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SECTORAL VIEWPOINTS OF THE AEC

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TABLE OF CONTENTS

Executive summary	3
A. Background	
i. The road towards AEC	4
ii. The AEC explained	4
iii. Current status	6
B. Economic implications	
i. Growth	8
ii. Trade	9
iii. Investments	10
iv. The GCE Model - Quantifying the welfare gains	13
v. Challenges for the AEC	14
C. Sectoral implications	
i. Banking	16
ii. Automotive	17
iii. Aviation	18
iv. Consumer products and services	19
v. Construction	20
vi. Healthcare	21
vii. Oil & Gas Services	22
viii. Plantation.....	23
ix. Power	24
x. Semiconductor.....	25
xi. Telecommunication and media	26
xii. Property	27
xiii. Shipping, Ports, Logistics	28
xiv. Heavy industries	29
D. Strategy	
i. Corporate readiness: Malaysia and peers.....	31
ii. Corporate impact	31
iii. Investment strategy for the equity market	33

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SECTORAL VIEWPOINTS OF THE AEC

- The AEC has four pillars, namely (i) a single market and production base, (ii) a highly competitive economic region, (iii) a region of equitable economic development, and (iv) a region fully integrated into the global economy.
- Under the AEC, a single regional common market of ASEAN countries will be created by 2015. The regional integration's objective is to create a competitive market of over 600 million people in ASEAN. There will be free flow of goods, services, investment, capital and skilled labour following the liberalization.
- The AEC, once realized, is expected to have a significant cumulative impact on intra-ASEAN economic growth, trade and investment. However, the politico-economic union in the AEC is still not as extensive as that in the EU. For example, the EU operates through a system of supranational independent institutions, the presence of which will be limited in the AEC.
- In addition, there is still plenty of work to be done to close the development gap between the more advanced ASEAN 6 and the Indo-China economies (the CLMV). Other key challenge is that the slow elimination of non-tariff barriers (NTBs) among AEC member countries. Furthermore, some countries are given extended timeline to remove the NTBs. As such, AEC is likely to remain as work in progress comes 2015.
- The main sectoral implications of the AEC include:
 - Banking: AEC will enable access to newer markets for banking products and services.
 - Aviation: AEC is moving towards 'open skies' market which is much similar to what was already achieved in EU.
 - Oil & Gas: AEC will help to open up new horizons for offshore services operators.
 - Plantation: AEC may put an end to the disparate set of duties imposed on CPO and related products among the producing countries.
- While the AEC brings with it greater market reach, but at the same time it will also invite heightened competition. Hence we believe the winners are those with the wherewithal to expand into foreign territories while at the same time able to defend their domestic turf. Our large local companies with international operations may belong to this group.
- We are quite sanguine on the ability of our prospective regional champions to successfully compete at the regional levels. For example, several of our banks are ahead relative to other regional peers with regard to their ASEAN reach. Moreover, our near end-to-end value chain capabilities in the oil & gas sector put our companies in a good stead to win jobs around the region. In addition, our competitive advantages in the field of (i) oil palm plantation, (ii) healthcare, (iii) low-cost aviation, and (iv) halal consumer products, can be exploited to create truly ASEAN champions.
- However, many of the local SMEs simply do not possess the resources to widen their geographical reach. Thus a mechanism is required to eliminate the impediment to foreign trade for the SMEs that are too financially or managerially anaemic to independently establish a foothold in foreign markets. Guided by the Japanese experience, general trading companies (Sogoshosha or GTCs) may help to bridge the resource limitations among SMEs.



A. BACKGROUND

I. THE ROAD TOWARDS AEC

- The Association of Southeast Asian Nations (ASEAN) was formed by Indonesia, Malaysia, Philippines, Singapore, and Thailand in 1967 mainly to foster regional peace and security. Brunei Darussalam joined in 1984, and Cambodia, Lao People's Democratic Republic (Lao PDR), Myanmar, and Vietnam (CLMV) joined between 1995 and 1999. Economic cooperation and integration began modestly in 1977 with the Preferential Trading Arrangement and a number of industrial cooperation schemes. Economic integration began with the 1992 ASEAN Free Trade Area (AFTA) that covers trade in goods, complemented by the 1995 ASEAN Framework Agreement on Services (AFAS) and the 1998 ASEAN Investment Area (AIA) agreement. In 2003 it was agreed to deepen economic integration with the formation of the ASEAN Economic Community (AEC), to create a unified market and production base via a free flow of goods, services, foreign direct investment, skilled labour, and a freer flow of capital.
- ASEAN covers a land area of 4.46m km², which is 3% of the total land area of the earth, and has a population of approximately 600m people, which accounts for 8.8% of the world's population. The sea area of ASEAN is about three times larger than its land counterpart. In 2013, its combined nominal GDP had grown to more than USD2.4tr, according to the International Monetary Fund (IMF). If ASEAN were a single entity, it would rank as the eighth largest economy in the world.
- Under the AEC, a single regional common market of ASEAN countries will be created by 2015. The regional integration's objective is to create a competitive market of over 600 million people in ASEAN. There will be free flow of goods, services, investment capital and skilled labour following the liberalization. These will include tariff reductions and streamlining of certain administrative procedures. Many businesses have begun preparing themselves 3 years ahead of time to meet the challenges and opportunities of the AEC.
- Areas of cooperation include human resources development and capacity building; recognition of professional qualifications; closer consultation on macroeconomic and financial policies; trade financing measures; enhanced infrastructure and communications connectivity; development of electronic transactions through e-ASEAN; integrating industries across the region to promote regional sourcing; and enhancing private sector involvement for the building of the AEC. The AEC will transform ASEAN into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital.

II. THE AEC EXPLAINED

- The AEC has four pillars that aim to transform ASEAN into:
 - (Pillar 1) : a single market and production base,
 - (Pillar 2) : a highly competitive economic region,
 - (Pillar 3) : a region of equitable economic development,
 - (Pillar 4) : a region fully integrated into the global economy”.

The AEC has often been inappropriately compared to the EU Single Market. But the AEC is neither a customs union (with common external commercial policy) nor a full common market (with free mobility of capital and labour and some policy harmonization).

- The AEC is a realization of the end goal of economic integration as espoused in its Vision 2020, which is based on a convergence of interests of ASEAN Member Countries to deepen and broaden economic

Table 1: The Road Towards AEC

Year	Milestones
1961	<ul style="list-style-type: none"> Creation of the Association of South-East Asia (ASA) - an alliance consisting of Philippines, Malaysia and Thailand.
1967	<ul style="list-style-type: none"> Bangkok Declaration - formation of ASEAN (Association of South East Asia Nations - consisting of Philippines, Malaysia, Thailand, Indonesia and Singapore). The motivations for the birth of ASEAN were so that its members' governing elite could concentrate on nation building, reduced faith in or mistrust of external powers in the 1960s, and a desire for economic development.
1992	<ul style="list-style-type: none"> Common Effective Preferential Tariff (CEPT) was signed. A schedule for phasing out tariffs and as a goal to increase the region's competitive advantage as a production base geared for the global market. Its also the framework for AFTA. Agreement on the ASEAN Free Trade Agreement (AFTA). AFTA calls for ASEAN member countries to grant preferential tariffs to one another in intra-ASEAN trade, eventually abolish such tariffs altogether, and remove non-tariff barriers (NTBs) to their trade within proposed time frames.
1997	<ul style="list-style-type: none"> ASEAN plus Three (China, Japan & Korea) created. To integrate further economic cooperation between ASEAN and the economic giants of North East Asia. Rising from the ashes of the failed East Asia Economic Caucus proposed in 1990.
1999	<ul style="list-style-type: none"> Cambodia became the 10th member of ASEAN. This was preceded by Laos and Myanmar in 1997, Vietnam in 1995 and Brunei in 1984.
2003	<ul style="list-style-type: none"> The declaration of the creation of the ASEAN Economic Community (AEC) by 2015 Also known as the Bali Concord II, the AEC's primary goal is regional economic integration by 2020. In addition to the AEC, the ASEAN Security Community and the ASEAN Socio-Cultural Community are the other two integral pillars of the envisaged ASEAN Community. All three pillars are expected to work in tandem in establishing the ASEAN Community in 2020.
2005	<ul style="list-style-type: none"> Creation of the East Asian Summit The drive for further integration among ASEAN and others countries in the East Pacific saw the creation of the East Asia Summit (EAS) which includes the ASEAN Plus Three and Australia, New Zealand & India. The EAS as proposed was to be an ASEAN-led development, with the summit to be linked to ASEAN summit meetings.
2007	<ul style="list-style-type: none"> 40th Anniversary of ASEAN with the agreement of the ASEAN charter The ASEAN charter is a constitution governing relations among the ASEAN members and establishing ASEAN itself as an international legal entity. At the same time The ASEAN Economic Community Blueprint for realising the ASEAN Economic Community by 2015 was adopted and signed by ASEAN Leaders.

Source: Institute of South East Asian Studies, Asian Development Bank Institute, MIDFR

integration through existing and new initiatives with clear timelines. In establishing the AEC, ASEAN shall act in accordance to the principles of an open, outward-looking, inclusive, and market-driven economy consistent with multilateral rules as well as adherence to rules-based systems for effective compliance and implementation of economic commitments.

- The AEC will establish ASEAN as a single market and production base making ASEAN more dynamic and competitive with new mechanisms and measures to strengthen the implementation of its existing economic initiatives; accelerating regional integration in the priority sectors; facilitating movement of business persons, skilled labour and talents; and strengthening the institutional mechanisms of ASEAN.
- The creation of a single market and production base should allow ASEAN to benefit from economies of scale and efficiency in production network processes. ASEAN could leverage on economies at different levels of economic development to provide complementary locations for production networks. An integrated market and production base would clearly boost intra-regional trade and investment flows while an ASEAN consumer market of over half a billion would be attractive for investors.

