Malaysia

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Introduction

Malaysia is an active trading nation that is among the largest importers and exporters of goods and among the top 30 trading nations of commercial services. The country's total trade to gross domestic product ratio is about 200%. Malaysia's growth, development, and employment have gained, in no small measure, from trade and foreign direct investment (FDI). Since trade and investment are the cornerstone of Malaysia's economic development, it has adopted a market-oriented foreign trade policy. It is strongly committed to the liberalisation of the economy and has been a strong supporter of the multilateral trading system.

However, the World Trade Organization (WTO) has not evolved rapidly enough, and with the bottlenecks that the WTO has experienced, Malaysia has found it expedient to engage in several regional and bilateral free trade agreements (FTAs). Thus, Malaysia has signed regional FTAs with China, Japan, the Republic of Korea (henceforth, Korea), India, Australia, and New Zealand. It also has bilateral FTAs with Chile, Pakistan, Turkey, India, Australia, and New Zealand. In addition, the Trans-Pacific Partnership agreement has been concluded though not ratified by the United States. The progress of the agreement lies in the balance. Much depends on how the administration of President-elect Donald Trump will view the agreement, though it is generally thought that the agreement has little favour from Trump. Other FTAs that are under negotiation include one with the Gulf Cooperation Council, the European Union, and possibly with Korea and Bangladesh.

Malaysia's trade policy is aligned with its overall strategy of national transformation. The country's economic transformation process has been continual. Broadly, it has moved from being based on a policy of import substitution in the 1960s to an economy that was export oriented and labour intensive in the 1970s. In the 1980s, the emphasis was on resource-based and heavy industries, with a shift to technology-intensive strategies in the 1990s. The evolution in Malaysia's development journey was marked in 2011 by an emphasis on key growth areas, or so-called National Key Economic Areas. These areas are oil, gas, and energy; palm oil and rubber; wholesale and retail; financial services; tourism; electronics and electrical products; business services; communications, content, and infrastructure; education; agriculture; healthcare; and Greater Kuala Lumpur. These National Key Economic Areas are meant to propel Malaysia's growth so the country can transform into a high-income nation characterised by innovation and creativity.

Alongside its economic transformation, Malaysia has also attempted to undertake political transformation and the Government Transformation Programme. The latter was initiated in 2010 and was meant to improve the effective delivery of government services. Since 2010, and as part of the attempt to transform Malaysia into a high-income nation, the various transformation programmes have acted as part of a concerted effort to set the domestic foundation for national transformation to take advantage of the external environment. This is where the importance of Malaysia as a small, open economy becomes a compelling force in determining its national economic strategy.

Indeed, the relevance and importance of the ASEAN Economic Community (AEC) should be seen in this context. In other words, the domestic transformation programmes were being undertaken domestically while simultaneously attempting to better manage the global trading environment. The latter was accomplished through the FTAs that were (and are) being negotiated and signed. ASEAN plays an important part in this strategy because the bid to improve domestic conditions and Malaysia's trading capabilities via FTAs is carried out to position Malaysia in the global economic environment. ASEAN is integral to Malaysia's development strategy in view of the fact that ASEAN can occupy a place as a key player in the global hub.

ASEAN has always held a special place in Malaysia's foreign and trade policy. Malaysia's Minister of International Trade and Industry pointed out that the fact that the ASEAN division is the largest division in the Ministry of International Trade and Industry is testimony to the importance that the ministry accords to ASEAN. ASEAN has been evolving and Malaysia has been an active partner in this process. However, the conceptualisation of the AEC has happened at a critical juncture in Malaysia's own development path because the country's goals and aspirations find strong resonance with those articulated by the AEC.

The Government of Malaysia has continually emphasised several issues on the importance of ASEAN integration and Malaysia's role in it. First, the government has stressed that ASEAN should be looked at as a collective entity (Mustapa, 2015). The points that the government has continually raised in this context include the fact that ASEAN is the seventh-largest economy in the world; it has the third-largest market (in terms of population); a rising per capita income; total trade amounting to about US$3 trillion; and total FDI flows worth about US$136 billion. Second, by virtue of the high direct investments by Malaysia in ASEAN and by ASEAN Member States (AMSs) in Malaysia, huge benefits could be obtained if there were greater regional integration. Third, Malaysia has been pursuing a development strategy aimed at driving its growth through the development of the services sector. Obviously, the country's growing services sector, which is spreading its wings within ASEAN, would gain from a more deeply integrated ASEAN.

