes the corporate legal framework in Malaysia to facilitate and reduce the time and cost taken in starting a business in Malaysia. The reduction of the cost of doing business will be a result of the introduction of several deregulatory measures which directly and indirectly reduce the costs of compliance. Simultaneously, the Companies Act 2016 ensures that the process for starting a business in Malaysia is more competitive, and this will attract more investments and promote SMEs growth in Malaysia. Improvements of the legislation stipulated in the new Act include:

i. Incorporation of a company is now streamlined to facilitate starting a business and reduce the time and cost of doing business. The new features include: A company can now be incorporated by a single member who can also be sole director; Incorporation of a company without the need to engage a company secretary; Requirements for Memorandum and Articles (M&A) at the point of incorporation with conferment of unlimited capacity to companies (with no stamping fee) and doctrine of constructive notice have been removed or repealed; Statutory declaration by Promoters/Directors is now replaced with statement of compliance; and the number of documents needed for incorporation purposes has also been reduced to a single incorporation template;

ii. Introduction of the No Par Value (NPV) regime whereby companies will no longer be required to state its authorised share capital – i.e., flat rate fee for incorporation as opposed to ad valorem based. The procedures for increasing share capital have also been made concise and less costly;

iii. Simplification and clarification of companies' management, meeting procedures and internal decision making process that would provide flexibilities to firms in the day-to-day operations. For instance, mandatory requirement of Annual General Meetings has been relaxed, decoupling of the requirement to lodge Annual Return with financial statements and the prohibition on persons who can be appointed as proxies has been lifted.

iv. Strengthening the corporate governance structure, such as, the minimum age for directorship has been clarified, while the maximum age has been abolished; restructuring rules related to the appointment, resignation and removal of directors; as well as stricter rules pertaining to directors' remuneration. Disclosure of beneficial interest in voting shares is also extended to all companies;

v. The roles, functions and obligations of companies' secretaries have been reinforced. Practising secretaries are now required to register with the Registrar before they can act as a secretary. The Registrar is also empowered to direct a company to appoint a qualified company secretary if the company has not complied with the provisions of the new Act; and

vi. Introduction of new provisions to enhance the winding up process, including shortening the time taken to wind up a company, enhancing the rights of creditors, enhancing the roles of liquidators to facilitate smooth process of liquidation, and introducing provisions on corporate voluntary arrangement and judicial management (to be enforced at a later date).

6.11. Changes have also been made on the enforcement regime. The level of penalties for fines and imprisonment has been increased as part of deterrence measures. Criminal sanctions will also be imposed against persons who make or furnish or knowingly authorize or permit the making or furnishing of any false or misleading statement, information or report to the Registrar relating to affairs of a corporation, or any matter or thing required by the Registrar or the enforcement of the Act.

6.5 E-Commerce and Digital Economy in Malaysia

6.12. The National eCommerce Strategic Roadmap (NeSR) was developed by the Malaysia Digital Economy Corporation (MDEC) to tap into the future of e-commerce and digital economy in Malaysia, through extensive consultations with various public and private stakeholders. The initiative is also to chart the pathway forward and unlock the transformative potential of online business and transactions. The Roadmap was launched by the Prime Minister on 13 October 2016. The Government has also established the National eCommerce Council (NeCC), which is chaired by the Minister of International Trade and Industry and comprises various Ministries and Agencies, to govern, drive and foster coordination in the implementation of the Roadmap towards doubling Malaysia's e-commerce growth rate and reaching its GDP contribution of RM 211 billion (approximately US$47.68 billion) by 2020.

6.13. Malaysia's e-commerce imperative is two-fold, (i) to future-proof existing businesses, including by bringing roughly 80% of SMEs into the e-commerce world and ensuring their capabilities to keep pace with an online market poised to grow much faster than offline sales; and (ii) to expand market access, beyond its own 16 million digital customers to compete for more than 87 million digital customers in the ASEAN region and ultimately 1 billion digital customers worldwide. With these in mind, the NeSR outlines Government intervention in six thrust areas which are built on good and affordable infrastructure and supportive governance framework. The six thrust areas are accelerating seller adoption of e-commerce; increasing adoption of eProcurement by businesses; lifting non-tariff barriers in areas such as e-Fulfillment, cross-border trade, e-Payment, and consumer protection; realigning existing economic incentives; making strategic investments in select e-commerce player(s); and promoting national brand to boost cross-border e-commerce. A total of 13 programmes across the six thrusts have been prioritized for the near term to deliver significant impact. These programmes are championed by 10 Ministries/Agencies and monitored by the NeCC.