III. CURRENT STATUS

- To ensure effective implementation of the initiatives, ASEAN has established a monitoring system by means of an “AEC Scorecard” that tracks the progress of the region in implementing the initiatives set in the AEC blueprint.
- The AEC Scorecard started in 2008 and reporting is done regularly in 4 phases, which are for 2008 - 2009, 2010-2011, 2012-2013 and 2014 -2015. The AEC Scorecard as at end-March 2013 - the latest scorecard report available - showed that the region is behind schedule, having achieved only 77.5% of the compliance goals since 2008.
- For Phase III (2012 - 2013), the achievement was just 71. 9% while that for Phase II (2010-2011) was 72.1%). Indeed, the score had been declining since the beginning of the monitoring programme, when compliance was the highest at 89.5% for Phase I (2008-2009). Details of the measures fully implemented, not implemented and those that are implemented ahead or ongoing are listed in Table 2.
- For the single market and production base (the first pillar), implementation in services has been the most problematic, followed by investment. Many of the outstanding measures are in trade facilitation. For the competitive economic region (pillar 2), measures not fully implemented are primarily in transport, with delays in ratification of regional agreements and translating them into respective national laws. For equitable economic development, non-full implementation has been mainly in SME development.
- At the national level, all ASEAN countries have embraced freer flow of capital (except Myanmar), freer flow of skilled labour, priority integration sectors, competition policy, mineral, ICT, taxation (except Cambodia), and e-commerce. They have also implemented the free flow of goods, services and investments, food-agriculture-forestry, consumer protection, transport, energy, IAI (Initiatives for ASEAN integration), and external economic relations. In IPR (Intellectual Property Rights), the compliance record is mixed, with full implementation by Malaysia, Philippines, Singapore, Thailand and Vietnam. The record is also mixed in SME development with full implementation by Indonesia, Malaysia, Singapore, and Thailand.
- The progress of AEC has led to elimination of duties across ASEAN countries and also liberalization of services sector. Since January of 2010, 99.6% of duties have been eliminated from the ASEAN-6 (Brunei,

Indonesia, Malaysia, Philippines, Singapore and Thailand). 12 broad sectors in the services area have been liberalized, among them; Business, Communication, Distribution Financial Services, Transport Services and Construction & Engineering Related Services.

Table 2: AEC Scorecard Key Deliverables January 2008 - December 2013 for ASEAN-wide Achievement as at end-March 2013

AEC Pillar	Key Areas	Fully Implemented	Not Implemented	Implemented Ahead	Ongoing	Total
Pillar 1: Single market and production base	Free Flow of Goods	41	25	0	5	71
	Free Flow of Services	29	10	0	2	41
	Free Flow of Investments	15	4	0	1	20
	Free Flow of Capital	8	1	0	5	14
	Free Flow of Skilled Labor	1	0	0	7	8
	Priority Integration Sectors	34	0	7	3	44
	Food, Agriculture, and Forestry	18	3	0	6	27
Pillar 2: Competitive Economic Region	Competition Policy	4	0	1	2	7
	Consumer Protection	12	2	0	0	14
	Intellectual Property Rights	5	1	3	0	9
	Transport	30	17	2	12	61
	Energy	4	1	1	13	19
	Minerals	9	0	0	3	12
	ICT	5	0	0	5	10
	Taxation	0	1	0	2	3
	E-commerce	1	0	0	2	3
Pillar 3: Equitable Economic Development	SME Development	10	3	1	4	18
	Initiative for ASEAN Integration (IAI)	4	1	0	1	6
Pillar 4: Integration into Global Economy	External Economic Relations	14	6	0	0	20
Total		244	75	15	73	407

Source: Mekong Forum 2013, ASEAN Integration Monitoring Office (AIMO), ASEAN Secretariat

B. ECONOMIC IMPLICATIONS

- Quantifying¹ the impact of a fully integrated ASEAN by 2015 (or at whatever stage the member countries have reached on the scorecard) on the region as a whole and specific country like Malaysia is a monumental task. At the same time, disaggregating the impact of the AEC and that of AFTA or ASEAN FTA on economic performance of ASEAN thus far is equally challenging.

Table 3: Selected comparisons of the size of AEC vs Malaysia (2012)

2012	Malaysia	ASEAN
Market size	30 m	617 m
Total trade	USD424 b	USD2.4 tr
GDP in current USD	USD305 b	USD2.3 tr
Real GDP growth	5.10%	5.70%

Source: MITI

- The AEC, once realized, is expected to have a significant cumulative impact on intra-ASEAN economic growth, trade and investment. However, assuming a cumulative market may overstate the impact. The politico-economic union in the AEC is still not as extensive as that in the EU. For example, the EU operates through a system of supranational independent institutions, the presence of which will be limited in the AEC. In addition, there is still plenty of work to be done to close the development gap between the more advanced ASEAN 6 and the CLMV.
- In 2012, the size of AEC's nominal GDP of USD2.3tr was 7.5x that of Malaysia's GDP. Total trade (exports + imports) of ASEAN with the rest of the world was 5.7x the size of total trade of Malaysia. With population estimated at 671 million people, the consumer market is huge at 20.5x of that of Malaysia. It creates massive opportunity for any investors.

¹ One approach in the study of impact of trade and investment is based on Computable General Equilibrium (CGE) modelling. We have not attempted this in this report.

Table 4: ASEAN - Key Economic Indicators (as of 20 April 2014)

Country	GDP at current prices	GDP per capita at current prices		International merchandise trade**			Foreign direct investments infow*** ^	
		USDm	USD	USD PPP*	Exports	Imports	Total trade	USDm
	2012	2012	2012	2012	2012	2012	2011	2012
Brunei	16,970	42,445	54,210	13,182	3,674	16,856	1,208	865
Cambodia	14,401	977	2,528	7,435	11,229	18,664	892	1,557
Indonesia	878,223	3,578	4,903	190,032	191,689	381,721	19,242	19,138
Lao PDR	9,083	1,394	2,876	2,655	3,504	6,159	301	294
Malaysia	305,154	10,338	16,780	227,538	196,393	423,930	12,001	9,400
Myanmar	51,597	846	1,571	9,315	9,188	18,503	2,057	1,152
Philippines	250,543	2,567	4,299	51,995	65,386	117,382	1,816	2,797
Singapore	284,389	53,533	62,509	408,394	379,723	788,117	48,475	59,812
Thailand	366,127	5,391	9,502	229,524	247,778	477,302	3,861	10,699
Viet Nam	141,669	1,596	3,449	114,511	113,283	227,793	7,519	8,368
ASEAN	2,318,156	3,756	5,793	1,254,581	1,221,847	2,476,427	97,371	114,082

Source: ASEAN Secretariat statistics

Notes:

* Lao PDR figure is for 2010

** Unless otherwise indicated, figures include equity, reinvested earnings and inter-company loans.

*** For FDI, 2012 figures are preliminary as of April 2013

^ ASEAN IMTS Database 2012 figures are as of 20 December 2013

I. GROWTH

- With a size of GDP of USD2.3 trillion, the combined single market as a result of fully realized AEC is smaller only to China in the Emerging Market sphere. The biggest gain from ASEAN integration is its rapid growth pace. Most Emerging market countries are “maturing” and need structural push to achieve higher potential growth rate.
- ASEAN may struggle to catch up with China or India in terms of GDP size but with Japan stagnating, it has the capability to narrow the gap. The IMF in its latest World Economic Outlook (WEO) had projected that growth in GDP in current prices (USD terms) for ASEAN countries to average at close to 5% in the 2012 - 2015 period. However, post-2015, growth is expected to surge to an average pace of 9.6% in the following 4 years.
- The acceleration in growth could be attributed to the IMF assuming the benefits of AEC, although it is unclear whether the assumption is based on partial realization or full realization of the AEC objectives.
- The growth projection assumed that most of the growth in 2015 - 2019 would still be driven by the big and more advanced ASEAN member states - known as ASEAN-5, namely Malaysia, Indonesia, Singapore, Thailand & Philippines - contributing as much as 88.6% share to the growth. In fact, the share is greater than that projected for 2012 - 2015 period with 79.8% contribution to growth.
- That should not come as a surprise. Although smaller countries may see trade and investment to surge as they open up further their economies and get better demand access for their export products, it is naturally that businesses in the bigger and more competitive economies, having the advantages of economies of scale, would stand to gain more from the integrated ASEAN market. Given their size - ASEAN-5 accounts for about 87.8% of total ASEAN GDP - the leapfrogging in growth help them to garner even bigger share.
- Based on the IMF WEO projections, Malaysia’s GDP (current prices) is expected to rebound strongly in 2014 - 2015 but to lose momentum in 2016 - 2017 before picking up again in 2019. Nonetheless, the pace still falls short of the 10-year average of about 11% recorded in 2013. In real terms, growth is projected to stay flattish at about 5% in 2015 - 2019 which is essentially the long-term trend growth.
- Nonetheless, disaggregating the impact of AEC and other factors contributing to GDP growth in ASEAN member states is not possible by just inferring from the projected trend growth in the region over the next few years. This is due to the fact that most of the measures targeted under the pillars of the AEC as outlined in the Blueprint were either already implemented or in stages of implementation over the course of past few years since 2008.
- On that same token, we cannot deduce that if AEC continues to lag behind schedule comes 2015, growth as projected earlier could be shaved off a few percentage points.

II. TRADE

- Under a fully implemented AEC, ASEAN Free Trade Agreement (AFTA) will be expanded to zero tariffs on almost goods by 2015. Since the inception of AFTA in 1993, intra-ASEAN trade had grown from USD82b to reach USD601b by 2012.
- It started off with most of the trade concentrated in Singapore-Malaysia bilateral trade and to a lesser extent, the Singapore-Indonesia and Singapore-Thailand bilateral trade. Singapore was the entreport

importing for re-export the primary commodities of the other ASEAN countries and exporting to them the manufactures from industrialized countries thus increasing the intra-ASEAN trade in parts and components. As member states industrialize, with oil and gas gaining importance, intra-ASEAN trade excluding Singapore grew.

- In terms of bilateral FTA, ASEAN as a block had already concluded free trade agreements within the Asia-Pacific region, namely ASEAN-China FTA, ASEAN-Korea FTA, ASEAN-Japan Comprehensive Economic Partnership, ASEAN-India FTA and ASEAN-Australia-New Zealand FTA.
- According to Petri, et. al (2012), the benefits gained from eliminating all remaining intra-regional tariffs under AFTA are estimated to be at USD10.1b and if the reduction in NTBs (assuming a horizontal reduction in trade costs of 5% of trade values) is included, there is additional gain of USD27.9b. However, with AEC (FDI inflows), the additional gain is USD31.4b.
- ASEAN as a block is now our largest trading partner, with total trade accounting for 27.1% of Malaysia’s total trade. Using this estimate and Malaysia weight as trading partner in ASEAN that could possibly imply a conservative gain of about 5.0 - 6.0% of our total trade.
- The intra-ASEAN agreement that has arguably done the most to improve trade within ASEAN is the ASEAN Trade in Goods Agreement (“ATIGA”). ATIGA aims to lower customs duties throughout ASEAN with the objective of having tariffs between 0% and 5% for the vast majority of goods by 2010 for Singapore, Indonesia, Thailand, Brunei, the Philippines and Malaysia, and by 2018 for Cambodia, Laos, Myanmar and Vietnam (together “CLMV”).