The ASEAN Economic Community and National Strategies

The main policy documents that define and outline the philosophy and approach to Malaysia's economic development are the New Economic Model (NEM) and the Eleventh Malaysia Plan (11MP). The country's national economic strategies are largely defined by its economic transformation and government transformation programmes.

NEM was published as a two-volume document that seeks to achieve a high-income status for Malaysia while also addressing sustainability concerns and distributional issues. Thus, the model has a three-pronged approach with attention on income, sustainability, and social inclusiveness. It envisions that Malaysia, aside from achieving other characteristics, will be a market-led and regionally integrated economy, these being among NEM's objectives. The 11MP acts in unison with NEM in working towards making Malaysia an advanced economy by 2020. The plan places great importance on trade and investment as mechanisms for achieving this objective. The macroeconomic strategies that have been earmarked to bring about the success of the 11MP include improving the productivity of the economy, promoting investment, increasing Malaysia's export potential and trade balance, and enhancing fiscal flexibility. Obviously, these goals can be achieved through trade liberalisation. Indeed, the plan does specify initiatives that would increase growth through liberalisation, trade facilitation, and regulatory reform. These mechanisms are in line with the thrusts of the AEC.

Many strategies and programmes outlined in the 11MP would, indeed, be facilitated by the AEC's four pillars: a single market and production base, a competitive region, equitable economic development, and linkages with the global economy. Before going into more detail on the two-way relationship between the AEC and the national development policy, it is worth stating that the AEC's goals are not contradictory to Malaysia's own long-term plans. This is firmly held by the government, senior government representatives, and a large section of the private sector. Although some sections of society who think that conforming to the AEC's plans would be to Malaysia's detriment, it is a minority view that does not have the support of the government or the business sector.

Indeed, the AEC's intention to pursue trade in goods has not met with any opposition from any sections of Malaysia's stakeholders. That is because Malaysia has almost completely eliminated all tariffs. That does not mean that attendant issues do not have to be resolved. One particular case in point is trade facilitation, where much is to be done. While trade in goods is at an optimal level under existing circumstances, the boundaries of efficiency can be moved forward if the supporting services are improved. This is precisely how improving trade facilitation will help the export-oriented industries in Malaysia. The government is aware of this and has been taking positive steps in this direction since the last decade. This has raised expectations among logistics companies, which are now benchmarking Malaysian standards against the highest standards in the world. Thus, firms are now comparing trade facilitation practices in Malaysia against those in Hong Kong and Singapore. The demand for greater openness and the simplification of practices as required by the AEC requires the government to push for the required reforms. In fact, the AEC does provide added impetus for government agencies to undertake the necessary changes.

Trade in services is a more complicated matter since the AEC expects deeper reforms to be undertaken. The government's response is, again, clear on this area because, as pointed out earlier, the reforms are necessary if the services sector were to grow and add substantially to gross domestic product. From the business side, the feedback is mixed. Some sectors see and anticipate greater liberalisation of the services sector, whereas others are less keen on liberalisation. The banking sector in Malaysia is undoubtedly deeply interested in the liberalisation of services in ASEAN. Nevertheless, this may not be the majority view outside of certain sectors. The banking sector, which is already poised to be a regional player, is obviously interested in the AEC's liberalisation moves. Similarly, the higher education industry will be interested because it is competitive as it is. But those in the professional services sector have several concerns. There are fears that given the differences in culture and educational systems, allowing the inflow of foreign professionals, such as doctors and nurses, might jeopardise standards and safety.

The question of those providing professional services, such as accounting and legal services, seems distant because of widely differing traditions and language barriers.