6.14. To further boost the NeSR implementation, the Digital Free Trade Zone (DFTZ) was launched on 22 March 2017 by the Prime Minister together with Jack Ma, Founder and Executive Chairman of Alibaba Group. DFTZ has the potential to double the growth rate of Malaysian SMEs' goods export by 2025. It is also estimated to support US$65 billion worth of goods moving through DFTZ, while simultaneously creating 60,000 direct and indirect jobs by 2025.

6.15. DFTZ is a testament to Malaysia's unwavering commitment to propel SMEs' growth through e-commerce. It will provide physical and virtual zones to facilitate SMEs to capitalise on the convergence of exponential growth of the internet economy and cross-border e-commerce activities; and to establish Malaysia as a regional e-fulfillment hub. DFTZ will also act as a microcosm to support internet companies to trade goods, provide services, innovate and co-create solutions.

6.16. DFTZ's implementation of physical and virtual zones will be undertaken in phases. The first eFulfillment Hub will be at KLIA Aeropolis which has been developed to focus on the key clusters of air cargo and logistics, aerospace, and aviation. DFTZ will be rolled out in phases starting from Q4 of 2017. The other physical component of DFTZ is the Satellite Services Hub. Kuala Lumpur Internet City (KLIC) will be DFTZ's first satellite services hub. KLIC is set to be the premier digital hub for global and local internet-related companies targeting Southeast Asia. It will comprise key players within the internet ecosystem to facilitate end-to-end support, networking and knowledge-sharing that will drive innovation in the internet economy and the e-commerce industry. At the same time, the virtual zone, which is the DFTZ E-Services Platform, will help to deliver a streamlined and efficient experience through an integrated platform.

6.17. In Budget 2018, the Government will provide RM 83.5 million to construct infrastructure for the first phase of DFTZ in Aeropolis, KLIA; and increase the de minimis or minimum value for imports from RM 500 to RM 800 to establish Malaysia as the regional e-commerce hub.

7 WAY FORWARD

7.1. Despite the external economic uncertainties, Malaysia's economy is forecasted to grow more than 5.0-5.5% in 2017. The positive outlook echoes well with the announcement made by Prime Minister Datuk Seri Najib Razak in December 2016 which highlighted Malaysia's potential to grow to a RM 2 trillion economy by 2025 from the current size of RM 1.3 trillion. This potential is achievable in seven years if the country's economic growth remains at an average of 5% annually. In addition to undertaking structural and regulatory reforms, the target is being supported by implementation of mega-scale infrastructure projects which will spur domestic economic activities and benefit the people through high-income jobs creation.

7.2. Another significant step towards achieving the bold target that the Prime Minister has set is to look into the development of a conducive domestic environment that fosters seamless cross-border trade, investment and businesses. In this new age of rapid technological advancements, the Government is committed to quantum leap the industrial transformation to Industry 4.0 and thus fundamentally change the trajectory of the country's growth. Towards this end, the National Industry 4.0 Policy Framework is being formulated in collaboration with key stakeholders from private and public sectors. Emphasis of the policy framework is on the progress of infrastructure and ecosystem, funding and incentives, talent and human capital, technology and standards, as well as enhancing SMEs' capacity to move up to Industry 4.0. The provision of RM 245 million worth of matching grant under the Strategic Domestic Investment Fund will also be used to upgrade Smart Manufacturing facilities, which are an important dimension of Industry 4.0.

7.3. The timing now is even more crucial as Malaysia enters the final lap towards achieving a high income nation by 2020 particularly through the realisation of the initiatives under the 11MP and NEM. While a lot of progress has been achieved, the Government will continuously monitor and undertake measures to achieve the set targets.

7.4. To position Malaysia as a top 20 nation in economic development, social advancement and innovation in the next thirty years, the Government introduced the Transformasi Nasional 2050 (2021-2050), or TN50 in January 2017. TN50 adopts an inclusive and consultative approach which focuses on collective collaboration from all segments of society through a bottom-up syndication process. This is the unique feature of the TN50 agenda where it is formulated by the people, for the people. Comprehensive engagement efforts are being undertaken by all ministries to ensure that no stones are left unturned in order to collect citizens' aspirations and inputs to shape the TN50 agenda with clear, measurable goals and targets. The TN50 policy document is expected to be launched in September 2018.