Table 5: How ASEAN stack up against key Emerging Market countries

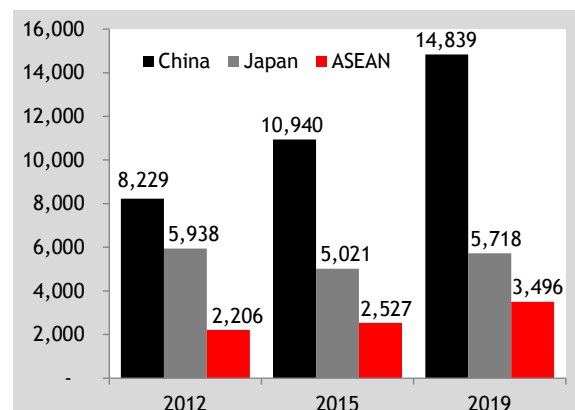
	China	Brazil	India	ASEAN
GDP USD trillion	8.23	2.24	1.83	2.31
GDP USD PPP per capita	8,930	11,734	3,831	5,865
Real GDP growth -YoY%	7.7	1.0	4.8	5.8
Potential output growth - YoY%	8.0	2.3	6.0	5.0 - 6.0

Source: ASEAN, official statistics

III. INVESTMENTS

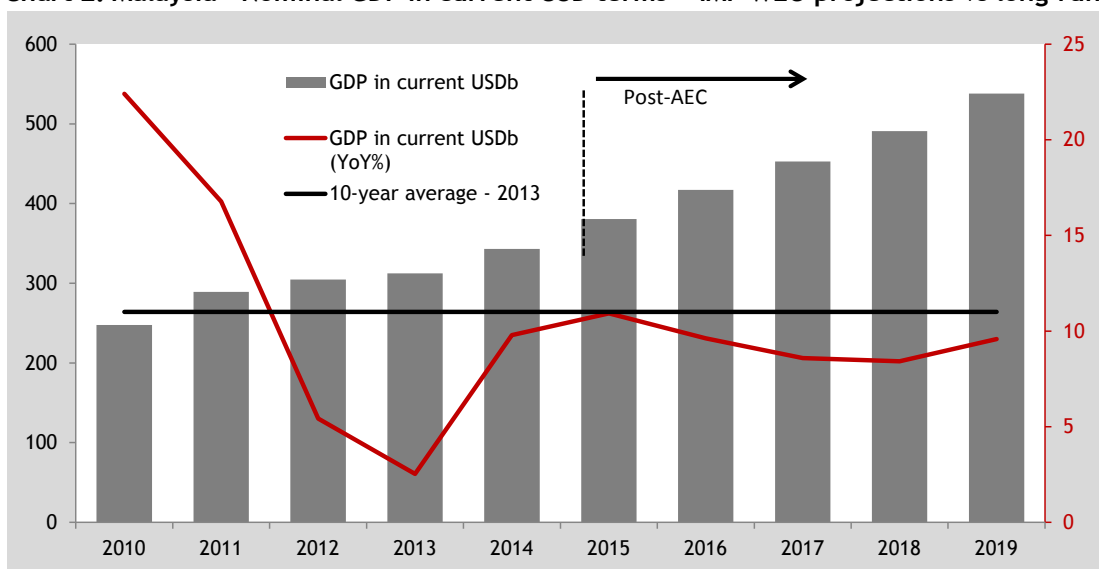
- With AEC, all ASEAN countries are more important to foreign investors as they are now perceived as one single market. The goals stipulated under 2 main pillars of AEC, namely Single market and production base (free flow of goods, services, investment, skilled labour and freer capital) and Competitive economic region (competition policy, consumer protection, intellectual property rights, infrastructure development and taxation and e-commerce) would enhance the region’s attractiveness as a region-wide production base to investors.
- The principal investment cooperation program of the AEC has been the ASEAN Investment Area (AIA) which is being expanded to the new and enhanced ASEAN Comprehensive Investment Agreement (ACIA) in 2009. The objectives and the scope of

Chart 1: ASEAN to play catch up, continuing to accelerate post-2015 (Current USDb)



Source: ASEAN, IMF World Economic Outlook Database

Chart 2: Malaysia - Nominal GDP in current USD terms - IMF WEO projections vs long-run average



Source: IMF World Economic Outlook Database

the ACIA, if fully developed and implemented, would drive the ASEAN investment framework integration to a new level by liberalizing and integrating further each ASEAN Member State’s investment framework, as well as offering strong protection to foreign investors, both from within and outside ASEAN.

- According to ChinaGoAbroad (CGA) , a membership community that was co-founded by TransAsia Lawyers and China Overseas Development Association under the National Development & Reform Commission (NDRC), the establishment of the AEC is starting to have a transformational effect on the foreign invested companies investing in the ASEAN market and on ASEAN companies investing in other ASEAN countries over the last two years. CGA observed there was a move towards an investment approach that is less country-centric and much more regionally minded, most notably for ASEAN investors looking to develop a Production Chain or Supply Chain within ASEAN Member States.

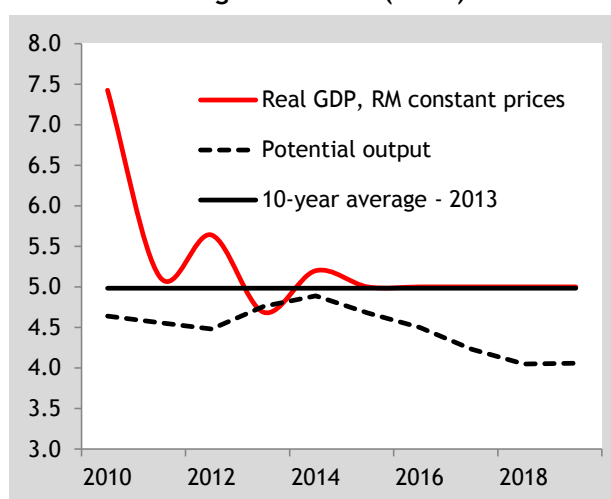
- The improved investment climate led total net FDI flows into ASEAN to improve to USD119.76b in 2013 from USD114.1b in 2012. One notable development for that year was that the total net FDI flows from intra-ASEAN actually slipped by 2.4% but that of extra-ASEAN rose by 6.6%. The trend was similar for Malaysia. Malaysia accounts for about 10.3% of total net FDI flows into ASEAN.

- In terms of country of origin, the EU had always been the top investor in ASEAN, although its share in 2013 at 22.3% was much smaller than the 30% share recorded in 2011.

Japan has rebounded since 2012 to now being the second largest investor in ASEAN with 19.15 share. This was followed by ASEAN intra-investment at 16.8%.

- A paper by Aldaba and Yap (2009) on the potential impact of the AEC on investment flows had identified five transmission channels through which FDI into the region is expected to be boosted:

Chart 3: Malaysia - Real GDP vs potential growth and long-term trend (YoY%)



Source: IMF World Economic Outlook Database

- The removal of regulatory and legal barriers to international capital flows and the participation of foreign investors in domestic firms and financial markets will generally lead to more FDI as new sectors are opened up. However, that these provisions alone are not a guarantee of increased FDI. Significant increases in FDI can be realized only if the most important sectors are opened up and member countries address their core business environment issues. This requires that member countries implement complementary policies that help improve the overall investment climate.
- Deeper integration features such as trade in services, setting and harmonization of standards, competition law, customs cooperation, IPR, and dispute settlement. These will improve the host economy's investment environment and are likely to attract FDI inflows.
- With ASEAN aiming to deepen its integration into the global economy and become a more dynamic participant in regional/global production networks, this is expected to lead to net increases in FDI inflows.
- A preferential trading arrangement (PTA) creates an expanded market through closer integration of

Table 6: Intra-ASEAN trade

Data as at 2011	Intra-ASEAN Imports			Intra-ASEAN Exports			Total Intra-ASEAN trade		
	USDm	% share of ASEAN	% of Country Imports	USDm	% share of ASEAN	% of Country Exports	USDm	% share of ASEAN	% of Country Trade
Brunei	1,191	0.4	48.4	1,721	0.5	13.9	2,912	0.5	19.6
Indonesia	57,254	21.1	32.3	42,099	12.9	20.7	99,353	16.6	26.1
Malaysia	52,090	19.2	27.8	56,050	17.1	24.6	108,140	18.1	26.0
Philippines	15,040	5.6	23.6	8,635	2.6	18.0	23,676	4.0	21.2
Singapore	78,126	28.9	21.4	127,545	38.9	31.2	205,671	34.4	26.5
Thailand	39,224	14.5	17.0	72,227	22.1	31.6	111,450	18.6	24.3
Cambodia	2,170	0.8	35.4	834	0.3	12.4	3,004	0.5	23.4
Lao PDR	1,571	0.6	71.1	960	0.3	55.0	2,530	0.4	64.0
Myanmar	3,250	1.2	47.8	3,957	1.2	48.7	7,208	1.2	48.3
Vietnam	20,793	7.7	20.0	13,505	4.1	14.2	34,298	5.7	17.2
ASEAN	270,710	100.0	23.6	327,532.0	100.0	26.4	598,242	100.0	25.0

Source: ASEAN Secretariat statistics (2013)

Table 7: ASEAN Bilateral FTAs

	ASEAN - China FTA	ASEAN - Korea FTA	ASEAN-Japan Comprehensive Economic Partnership	ASEAN - India FTA	ASEAN - Australia-NZ FTA
Entry into force	2005	2007	2008	2010	2010
Market size (million)	1939	647	728	1814	625
Economic size (USD trillion)	7.7	2.9	7.3	3.4	3.2
Coverage	Goods	Goods	Goods	Goods	Goods
	Services	Services	Services	Services	Services
	Investment	Investment	Investment	Investment (negotiations still ongoing)	Investment
Total trade (USD\$b)	751.8	618.4	726.4	575.2	582.6

Source: Extracted from "Pillai, S Bose (2013). ASEAN and Strategic FTAs"

PTA partners; a positive relationship between PTAs and FDI is implied. Thus, a large regional market is expected to be a more attractive investment site for foreign MNCs than the fragmented national markets separately arising from vertical FDI inflows.