The national development strategy agrees with the need for the free flow of investment and the freer flow of skilled labour. In fact, the national strategies as articulated in the development plans (NEM and 11MP) are in agreement with the AEC strategies with respect to the freer flow of skilled labour. It is hard to see Malaysia's development goals being realised if there are restrictions to the free flow of skilled labour. Nevertheless, investigations reveal that the movement of skilled labour has its constraints. This applies to the banking, insurance, and tourism sectors, more so when it comes to skilled expatriate workers for multinational corporations. The free flow of investment has been considerably relaxed and many equity conditions have been relaxed. But more can be done to liberalise investment, especially in the services sector. The liberalisation of investment in financial services and telecommunications are cases in point. Thus, by subscribing to the AEC, Malaysia will obviously expedite its own national development strategies.

Challenges with the AEC

Non-tariff measures and non-tariff barriers

Tariff barriers have been successfully resolved in ASEAN. This has facilitated trade in goods. However, there has been less progress with non-tariff measures (NTMs) and non-tariff barriers. These remain issues for ASEAN that demand attention to further remove the restrictions to free trade in goods, since NTMs raise the costs of sourcing and enforcement. High sourcing and enforcement costs can affect the market structure, resulting in the loss of productivity, raising the cost of the output, and even driving smaller firms that cannot bear these costs out of the market.

The incidence of NTMs is high for some AMSs. The core NTMs, which have the potential to be non-tariff barriers, are high for Myanmar, Brunei Darussalam, Viet Nam, Malaysia, and Indonesia. On an index of a maximum of 1.0, the core NTM restrictive index is very high for Malaysia (0.52) and Indonesia (0.67) (see Narjoko, 2015). The restrictiveness index of non-core NTMs, referring most likely to technical barriers to trade or TBTs, have been noted to be moderately high for Brunei, Viet Nam, and the Philippines; it is very high for Malaysia (0.53) and Indonesia (0.59).

NTMs, as has been observed in ASEAN, do have an impact on production costs, and this varies by company size (Narjoko, 2015). NTMs affect medium-sized companies the most. Large firms are least affected, while small firms are moderately affected. Large firms can absorb the cost of NTMs; small companies, on the other hand, are not much worse off despite the higher costs because many of them do not export their products. The policy implications are clear for ASEAN. The AEC blueprint places special emphasis on small and medium-sized enterprises (SMEs). This, therefore, calls for a more concerted attempt at improving testing procedures as well as simplifying them. It is also necessary to reduce the bureaucratic procedures relating to NTMs so that firms do not have to bear the burden of allocating more staff or more staff time for these purposes. In part, this requires more investment in laboratories and testing facilities that need heavy investment. However, unless the costs involved in servicing NTMs are reduced, SMEs will be adversely affected.

With a low-tariff environment, non-tariff measures assume greater importance. NTMs can (and are often) used as a regulatory trade policy and protectionist tool. Malaysian manufacturers and traders are aware of the importance of NTMs in this context as NTMs affect the import of raw materials, intermediate inputs, and final products. Various reasons, including safety, health, and sanitary reasons, can be used to restrict trade if NTMs are used negatively. This is especially the case for SMEs.

These issues have serious implications for Malaysian SMEs. Malaysia seeks to develop its SMEs and this is more pressing now since the country wants to increase its aggregate demand, primarily through domestic demand. SMEs have an important role to play in this scheme. NTMs must be reduced to encourage the growth of SMEs and allow them to become more export oriented. The AEC goals of reducing NTMs are, thus, in line with Malaysia's own intention of encouraging the growth of SMEs.

The Royal Malaysian Customs (Prohibition of Import) Order has a list of NTMs. Four schedules in this list classify imports based on the purpose of the NTM. The first schedule lists the goods for which imports are totally prohibited. The second schedule lists imports that are allowed only with import licences for health, sanitary, security, environmental, and intellectual property protection. The third schedule records imports imposed with licences to protect local industries, while the fourth schedule records goods for which imports are only allowed according to the manner of importation specified.

Over the years, non-tariff protection on automobiles and parts have been maintained or even increased. The World Trade Organization (2006) has stated that the automotive industry is protected by high import duties and by the import licensing system. The high excise tax structure is a major barrier to the import of foreign-manufactured automobiles. This, combined with the tax exemptions given to local cars based on local content, effectively acts as a barrier for foreign cars. The issuance of import permits to Bumiputera businesses are also perceived as discriminatory (Ministry of Trade, Economy and Industry of Japan, 2007).

In the third schedule, temporary protection from imported goods was granted to domestic producers through import licences. Several reviews in the number of products listed in this schedule were made throughout the period of analysis, which resulted in more products being included. In the fourth schedule, only safety seat belts, electrical apparatus, and electrical luminaries for fluorescent lamps were found listed in 1979 and 1981. A majority of the products in the schedule were included only since the late 1980s. Since 2000, that is, after the financial and economic crisis of 1997, the number of products imposed with NTMs from the fourth schedule has declined. Devadason (2006) points out that the proportion of import licences in the country's manufacturing industry has increased from 8% to 14%. Nonetheless, NTMs or non-tariff barriers are generally prevalent in the country's manufacturing sector (Hanif et al., 2011). The Malaysian government imposes quotas on the quantity of foreign rice that is imported into the country in the interests of local paddy farmers. It is with this aim in mind that the government set up BERNAS (Padiberas Nasional Bhd).

There are still outstanding issues with respect to NTMs, but there are areas where perceivable progress is apparent. One such instance is the case of the establishment of good testing and standards processes. The Standards and Industrial Research Institute of Malaysia has good facilities to ensure that standards are measured according to international benchmarks. However, interviews with SMEs suggest that more can be done to simplify documentation and procedures. Besides, the limited number of well-trained personnel at the Standards and Industrial Research Institute of Malaysia is quoted as a reason for delays in approval.

Services

A key goal of the AEC blueprint is to achieve the free flow of services. However, the free flow of services is inextricably bound with domestic regulatory reform and is further complicated with prudential concerns, particularly in the financial services sector. As such, the free flow of services is a difficult goal to achieve, but ASEAN is committed to removing restrictions in the trade of services. Towards this end, it has been engaged in negotiations to remove the impediments through the ASEAN Framework Agreement on Services (AFAS).

Examining the progress of liberalisation in AFAS, Narjoko (2015) observes that while services liberalisation substantially improved between the fifth and seventh package negotiations, this was not the case in the changes from the seventh to the eighth packages. In the case of the latter, there was an increase of about 1% between both packages, while for the earlier it is about 12%. Narjoko argues that the liberalisation rate has increased for Mode 3 under AFAS 8 by close to 2 percentage points, with a marginal decrease in the liberalisation rate for Mode 1. A significant contribution to the increase in Mode 3 liberalisation comes from priority integration sectors (i.e. medical and health, communications, and tourism and hospitality services), which more than compensate the declines registered in logistics and other services. It is significant that there is little progress being made on foreign equity liberalisation rates. The fact that there is little intent to allow foreign investors a majority role in many services subsectors is cause for concern on ASEAN's progress towards achieving a free flow of services.

As an economy with well-developed financial markets, good regulation, and adequate reserves, Malaysia serves as a good example of how financial market development can work as a good buffer against external shocks. The domestic reforms that were taken in Malaysia following the 1997 economic and financial crisis are illustrative of domestic reform that can prepare an economy for integration within larger financial markets. Thus, domestic reform can and should take place along with regional financial integration. Almekinders et al. (2015) argue that banking integration requires a sound institutional and legislative framework. This can be implemented through a planned approach in order to achieve a single market for ASEAN banking that includes the specification of minimum regulatory requirements for entry, permissible banking activities, regional arrangements for cross-border bank supervision and resolution, and new regional standards and rules with enforcement mechanisms to ensure that there is national compliance to regional rules. In line with this goal, ASEAN capital account integration is intended to take a gradual, correctly sequenced approach, with the necessary safeguards put in place first.

While Malaysia is ahead of many other AMSs on the issue of preparing the right regulatory framework for banking and financial services, this cannot be said for some of the less-developed Member States. This is a source of some discontent among some banking companies in Malaysia, especially those that are already poised to be ASEAN-wide banks. Although Malaysia can take advantage of developments with regard to the AEC in this respect, it lags behind in the case of labour.