- FDI and growth/dynamic effects studies indicate that regional integration may affect FDI through more dynamic means by generating additional economic growth. Studies have shown that controlling for other factors, FDI flows are positively related to economic growth.

IV. THE CGE MODEL - QUANTIFYING THE WELFARE GAINS

- A study done by Plummer and Chia (2009) with assumptions on the complete elimination of tariffs and non-trade barriers (NTBs), the liberalization of 5 service sectors, AEC-induced changes in FDI and a 5% reduction in trade costs. Making use of the CGE model, the paper tried to quantify the economic welfare gains to each member state under AEC vis-à-vis integration via the ASEAN Free Trade Agreement (AFTA) only.
- The finding showed that the full implementation of AEC would raise ASEAN real incomes by USD69.4b or 5.3% of 2004 baseline income. That compared to just USD10.1b or 0.8% of 2004 baseline income gained from just the completion of AFTA agreement. These gains reflect the effects of standard gains from trade, increased access to product varieties and productivity improvements due to increases in the relative size of more productive export-oriented firms.
- The benefits are relatively large for those economies that have very high tariffs and non-tariff barriers such as Cambodia and Indonesia as the elimination of these barriers allow resources to move from less to more productive sectors. The benefits are also large for open economies that have very intensive trade relations with the region that allows them to gain from removal of regional trade barriers, such as Singapore.
- Another study done by Petri, et.al (2012) extended the above analysis by including another 3 scenarios, **Table 8: ASEAN as trading market for Malaysia**

	Exports to	Imports from	Trade balance	% share of Exports to Total	% share of Imports to Total
	RMm				
2008	171,216	131,769	39,447	25.8	30.3
2009	142,340	111,795	30,545	25.7	21.1
2010	162,454	143,636	18,818	25.4	27.2
2011	171,536	159,390	12,146	24.7	27.8
2012	188,194	169,449	18,744	26.8	27.9
2013	201,811	173,448	28,363	28.0	26.7

Source: Department of Statistics

i.e. AFTA+ where there is intensification of AFTA through the removal of NTBs including regulatory barriers such as diverging standards and testing requirements; AEC+ where there is bilateral FTA between the AEC and East Asian Summit countries (Australia, New Zealand, India, Japan, China and South Korea) and AEC++ where there is further bilateral FTA between the AEC and the USA and EU.

- The findings suggest that under the most ideal scenario whereby the fully realized AEC is further complemented by bilateral FTAs, ASEAN real incomes could rise by USD151b or 11.6% of 2004 baseline income.

Table 9: Foreign direct investment net inflows, intra- and extra-ASEAN

Country	USDm			% Share to total, 2013			% Share to total net inflow, 2013		
	2013			Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
	Intra-ASEAN	Extra-ASEAN	Total net inflow						
Brunei	(72.60)	981.00	908.40	(0.36)	0.98	0.76	(7.99)	107.99	100.00
Cambodia	298.85	976.05	1,274.90	1.48	0.98	1.06	23.44	76.56	100.00
Indonesia	8,721.11	9,722.73	18,443.84	43.31	9.76	15.40	47.28	52.72	100.00
Lao PDR	n.a	n.a	426.67	n.a	n.a	0.36	n.a	n.a	100.00
Malaysia	2,187.50	10,109.88	12,297.38	10.86	10.15	10.27	17.79	82.21	100.00
Myanmar	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Philippines	(41.71)	3,901.50	3,859.79	(0.21)	3.92	3.22	(1.08)	101.08	100.00
Singapore	5,706.20	54,938.70	60,644.90	28.34	55.15	50.64	9.41	90.59	100.00
Thailand	1,256.79	11,742.97	12,999.77	6.24	11.79	10.86	9.67	90.33	100.00
Viet Nam	2,078.59	6,821.41	8,900.00	10.32	6.85	7.43	23.35	76.65	100.00
Total	20,134.73	99,620.91	119,755.64	100.00	100.00	100.00	16.81	83.19	100.00
ASEAN 5	17,829.89	90,415.78	108,245.68	88.55	90.76	90.39	16.47	83.53	100.00
BLCMV	2,304.84	9,205.13	11,509.97	11.45	9.24	9.61	20.02	79.98	100.00

Source: ASEAN Secretariat

- Chia (2013) who is the co-author of the Plummer and Chia (2009) stated that there are some gains that the CGE have failed to quantify which could see the net benefits to be larger than that 5.3% under the full implementation of AEC scenario, namely, the lower cost of capital due to freer movement of capital and improved financial systems; efficiency gains from freer movement of skilled labour; and greater macroeconomic stability due to the conservative macroeconomic policies to support AEC.

V. CHALLENGES FOR THE AEC

- A fully integrated AEC may only be realised many years after 2015. One of the challenges is ensuring that member states to comply with the deadlines set in the Blueprint. There are also calls to improve the scoring system on core measures. There should be a monitoring system to measure the impact of the implementation.
- Other key challenge is that the slow elimination of non-tariff barriers (NTBs). These are in the form of foreign equity ownership, infrastructure barriers, intellectual property rights protection, customs automation and modernization, red tape and other forms of corruption, and competition policy that harmonization of policies requires constitutional changes.
- Apart from some countries that are given extended timeline to remove the NTBs i.e. CLMV by 2015, most NTBs were earlier envisaged to have been eliminated by 2010 and 2012 for Philippines. That in reality has yet to materialize.
- These outstanding issues suggest that there is a likelihood that the monitoring system be extended well beyond 2015. As such, AEC at best is likely to remain as work in progress comes 2015.

Table 10: Welfare Gains from extended scenarios

	AFTA+	AEC+	AEC++	AFTA+	AEC+	AEC++
	USDb, 2004 prices			% of baseline GDP		
Brunei	0.4	0.6	0.7	5.4	9.3	10.6
Cambodia	0.5	0.7	1.2	5.4	7.2	12.3
Indonesia	6.2	36.5	43.2	1.4	8.2	9.7
Lao PDR	0.1	0.2	0.2	2.5	3.8	4.6
Malaysia	2.9	21.1	27.9	1.5	11.2	14.7
Myanmar	0.2	0.7	1.4	1.2	4.8	9.3
Philippines	2.2	4.4	5.9	1.6	3.2	4.3
Singapore	14.0	18.1	19.0	9.0	11.6	12.2
Thailand	9.8	19.5	25.8	3.9	7.8	10.4
Viet Nam	1.6	13.8	25.7	1.8	16.0	29.8
ASEAN	38.0	115.6	151.0	2.9	8.9	11.6

Source: Petri, et.al (2012)
Note: Baseline GDP; 2004=100

Table 11: Welfare Gains from AEC vs AFTA only

	AFTA	AEC	AFTA	AEC
	USDb, 2004 prices		% of baseline GDP	
Brunei	0.2	0.5	2.6	7.0
Cambodia	0.3	0.6	2.7	6.3
Indonesia	1.0	27.6	0.2	6.2
Lao PDR	0.0	0.2	0.6	3.6
Malaysia	2.7	5.7	1.4	3.0
Myanmar	0.0	0.6	0.3	4.4
Philippines	0.9	4.5	0.6	3.2
Singapore	2.6	15.1	1.6	9.7
Thailand	1.6	12.2	0.6	4.9
Viet Nam	0.9	2.4	1.1	2.8
ASEAN	10.1	69.4	0.8	5.3

Source: Plummer & Chia (2009)
Note: Baseline GDP; 2004=100

Table 12: Foreign direct investment net inflows in ASEAN from selected partner countries/regions

Partner country/ region	Value				Share to total net inflows (%)			
	2011	2012	2013	2011-2013	2011	2012	2013	2011-2013
ASEAN	15,355	20,624	20,135	56,114	15.74	18.08	16.81	16.93
USA	9,027	11,080	3,758	23,864	9.25	9.71	3.14	7.20
Japan	9,707	23,746	22,868	56,321	9.95	20.81	19.10	17.00
European Union (EU)	29,324	17,421	26,683	73,428	30.06	15.27	22.28	22.16
China	7,187	4,895	7,851	19,933	7.37	4.29	6.56	6.02
Republic of Korea	1,742	1,708	3,516	6,967	1.79	1.50	2.94	2.10
Australia	1,518	1,829	2,002	5,349	1.56	1.60	1.67	1.61
India	(2,232)	2,233	1,310	1,312	(2.29)	1.96	1.09	0.40
Canada	768	924	851	2,543	0.79	0.81	0.71	0.77
Russian Federation	39	184	542	766	0.04	0.16	0.45	0.23
New Zealand	7	(108)	246	146	0.01	(0.09)	0.21	0.04
Pakistan	12	(21)	(1)	(10)	0.01	(0.02)	(0.00)	(0.00)
Total selected partner countries/ regions	72,454	84,516	89,763	246,732	74.28	74.08	74.95	74.46
Others	25,083	29,567	29,993	84,643	25.72	25.92	25.05	25.54
Total FDI inflow to ASEAN	97,537	114,082	119,756	331,375	100.00	100.00	100.00	100.00

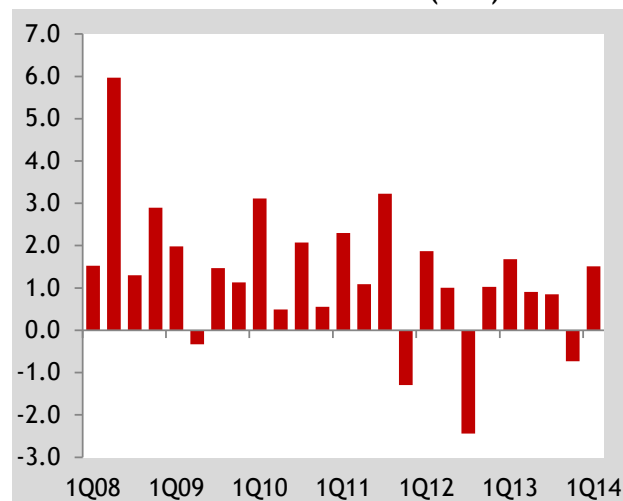
Source: ASEAN Secretariat

C. SECTORAL IMPLICATIONS

I. BANKING

- For the Banking Sector, the most important thrust under the ASEAN Economic Community 2015 (AEC) will be Thrust I. Thrust I deals with measures to liberalise and facilitate the free flow of goods, services, investment, skilled labour and capital.
- We believe that Malaysian Banks which have already invested in the ASEAN region will stay ahead of competitors in preparing for the AEC.
- AEC will enable Banks to gain access to newer markets for banking products and services. There will be opportunities and challenges from AEC 2015.
- In preparation for keener industry competition, we reckon that Malaysian Banks have already taken proactive steps in expanding abroad into ASEAN countries. These Banks have expanded either by acquisitions or inorganic growth with the rise in number of branches in these markets. Most Malaysian Banks have expanded into ASEAN countries to create a stronger regional platform in line with the Financial Sector Blueprint.
- Notable cases of expansions were the acquisition of Bank Niaga by CIMB Group in 2002. Subsequently, Bank Niaga was merged with Bank Lippo to create a larger bank entity in Indonesia in 2008 and was renamed PT Bank CIMB Niaga. Other expansions include Maybank's acquisition of PT Bank Internasional Indonesia (BII) in 2008, Hong Leong Bank's opening of a new branch in Phnom Penh, Cambodia in 2013, Public Bank's foray into Cambodia, Vietnam and Laos as well as RHB Capital's recent expansion with a banking license to operate in Laos with its commencement of business operations on 6 June 2014.