The flow of services demands a concomitant flow of labour, particularly skilled labour. However, AMSs have a strong interest in protecting domestic professionals. Singapore is, perhaps, the exception to this policy position since it views the free flow of skilled labour as adding to the stock of high-quality human capital, which increases Singapore's competitiveness. The harmonisation of standards is one obstacle to the movement of skilled labour, and more attention must be directed to resolving this issue. Notwithstanding the ongoing process on the harmonisation of standards, there is a reluctance to allow the free flow of professional labour. Malaysia allows the flow of expatriate staff, but only after various needs tests are cleared. Bank Negara Malaysia allows foreign staff to work in financial institutions in Malaysia on the request of multinational companies based in the country, provided they are for short-term purposes. A limited number of senior staff are permitted in foreign-owned financial institutions and on boards of directors. These strict measures can be a constraint to the efficient functioning of banks, particularly foreign-owned banks. Cross-border trade for the banking sector also has more scope for improvement. The ability of foreign banks abroad to lend in Malaysia remains limited. They are also not allowed to raise funds in Malaysia. If these restrictions are lowered, then there will be an expansion of cross-border clearing and settlement services, as well as more securities and foreign-exchange business. A more liberal policy for the establishment of the commercial presence of foreign-invested banks in Malaysia is also necessary. Under the current uncertain global environment, such initiatives will likely be restricted. Also, banks with foreign-invested banks are still not allowed to open branches without the approval of Bank Negara Malaysia. This restriction is not in keeping with the liberalisation of the banking sector.

The tourism industry is another sector where the free flow of services is not permitted. This is not in keeping with the AEC vision. Thus, steps should be taken in a phased manner to liberalise the tourism industry. At present, only four- and five-star hotels with foreign ownership are permitted to be set up. Further, foreign tourism providers can only represent the head office and cannot undertake commercial activities in Malaysia in their own capacity. In addition, the representative offices must be completely funded from sources outside Malaysia. This is a constraint to the functioning of foreign tourism service providers. In the interests of greater liberalisation of services, a freer movement of service providers should be introduced. As a step towards this goal, the paid-up capital that is required by foreign-invested tourism firms should be relaxed. In other words, the foreign equity requirements should be removed to expedite the AEC's goal regarding the liberalisation of services in ASEAN.

Investment Liberalisation

Investment liberalisation is crucial to ASEAN because ASEAN leaders have been concerned about the flow of FDI in favour of China rather than ASEAN. This was felt as early as 2003 during the ASEAN Summit in Bali that year; and this was the driving force behind the ASEAN leaders' decision to establish the AEC. In fact, following the declaration to form the AEC, FDI into the region increased. In 2013, China was second to the United States as a destination for FDI. But if ASEAN were to be viewed as a single entity, it would have been the second-largest investment destination rather than China. This highlights ASEAN's potential as an attractor of FDI in the world.

Within ASEAN, Singapore has undeniably been the most attractive Member State for attracting FDI. Malaysia, Brunei, and Thailand have performed above the ASEAN average in drawing FDI into their economies. There is much disparity between AMSs as far as investment inflows into their respective countries are concerned. This emphasises the need to undertake liberalisation measures to reduce these differences. The fact that Indonesia restricted foreign equity in some sectors while liberalising further equity restrictions in others suggests that it does not support indiscriminate investment liberalisation, but will place restrictions judiciously based on its national interest (Intal, 2015).

The same can be said for many AMSs, Malaysia being another such country with an independent view on investment liberalisation. Malaysia has a fairly long ASEAN Comprehensive Investment Agreement (ACIA) reservation list on goods, but has been making bold efforts to liberalise its services sector. While it has provided preferential treatment to local car makers, it is easing the automotive sector selectively in respect to energy efficient vehicles. This indicates the priority given to a national champion while also attempting to incorporate strategic industrial goals.

The government has long upheld its interest in investment liberalisation. A significant step in this direction was taken in 2009, when various policies were announced in the 2009 Budget Speech by Prime Minister Najib Razak. Among the steps taken was the rationalisation of the investment guidelines as administered by the Foreign Investment Committee, which allowed for greater liberalisation of foreign investment. More path-breaking was the announcement to liberalise 27 sub-sectors within the services sector. The equity condition was relaxed, with the government declaring that the 30% Bumiputera equity condition would not be imposed on these sectors. The exempted sectors included the health and services, tourism, transport, business, computer and related products, and sporting and other recreational services sectors.

Further announcements were made in the 2012 budget, which included proposals to liberalise telecommunication licences. It was also announced that 100% ownership of accounting and tax and courier services would be allowed. The same budget speech further declared that private higher education, international schools, and technical and vocational secondary education services would be liberalised.

The financial sector has long been slotted for liberalisation, and major commitments were made in 2009. The financial liberalisation package included relaxing the issuance of licences to allow more foreign companies to operate in the Malaysian financial services sector. Other policy changes included measures to increase foreign equity ownership limits and relax operational restrictions.

There is clear evidence that the government is serious about liberalising investment. It has taken important steps to liberalise investment, particularly in the services sector. This is necessary in the context of Malaysia's development because of the various economic corridors that have been launched. Secondly, Malaysia wants to spur national economic growth through the growth of the services sector. Finally, the country is pursuing several FTAs that cannot progress without liberalising investment. There is no doubt that the government is serious in carrying out its goal of liberalising investment, but more can be done. This includes consistency in rules and regulations, benchmarking procedures, and rules that are in accordance with international standards.

Malaysia and ASEAN

Malaysia's relations with its ASEAN neighbours have been improving over the years. Malaysia's ties with Singapore have improved tremendously in recent times. In the case of Myanmar, Malaysia has had a deep relationship with the country and has played a key role in assisting with Myanmar's transition into one that is based on the principles of democracy and the aspirations of its people. Not only has Malaysia worked on bilateral ties, but it has also contributed to ASEAN as an entity. A more significant step that Malaysia has taken is to deepen its relationship with China and India, two significant economies that have a long history of economic, political, and social engagement in the region.

For more than 20 years, Malaysia and Singapore were caught in an imbroglio that revolved around disputes regarding land and water. Various issues have plagued relations between the two countries; water has been a particularly point of discord. Three separate agreements were signed between the two countries in 1961, 1962, and 1990 for Singapore to receive fresh water from Johor daily. The 1961 pact expired in 2011; however, the agreements signed in 1962 and 1990 will remain in force until 2061. Singapore is developing its domestic water supplies and can be expected to be self-sufficient in water before the agreements expire.

There have also been disputes regarding the sovereign ownership of islands off Malaysia and Singapore. During colonial times, the British took possession of Pedra

Branca (referred to as Pulau Batu Puteh in Malaysia), which remained undisputed until 1979. In 1979, in a map published by Malaysia, Pedra Branca was claimed to be a part of Malaysian territory. Following the disagreement, the issue was submitted to the International Court of Justice, which, in its judgement of 2008, upheld that the island belonged to Singapore. The court awarded sovereignty over Middle Rocks to Malaysia, but 'refrained from awarding South Ledge to either country, ruling that 'sovereignty over the low-tide elevation belongs to the State in whose territorial sea it is located' (The Hague Justice Portal, 2008).

Another issue that has plagued relations between Singapore and Malaysia has been the bridge that links the two countries. Then Prime Minister Mahathir Mohamad proposed to his counterpart, Lee Kuan Yew, in 2000 that the causeway be demolished and replaced with a bridge. Since there was no response from Singapore, Mahathir, impatient with Singapore, decided that Malaysia unilaterally build a short bridge to the midpoint of the causeway, after which the Malaysian half of the causeway would be demolished.

In August 2003, the Malaysian government ordered a private company to start work on the crooked bridge, but Abdullah Badawi, who took over as prime minister just 2 months later, considered it untenable for Malaysia to initiate any unilateral action on the causeway and halted work on the bridge. Not only was the bridge not built, it also led to the worsening of relations between Mahathir and Badawi.