Chart 4: FDI into Malaysia for the Financial and Insurance/Takaful Sector (RMb)



Source: BNM

- To facilitate the attraction of the foreign capital into the local financial sector, foreign ownership shareholding in Investment Banking, Retail Fund Management and Stock Broking Industry have already been liberalised and raised to 70% in 2009. Meanwhile, foreign ownership in the Wholesale segment of Fund Management Industry has been fully liberalised to 100% while that of Commercial Banking remained capped at 30% with exception of approval which will be considered on case to case basis.
- Locally, various measures have already been introduced to liberalise the financial sector since 2009. Arising from this, AEC 2015 is not expected to create unexpected shocks as most Banks have already scaled up their regional operations in preparation for greater challenges of AEC that is expected to intensify competition. Meanwhile, the other Banks are still looking for opportunities to expand their presence in the ASEAN member countries.
- Financial integration will be one of the key areas in Banking when the AEC 2015 is adopted. We believe that Banks have already started to focus on cross border deals flows with an ASEAN regional strategy. This

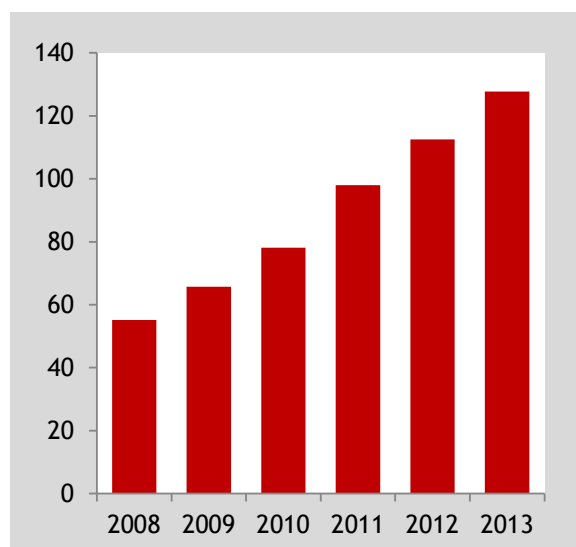
is particularly evident in the larger capitalised banks such as CIMB Group and Maybank.

- Under AEC, there will be a focus on planning talent and resources to support the growth of SMEs. It will be important to strengthen SMEs as AEC is expected to bring in more investments. This will result in SMEs facing competition from MNCs of developed countries as well as from Japan, Korea, China and India. Looking ahead, integration of SMEs is likely and we believe that this will present funding opportunities for financial institutions.

II. AUTOMOTIVE

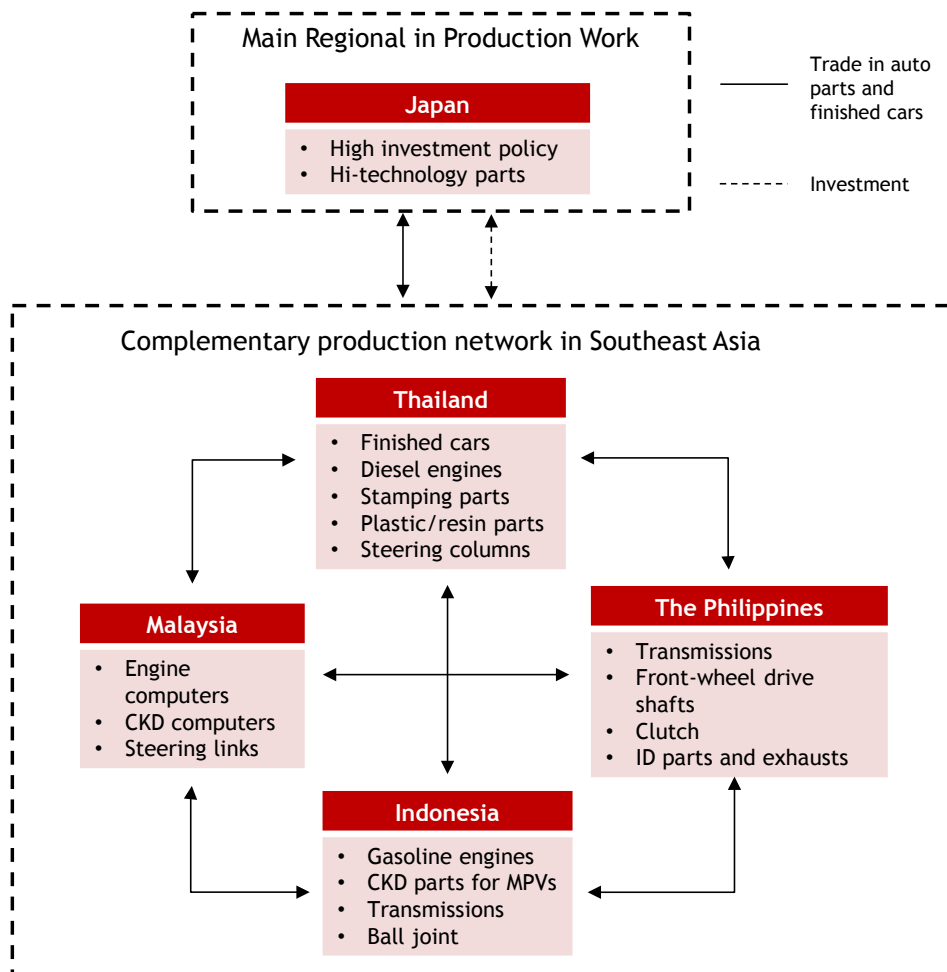
- Within ASEAN, Thailand is an integral regional and global automotive production hub. The massive Thai floods in 2011, the worst in 50 years, had far-reaching impact to global brands such as Ford, Toyota, Nissan, and Honda which are heavily invested there. Ford noted losses in its Asia Pacific and Africa operations while Toyota reported disruptions in its manufacturing plants all the way in North America. In Malaysia, UMW-Toyota, Tan Chong Motor, and DRB-Hicom, the respective local partners and distributors of Toyota, Nissan and Honda, were adversely impacted by supply shortages during the period.
- In a nutshell, the regional auto sector supply chain is structured as in Chart 6. This is typical of the Japanese automakers' setup which, we think, is slightly different from that of Ford. The latter does not have region-specific models while its manufacturing facility in ASEAN is concentrated in Thailand following the closure of its Philippines manufacturing plant at end 2012.
- Under the ASEAN Economic Community (AEC), we expect to see structural changes to the automotive ecosystem, in particular, at the vehicle manufacturing and assembly level. Local players such as Proton and Perodua would be more accessible to source better quality parts from established regional parts suppliers, and possibly at lower cost. Proton would also be in a better position to grow its presence in Thailand and Indonesia as well as entering other regional markets such as the Indochina. However, we believe Perodua is limited to the regional marketing plan of Daihatsu, its technological partner, although we understand that Perodua would also double up as Daihatsu's regional producer.
- Within the local auto-parts makers, we expect the industry to consolidate. We view the local parts-makers as being less competitive than its established regional peers in Thailand and/or Indonesia. The latter benefits from a more competitive labour landscape, and is more technologically advanced by virtue of supplying parts to major automakers which provides better scale for re-investments. We also note that the domestic parts-makers mostly manufacture components which are easily replicable where cost is lower.
- The material impact from the AEC implementation, in our view, would only be in stages and would likely take place over the span of 5 years or so. This is because the automotive supply chain structure tends to work in a very tight time frame with the just-in-time process chain. As such, changes to parts supplier would likely be done as and when a new model is introduced.

Chart 5: Direct Investments Abroad for the Financial and Insurance/Takaful Sector (RMb)



Source: BNM

Chart 6: Regional Auto sector supply chain



Source: ADB Institute Working Paper 409 February 2013

III. AVIATION

- Single aviation market under the AEC. Under the AEC, there are plans to develop and implement the ASEAN Single Aviation Market. This would then allow for the further liberalisation of the aviation sector to move towards 'open skies' market which is much similar to what was already achieved in European Union and the United States. In pursuing for the liberalisation of the aviation market, ASEAN has introduced its Roadmap for the Integration of the Air Travel Sector (RIATS) among its member states. The fully liberalized aviation market in ASEAN region will also foster the growth in tourism sector while freeing-up trade, investment and services flows among the member states.
- More relaxed terms. The core essence of the ASEAN's Single Aviation Market revolves around the relaxation of the third, fourth and fifth terms in the freedoms of the air commercial aviation rights. (Table 14). The freedoms of the air rights are set of commercial aviation rights granting a country's airline the privilege to enter and land in another country's airspace. These rights were formulated during the Chicago Convention 1944. Throughout the period between 2008-2014, ASEAN member countries had signed two important air transport agreement to pave the way towards the ASEAN Single Aviation Market.
- The first multilateral air treaty signed was the Multilateral Agreement on Air Services (MAAS) which contained the third, fourth and fifth air freedom right among the ASEAN capital cities. The agreement

Table 13: Definition of Air Freedom Right

Third Freedom	Right to carry passengers or cargo from one's own country to another
Fourth Freedom	Right to carry passengers or cargo from another country to one's own
Fifth Freedom	Right to carry passengers or cargo between foreign countries as part of services connecting the airline's own country

Source: Chicago Convention on International Civil Aviation, MIDFR

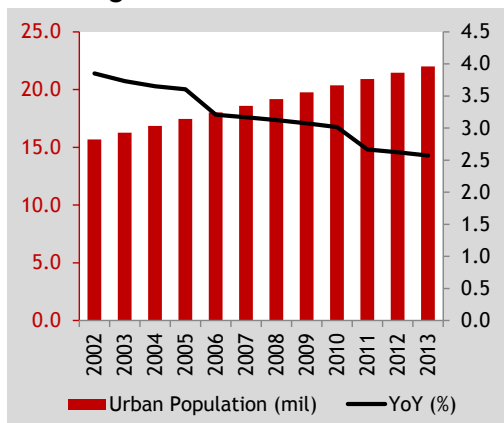
was accepted by all the ASEAN countries, except for Indonesia and Philippines. The second treaty signed was the Multilateral Agreement for the Full Liberalisation of Passenger Air Services (MAFLPAS) which allows for the abolishment of the third, fourth and fifth landing right among all other ASEAN second-tier cities. Only four ASEAN member states refused to adhere to the agreement - Indonesia, Brunei, Laos and Cambodia.