In recent years, under Prime Ministers Najib Razak and Lee Hsien Loong, Malaysia–Singapore relations have improved considerably. Najib has gone on record as having spoken before the Economic Society of Singapore's annual dinner on 5 May 2015 that Malaysia–Singapore relations have 'never been better'. He voiced the sentiment, after concluding the Annual Malaysia–Singapore Leaders' Retreat with Lee, that it would be no exaggeration to say they have never been better in their countries' histories. The acceptance of the Malaysia–Singapore Points of Agreement of 1990 clearly indicated that Malaysia's relations with Singapore had improved.

Malaysia has enjoyed cordial relations with Myanmar. Malaysia was keen that Myanmar should return to democracy during the days of its military regime. However, Malaysia strongly felt that this should be done in a non-disruptive fashion. Accordingly, it sought the services of Tan Sri Razali Ismail to foster the transition from the military junta. Tan Sri Razali, as the United Nations' Secretary-General's special envoy to Myanmar, played a pivotal role in securing the release of Aung San Suu Kyi from house arrest in 2002.

The present exodus of migrants, particularly with respect to the Rohingyas, is a more delicate problem and one that puts Malaysia in a predicament. This is because although

Malaysia is sympathetic to the plight of the Rohingya Muslim 'boat people', it felt that it cannot address their deplorable condition. The initial reluctance in directly assisting the Rohingyas is because of the thousands of people that are trying to flee the country. Malaysia could not absorb the large number of refugees who, if allowed to enter the country, could lead to the cascading inflow of Rohingya refugees totalling hundreds of thousands. The Malaysian government felt that this would cause social problems and, thus, although sympathetic to Muslims, has refused to grant entry to the Rohingyas. However, recently, the government reversed its position on the issue and severely condemned Myanmar's handling of this minority group. Nevertheless, it must be accepted that holding street demonstrations to protest Myanmar's position against the Rohingyas is not in line with the ASEAN process, and more diplomatically acceptable channels could have been chosen to communicate Malaysia's concern for the ethnic group.

In 2015, as Chair of ASEAN, Malaysia adopted the theme 'Our People, Our Community, Our Vision'. This theme aimed to emphasise that 2015 was meant to focus on people-centred initiatives. The political–security, economic, and socio-cultural pillars of the ASEAN Community are meant to benefit the people of the region, and accordingly, the people-centred dimension was supposed to receive special attention. Malaysia was committed to the process of community building during its chairmanship in 2015. In that context, Malaysia formally established the ASEAN Community, developed the post-2015 vision, helped steer ASEAN closer to its people, worked towards strengthening SMEs, and sought to expand intra-ASEAN trade and investment. Malaysia also strove to strengthen ASEAN's institutions, promoted regional peace and security, and attempted to enhance ASEAN's role as a global player.

Looking beyond ASEAN, Malaysia has been building its ties with India. The Prime Minister of India, Narendra Modi, came to Malaysia in a highly publicised visit. Both the bilateral trade agreement with India and the multilateral arrangement through ASEAN have brought the two countries closer in terms of trade and investment. Malaysia is an active investor in India. The investments are in projects such as power, oil refineries, telecommunications and electrical equipment industries, besides highway and other infrastructure development projects. There is also Indian investment in Malaysia in banking, insurance, information technology and software engineering, education, electrical equipment, and railways. Following the improved relations, there has been more trade and investment between the two countries, although they are far from optimal.

Malaysia's economic and political ties with China have progressed rapidly. On the economic front, China's trade and investment with Malaysia dominate the picture, with China being Malaysia's top trade and investment partner. Chinese investment in Malaysia has been increasing in a wide range of areas, including bridges, ports, and mega infrastructure projects. China has extended its connectivity to Malaysia and there is potentially more investment to be directed to Malaysia in this area. China has also established a university in Malaysia and will extend its technical expertise in the areas of transportation and information technology to Malaysia. Prime Minister Najib Razak's visit to China in November 2016 contributed to ushering more economic, political, and security cooperation between the two countries.

Moving Ahead

Malaysia is committed to ASEAN's vision and roadmap. Indeed, Malaysia can gain much from the development of ASEAN as a region. In addition, some of Malaysia's national strategies are in consonance with ASEAN's broader goals. The AEC depends crucially on the liberalisation of trade and investment, without which the attempt to connect with the global economy will not work.

Malaysia has been moving ahead in many areas to establish itself as a desirable centre for trade and investment. This includes Malaysia's strong performance in the World Bank's Ease of Doing Business Index, its attractiveness as a destination for foreign investors (Baseline Profitability Index), and well as its outstanding performance in the Global Competitiveness Report. All these reports and indices are based on scores that reflect Malaysia's efforts at liberalisation and openness to the private sector and foreign investors. Many of these criteria are in line with the aspirations of the AEC. Some government agencies, such as the Malaysia Productivity Corporation and Pemudah, are dedicated to creating improvements in efficiency and enhancing the regulatory framework, as well as the government's responsiveness to the private sector and foreign investors.

Although significant progress has been made in many areas, progress has been slow in others. One area in which more openness is possible is in the movement of workers, especially skilled workers. There is still some reluctance to allow the freer movement of skilled workers and expatriate staff, an area that requires a less restrictive environment. Mutual recognition of awards and qualifications must also be more flexible; but in the first instance, there should be more discussions on these issues.

The Regional Comprehensive Economic Partnership (RCEP) will be an excellent arrangement to overcome many of the obstacles that stand in the way of achieving the required level of liberalisation. It will give Malaysia an opportunity to undertake some of the necessary behind-the-border reforms and to ensure that the regulatory framework is coherent and supports a more liberalised regional trading environment. Abiding by the RCEP will require Malaysia to work on those areas in which it currently has shortcomings while also overcoming any reluctance on the part of certain groups. It is imperative that Malaysia extend its greatest efforts towards the accomplishment of the RCEP now that the Trans-Pacific Partnership agreement seems to have been laid aside.

The government, with the Ministry of International Trade and Industry at the forefront, has been undertaking constant efforts to increase public awareness of the AEC, its challenges, and how Malaysia can benefit from it. Two obstacles have to be resolved. The first relates to the utilisation of FTAs. Existing FTAs appear to have an unsatisfactory utilisation pattern. This is so for several reasons. First, the utilisation level is less than optimal. Some studies indicate that the average utilisation of FTAs is about 16% on average. There are indications that larger firms and those based in industrial areas use FTAs. Another problem is the lack of knowledge of certificates of origin, FTAs, and the benefits that can be derived from FTAs. These issues will impede the RCEP once it is implemented and so must be addressed systematically, even now.

Conclusion

Malaysia has been an active member of ASEAN. It has pursued ASEAN's objectives assiduously, and has sought to contribute to the development of ASEAN as a strong and vibrant regional entity. As this paper has shown, Malaysia supports the notion of regionalism and sees value in the idea of ASEAN centrality, the latter being very much based on achieving liberalisation.

Malaysia is committed to the ASEAN process of liberalisation. Consequently, the country has been undertaking the necessary reforms to open its markets for trade and investment. While tariffs on goods are not a constraint any longer, more work needs to be done on other areas. Some of the outstanding areas that need to be prepared for greater liberalisation include trade in services and all that it entails, including issues such as the harmonisation of standards. In accordance with the timelines suggested by the AEC, efforts are being undertaken to initiate reform regarding the restrictions arising from NTMs and non-tariff barriers.

On the broader front, Malaysia has maintained good relations with its neighbours. In particular, it has expanded efforts in improving its relations with Singapore. It has also contributed towards the political transitioning of Myanmar. This is an example of Malaysia's interest in the welfare of individual Member States. But beyond that, Malaysia also successfully contributed to the ASEAN process when it held the chairmanship. Malaysia made many notable achievements as chair, most significant being the formal declaration on the establishment of the AEC. That aside, it pushed for many initiatives that were directed at accomplishing a people-oriented ASEAN. Malaysia's interest in ASEAN is a robust and enduring one that includes sustained efforts towards reaching the AEC 2025 goals.

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