- Benefits outweighs stiffer competition. Undeniably, the open skies policy would introduce stiffer foreign competitions from the other larger and more matured airlines into each ASEAN member states. However, the enormous economic benefits which can be brought to the ASEAN member states clearly outweigh the short term pain. Among these potential benefits are:
 - Open competitions should bring down the cost of air transportation - this will help to promote ASEAN region as an attractive tourist destination and to permit free flow of business and trade;
 - Abolishing of non-standard tariff barriers and lowering of air transportation cost in term of user charge, custom duties, and etc.
 - The lower cost of air freight costs would promote ASEAN region as the favourable air transportation hub for export and import activities and thus attract further inflow of FDI;
 - ASEAN carriers may lose out from the lower fare with the savings benefit will pass to air passengers but these airlines gain from the cost falls and assess into new markets.

IV. CONSUMER PRODUCTS AND SERVICES

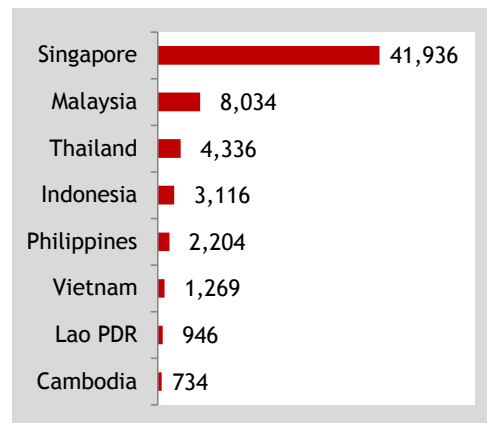
- The urbanization coupled with the ever growing ASEAN's middle to high income population in the region represents golden opportunities for the retailers and food producers to tap in. The liberalization of the consumer goods and services sector will bring along stronger competition not just among the companies but also among the countries, as more ASEAN countries are considering the retail and services sector as one of its key economic drivers. We opine that key to survive and excel in the more liberalized market landscape remains the same for this business sector in which the players should become more competitive and remain relevant to changes in consumers spending behaviour changes. For instance, in the past 10 years, consumers have spent less on fresh food and more on packaged food while having higher demand for more variety goods and services, particularly in non-grocery items and other amenities for their daily life. Such changes undoubtedly essential to every economic decision planned by the market players.
- Ample opportunities for retailing industry in Malaysia possess room for further expansion owing to its high retail sales per capita. Overall, Malaysia, Vietnam and Indonesia are the most attractive destination for modern trade investment due to low number of retail facilities in comparison to its respective population. At first look Malaysia seems to have lower retail sales value than Vietnam and Indonesia,

Chart 7: Malaysia urban population growth



Source: CEIC

Chart 8: ASEAN's adjusted net income per capita (current USD)



Source: World Bank

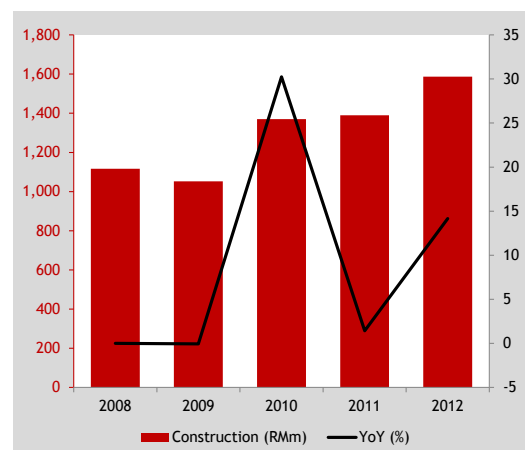
it nonetheless has the highest retail sales per capita. Putting things into perspective, Malaysia has a higher share of middle to high-income population, in which it has steadily grown from 30% in 2002 to about 60% in 2010, resulting in the continued growth of the retail sales. Coupled with its ever growing urban population, we opine that Malaysia retail industry is still an attractive investment destination compared to its regional peers once the investment landscape becomes more liberalized. Further, we believe that it is paramount for the local players to strengthen their operational presence in the local market before embarking into the next potential market such as Vietnam and Indonesia.

- Malaysia has a unique proposition in F&B space due to its leadership in Halal market. Taking example from the establishment of European Union, leading companies in Europe began to concentrate on their business where they have comparative advantage and expand investment into member countries. While the demand for processed food in the region is on the rise, we believe that the local players in F&B should take advantage on Malaysia's effort in becoming Halal hub by banking on this status to expand their presence in the region in which it serves as further investment opportunities. In terms of regional expansion, the markets are huge in the region, especially in the world's largest Muslim population, namely Indonesia. However, challenges lie with the authorities in which some of the measures undertaken by Malaysia to promote itself as a leader in Halal market are seen as non-tariff barriers among the ASEAN countries. For instance, its Halal labelling must be certified by the Department of Islamic Malaysia or JAKIM. We believe that discussions are being held to address this issue and other non-tariff barriers for this specific sub-industry. Nonetheless, we believe that Malaysia would have the first-mover advantage in this space as it has established itself as the leader in the Halal market.

V. CONSTRUCTION

- Over the coming years, Malaysia's construction sector is expected to sustain its growth momentum supported partly by long-term infrastructure projects, mass affordable housing schemes and economic development corridor programmes in peninsular and east Malaysia. With high-profile ETP projects set to get under way, the openness and attractiveness of the construction market will continue to attract strong investment inflows and foreign service providers.

Chart 9: Foreign Direct Investment for Construction



Source: BNM

- These future investments will provide technical and professional labour to reduce the cost of delivery and labour costs itself which means improvement in construction technology. The table below shows the net position of foreign direct investment holdings (inclusive ASEAN countries) into the construction sector. It showed that investments have improved over the past years and is expected to continue in the future.

VI. HEALTHCARE

- The healthcare sector is one of the high priority sectors under the ASEAN Framework Agreement on Services (AFAS) which facilitates the establishment of free flow of services - one of the five key pillars of the ASEAN Economic Community (AEC). Currently, there are already several policies in place for the healthcare sector, such as:
 - No restrictions in cross-border supply and consumption abroad with exceptions of certain regulatory reasons which will be subjected to the agreement of all members on a case-by-case basis;
 - Minimum 70% foreign (company within ASEAN) equity ownership from 2010 onwards;
- Countries such as Malaysia and Singapore already have measures in place to promote the movement of Doctors and Nurses in between the two countries to alleviate the supply shortage of skilled talents.
- Nevertheless, given the strategic nature of the Healthcare sector, it remains as one of the most heavily-regulated industries in any country; as population healthcare is integral to a country's economic growth. Under the AEC, we see challenges to regionalise the healthcare sector due to the following:
 - Accreditation of skilled workers. Despite the promotion of free movement of skilled workers being one of the key pillars for AEC, we observed several 'restrictions' in key markets such as Indonesia and Thailand. Foreign doctors are virtually banned from practicing in Indonesia as application for a practicing licence usually draws strong opposition from the Indonesian Doctors Association. In Thailand, the qualifications of the foreign medical professionals would first need to be recognised before the candidate is required to sit for an accreditation exam in the Thai language.
 - Usage of universal medical insurance in private hospitals and cross border. We opine that one of the key factors that propagates medical tourism is the medical capabilities (in the case of Indonesia patients seeking treatments in Singapore and Malaysia) of the host country and cost. To give some sense, some of the typical surgery costs at private hospitals in ASEAN's major medical hubs (i.e. Malaysia, Singapore and Thailand) and the USA are as follows:
- We believe the usage of a universal medical plan in private hospitals outside the native country would be an added catalyst to the AEC goal within the healthcare space. As of today, only Singapore allows

Chart 10: Typical surgery costs at private hospitals in ASEAN's major medical hubs

Procedure fees (USD)	USA	Malaysia	Singapore	Thailand
Heart bypass	130,000	9,000	18,500	11,000
Heart valve replacement	160,000	9,000	12,500	10,000
Hip replacement	43,000	10,000	12,000	12,000
Knee replacement	40,000	8,000	13,000	10,000
Spinal fusion	62,000	6,000	9,000	7,000

Source: Report on Medical Tourism in Malaysia, Singapore and Thailand by Centre for Health Economics, Chulalongkorn University

its citizens to use Medisave, a portion of the entire medical insurance, and even then it is limited to selected private hospitals in Malaysia.

- Under the AEC, ASEAN members would also be working towards improving the Healthcare standards in the region through medical device regulation harmonisation. This would ensure a consistent and standardised classification of medical devices used and produced within the region.

VII. OIL & GAS SERVICES

- Increased competition on foreign skilled workers. The Malaysia Oil & Gas (O&G) services industry currently utilizes skilled labourers from a number of ASEAN countries. For example, offshore fabrication yards often use Burmese (Myanmar nationals) for the relative ease of abundant supply and affordable cost and skilled welders are often Filipinos as they have extensive naval welding experiences. Of late, as our offshore service vessel (OSV) industry progresses, local operators have been using Thai and Burmese captains and crew hands as they have vast amount of fishing trawler operation experience. Therefore, should the AEC be implemented, the local O&G industry could potentially see an influx of foreign skilled labourers into the local O&G sector. If viewed

from a negative aspect, free flow of skilled workers could pose a threat to Malaysian workers as the cost of employing certain foreign workers will be lower. However, if viewed from a positive angle, in inflow of foreign skilled workers could further enhance the competitiveness of Malaysia's O&G service providers globally. At this point in time, steps are already being taken by local service providers in collaboration with the government, the National Human Resource Department in particular, to enhance the skillsets of local talents in order to be more competitive in the global arena.

Table 14: Labour force participation rate by ethnic group in Malaysia - 2010 & 2011

Ethnic Group (%)	2010	2011
Total	63.7	64.4
Malaysian Citizen	61.5	62.4
Bumiputera	61.2	61.7
Malay	60.9	61.5
Other Bumiputera	62.5	62.6
Chinese	63.1	64.7
Indian	59.5	60.6
Others	60.8	64.7
Non-Malaysian Citizens	80.8	80.7

Source: Department of Statistics Malaysia

Table 15: Total number of licensed boat in Malaysia

Year	Total	Gross Tonnage (GT)
2014*	1950	91,354.70
2013	3082	165,239.82
2012	2929	146,318.55
2011	3366	186,884.93
2010	3557	184,953.20

Source: Jabatan Laut Malaysia
*Until June 2014

Table 16: Total number of registered ships in Malaysia

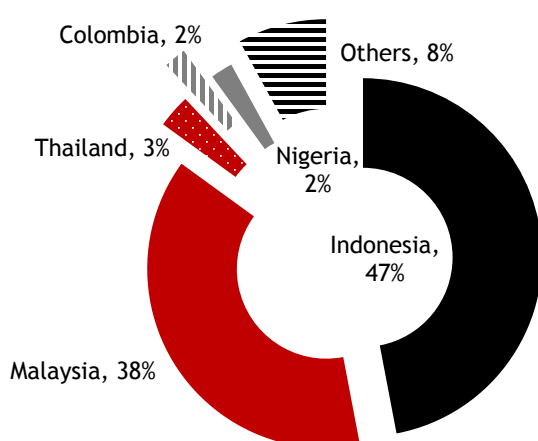
Year	Total	Gross Tonnage (GT)
2014*	32	62,680.39
2013	306	939,362.21
2012	298	826,263.02
2011	392	835,258.40
2010	269	815,713.38
2009	152	526,020.10
2008	455	1,302,055.43

- Opening up new horizons for offshore services operators. The cabotage laws and policies have been in-place amongst ASEAN countries for the purpose of protecting its own local interest in the marine and shipping industry. Just like Malaysia, other ASEAN countries mostly (with the exception that the vessels are not available via local operators or locally-flagged) utilize its own flagged vessels to support local operators. However, with the free flow of services proposed under the AEC, Malaysian OSV operators could potentially bid for ASEAN O&G jobs previously only available to respective local operators and Malaysian oil producers can also utilize foreign OSVs, which are often cheaper as the vessels are older.

VIII. PLANTATION

- Key industry for Malaysian economy. The contribution from the agriculture sector to the Malaysian GDP has been steadily declining for the past two decades. Despite this, the agriculture sector still remains as an important sector for the Malaysian economy. In 2013, the agriculture sector contributed about 9% to the Malaysian GDP. As one of the major global producers of agricultural commodity, namely palm oil and rubber, strong emphasis and focus are still being placed on the development and growth of the sector. We opine that Malaysia's involvement in the AEC will open up growth and development opportunities for the continuous improvement of the sector.
- Singularity a key driving force. In becoming a single market and a single production base, the AEC will be allowing its members to have a free flow of goods, services, investment, capital and skilled labour. This opportunity will enable Malaysia to overcome the problem of acute shortage of skilled and unskilled agricultural labourers in Malaysia. The shortage in labour in Malaysia is not only affecting the productivity in the agriculture sector, but it also discourages the participation of new entrants into that sector due to higher cost of production.
- Commodity price stabilization. Apart from the possible increase in productivity, the participation of Malaysia in AEC could also assist in stabilizing the commodity prices, particularly crude palm oil (CPO) price. In the past few years, the price of CPO has been very volatile due the difference in the export duties imposed by two major producers - Indonesia and Malaysia. In-line with the aims and goals of becoming an ASEAN single market and producer, export duties (if any) imposed by the respective member countries in the future will be in line with each other and this will no longer impact the movement of CPO prices.

Chart 11: Major producer of palm oil, 2012



Source: Food & Agriculture Organization, FAOSTAT 2013

Chart 12: Major producer of natural rubber, 2012

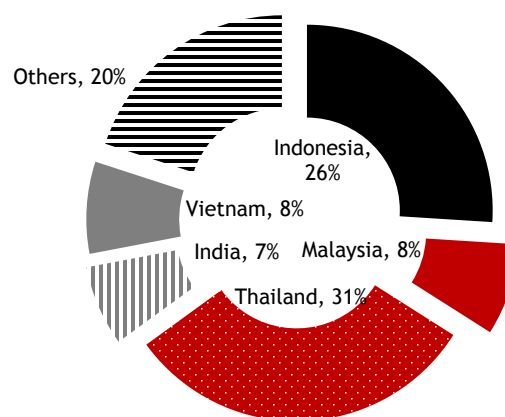


Table 17: Plantation workers in Malaysia

	Local workers	Foreign workers	Total workforce	Foreign workers (%)
Harvesting mandores	7,874	5,123	12,997	39%
General mandores	5,724	8,328	14,052	59%
Harvesters & collectors	15,762	181,661	197,423	92%
Field workers	31,998	130,260	162,258	80%
Other general workers	22,557	46,192	68,749	67%

Source: The Star Online, July 2, 2012

IX. POWER

- Energy being an integral sector in enabling AEC. The energy policy agenda of the AEC is designed to ensure a secure and reliable supply of energy that includes biofuels, as well as expediting the development of the ASEAN Power Grid (APG) and the Trans ASEAN Gas Pipeline (TAPG). This would allow for the optimization of regional energy resources, ensure sustainable energy development by mitigating greenhouse gas emissions and strengthen renewable energy development and cooperation. Energy sector is an important element in the AEC especially in regard to equitable economic development as electricity must be provided to more than 100m people who have no access to electricity in ASEAN.
- Regional power grid vides interconnection systems. With the implementation of APG program, countries with high power demand can meet their electricity shortfalls with power imported from neighbouring countries at a reasonable price whilst countries with abundant natural resources but with little requirement for electricity supply would be able to generate income from selling their surplus power. In order to pursue APG program, ASEAN countries had adopted a strategy that emboldens the gradual development of the identified interconnection projects. The project would first embark on cross-border bilateral terms, then gradually expanding to a sub-regional basis and finally achieving its main target in which a totally integrated ASEAN power grid system. The APG had five out of sixteen interconnection systems in operation at the end of 2012. Another two or three additional interconnections will be in operation by 2015 while the remaining are slated to be in operation by 2020.
- Long and difficult road ahead for the realization of APG is full potential. The main challenge for the APG is the lack of economic viability. This is largely due to many projects which have yet to be commercialized. Without the economic viability it is difficult to secure financial viability. This has driven away private investors from participating

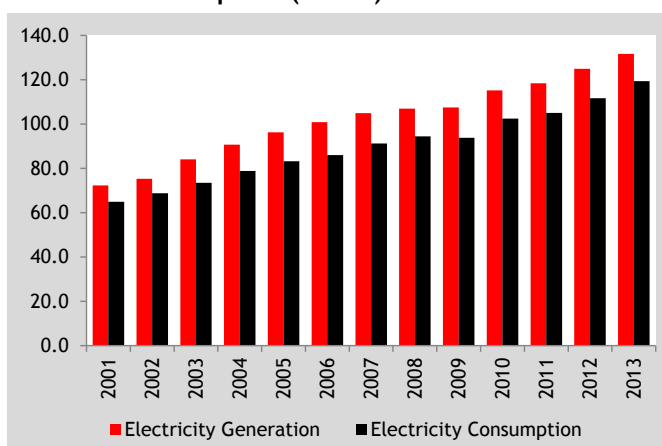
Table 18: Existing Linkages under APG

No	Interconnection systems	Capacity (Mw)
1	Thailand-Peninsular Malaysia	
	a) Sado-Bukit Keri	80
	b) Khlong Nhage-Gurun	300
2	Thailand-Lao PDR	
	a)ROI Et 2-Nam Theun 2	920
	b)Udon Thani 3-Nabong	597
	c) Ubon Ratchathani 2-Huoay Ho	126
	d) Sakon Nakhon 2-Theun Hinboun	210
3	Singapore-Peninsular Malaysia	400
4	Cambodia-Vietnam	135
5	Thailand-Cambodia	80
Total		2,848

Source: ERIA Research Paper Series

in the projects. Moreover, it is also may not be an attractive proposition to some governments since APG projects cooperation are for regional benefits, they have the characteristic of public goods which mean some countries may not be able to harvest its benefits.

Chart 13: Malaysia's electricity generation and consumption (KWHb)

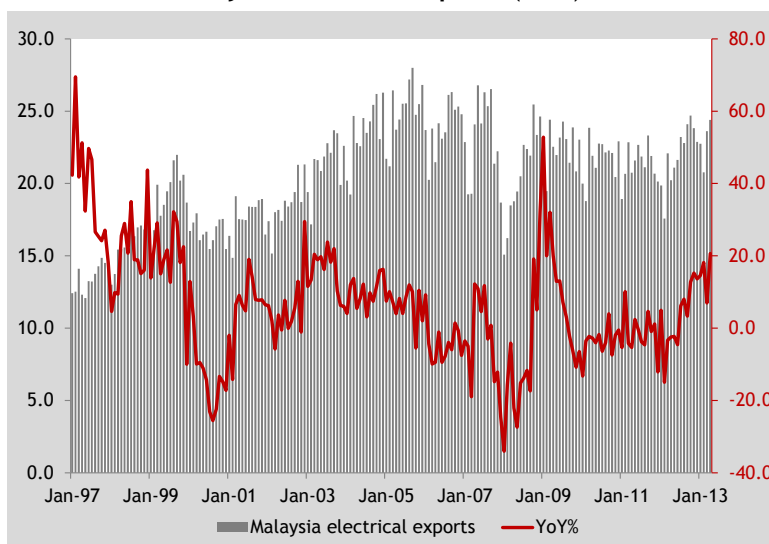


Source: CEIC

X. SEMICONDUCTOR

- One-stop technology outsourcing hub. Malaysia has always been regarded as one of the preferred global outsourcing destination in this region. The exports of electrical and electronics (E&E) products, in particular, has grown by RM5.6b to top RM236.8b in 2013. This accounts for approximately one third of total exports of RM719.8b for the year. The implementation of the AEC will enable Malaysia to form strategic partnerships with other ASEAN members and to increase its existing product line-ups to the world. This we hope would further spur global demand for Malaysian technology products. Moreover, such strategic positioning will facilitate the AEC in becoming a one-stop centre to source from for high value-add technology products. Through this strategic economic alliance, we also opine that Malaysia could play a pivotal role in facilitating E&E trade to other countries which it has good ties with.
- Promoting innovation. Forming a strategic alliance could serve as a foundation to promote knowledge transfers among the ASEAN members. This could open-up avenues for Malaysia to gain further expertise on new technology which it has yet to develop. With new skills and technology in hand, Malaysia could then combine the newly acquired technology with its existing ones to develop new products. With the sharing of intellectual property rights, Malaysia could benefit by collaborating with other countries to carry out research and development (R&D) activities. With this in mind, savings can also be made as the R&D costs are shared.
- Capital intensive industry. The semiconductor industry is a fast-paced industry which requires constant roll-out of new technologically-advanced products. Research and development (R&D) plays a pivotal role in deciding the success or the downfall of any technology company. Continuous flow of capital investments are required to ensure R&D sustainability. The implementation of the AEC, which promotes free flow of investment, represents an

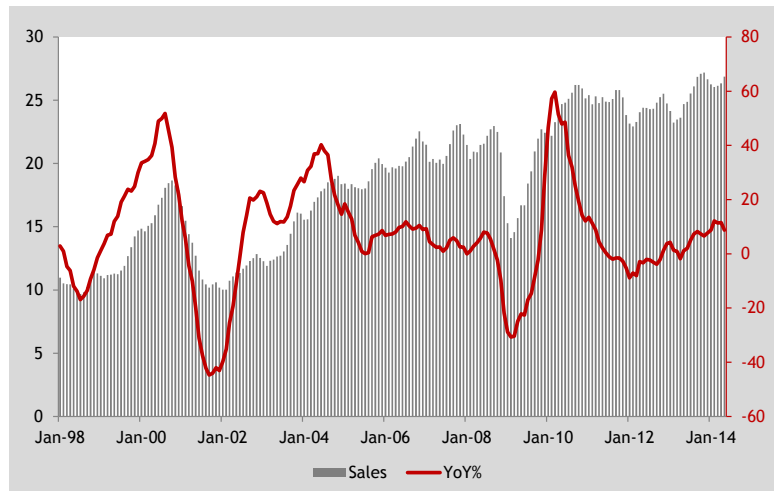
Chart 14: Malaysia electrical exports (Rmb)



Source: Bloomberg, Bank Negara Malaysia, MIDFR

opportunity for the technology firms to secure the required funding.

Chart 15: Global Semiconductor Sales (USDb)



Source: SIA, MIDFR

XI. TELECOMMUNICATION AND MEDIA

- Competitive access.** The local telecommunication network is one of the most advanced in the region. Billions of Ringgit has been spent by both the Malaysian government and the private sectors to ensure that the existing network remains robust to cater for the subscriber’s demand for connectivity. Telecommunication giant such as Telekom Malaysia (TM), with the aid of the Malaysian Government, has successfully implemented the High Speed broadband phase 1 to connect the main cities in the country. Opening up the access of the existing infrastructure to regional competitors could adversely affect the business viability of local players such as TM. Likewise, we should also be granted access to other members’ infrastructure. However, given that these infrastructures are less developed, local players are less likely to benefit should they expand their coverage into the region. There might even be a greater need for bigger capital expenditure to grow regionally.
- Regularising tariffs within the region.** Ease of communication is one of the aspects to promote information transfer among member countries. However, excessive roaming charges imposed by telecommunication operators could be a dampener. This could be in the form of voice call, sms and/or broadband charges. To overcome this hurdle, the community could take cues from the European Union roaming regulations (Eurotariff) which has been tasked to regularize interparty telecommunication tariff charges. On a recent note, the cost of internet browsing on a mobile phone within the European Union has fallen by more than 50% to €0.20 per megabyte. Although such move could adversely impact telecommunication companies’ earnings in the immediate term, this could lead to growing usage demand which could offset the drop in tariff rates.
- Social networking.** The use of social media has been regarded as

Table 19: Unlimited data roaming rates (RM/day) by Malaysian Telcos among ASEAN member countries

	Maxis	Celcom	Digi	U Mobile
Brunei	38	38	36	n/a
Cambodia	38	38	36	n/a
Indonesia	38	38	36	30
Lao PDR	38	n.a.	n.a.	n.a.
Myanmar	n.a.	n.a.	n.a.	n.a.
Philippines	38	38	36	30
Singapore	38	38	36	30
Thailand	38	38	32	30
Vietnam	38	38	36	36

Source: Lowyat.net

Table 20: Social media matrix

	Use Twitter	Use Instagram	Use Pinterest	Use LinkedIn	Use Facebook
% of Twitter users who...	n.a	53	34	39	90
% of Instagram users who...	53	n.a	37	30	93
% of Pinterest users who...	29	31	n.a	29	87
% of LinkedIn users who...	31	24	28	n.a	83
% of Facebook users who...	22	23	25	25	n.a

Source: Pew Research

an important strategy to integrate ASEAN countries. For instance, the ASEAN Secretariat has also been using various social media platforms such as Facebook, Twitter, Flickr and Youtube to promote ASEAN. New trends have also emerged whereby companies are tapping onto this platform to promote brand awareness among the social internet users. This is relatively relevant in the new digital age given that the new generation advocates such channel of communication. Also, ASEAN region has a fast growing internet community. This will lead to a more effective and efficient way of disseminating information. However, more could be done to strengthen the effort in maximizing the use of different platforms strategically aimed at different target audiences.

XII. PROPERTY

- AEC's core elements to result in an increased competition to local players. In order to promote a single market and production base among the ASEAN members, AEC plans to implement its core elements of a free flow of goods, services, investment, capital, and skilled labour. We believe that out of the four core elements, free flow of investments will have the most important impact on the property sector. While we expect this to have a positive impact on the property sector in terms of investments from different sources and countries, the intensity of competition for local property players is set to intensify.
- Free flow of investment could potentially see more property sales transactions occurring. As the AEC encourages the free flow of investment between ASEAN member countries, we expect more sales transactions to occur. Given the current wait-and-see approach adopted by some investors and developers alike due to recent cooling measures, we expect the implementation of AEC to push for more competition, thus encouraging local property companies to change their development and marketing approaches to the extent of even lowering cost to encourage more sales transactions. Also, we expect to see the presence of foreign buyers helping to boost the property sales as Malaysia's property prices are comparatively attractive within the region.
- Expect more foreign developers to enter the property market. With a lower barrier to entry of other ASEAN members in terms of investment, we expect more foreign developers to join the fray. We are already seeing Chinese players in our market such as Country Garden and Guangzhou R&F Properties (refer Table xx below), given our accommodative pull factors such as relatively lower pricing and significant Chinese-speaking population coupled with push factors of concerns on China's oversupply and credit tightening.
- Locally Iskandar Investment has been reported to be in discussions with several foreign investors from China, Korea, Indonesia, Japan, India and Singapore for the Iskandar Malaysia project.

Table 21: List of developers from China that have made inroads into Malaysia

Developer	Date	Area	Land Bank (hectares)	Price Paid	Development plans
Qingdao Zhouyan Investment Holding/Zhouyan Iskandar	July 2012	Medini	72	USD554m	Condominium units with GDV of RM2.6b
Country Garden Holdings	Dec 2012	Danga Bay	23	USD246.7m	RM18b integrated mixed development
Hao Yuan Investment	Nov 2013	Danga Bay	15	USD492m	RM8b integrated mixed development including tallest tower in Peninsular
Guangzhou R&F Properties	Nov 2013	Tanjung Puteri	46.9	USD1.4b	Integrated mixed development
Greenland Group	Apr 2014	Danga Bay	5.6	USD185m	Integrated mixed development

Source: ChinaDaily Asia

- Oversupply will be manageable with entry of more foreign buyers. Despite oversupply concerns in the local property market with the entry of foreign developers, we expect this to be manageable, supported by more foreign buyers in the market. We are currently seeing more Singaporean and Chinese buyers in the market due to their respective property market conditions. Therefore, we think that implementation of AEC blueprint will help to mitigate risk of the oversupply of properties with the expected influx of foreign buyers.

XIII. SHIPPING, PORTS, LOGISTICS

- ASEAN Single Shipping Market. For shipping sector, ports and logistics, ASEAN aims to enhance its competitiveness as a maritime region with the creation of ASEAN Single Shipping Market (ASSM). The implementation of relevant international Maritime Organization (IMO) conventions becomes the essence of the Single Shipping Market policy. Since maritime transport is the most important mode of transportation in terms of traffic volume in international trade, the respective policy would foster greater trade volume and enhance the economic growth in ASEAN region.
- Under the purview of the policy, ASEAN introduced the Roadmap towards an Integrated and Competitive Maritime Transport in ASEAN (RICMT). The objectives of the roadmap are to complement the hard infrastructure by creating efficient logistics and multimodal transport system for a seamless movement of goods and by connecting land and maritime. In order to enhance intra-ASEAN connectivity in the archipelagic regions of ASEAN, it must require efficient and reliable shipping routes. One of the case study revealed that the isolation and lack of connectivity in The Philippines serves as the major constraint on economic growth in the country. In this regards, the feasibility study of Philippines Nautical Highway project (also known as Roll-on/roll-off (RoRo) system) shows the significant benefits in terms of reduction in transport cost, the creation of new regional links and expansion of regional markets, acceleration local area alignment.
- More room for improvement. Based on the report of UNCTAD Liner Shipping Connectivity Index, except for Singapore and Malaysia, the remaining ASEAN countries rank poor in term of port infrastructure and

connectivity. For the seaport infrastructure, ASEAN needs to enhance the performance and capacity of 47 designated ports. The enhancement will include the improvement in associated services like warehouse facilities as well as dredging of water channels to allow bigger vessels to pass-through.

- For land transport, two flagship projects have been identified as the main driver for ASEAN to improve its land transport connectivity. They are the ASEAN Highway Network (AHN) and the Singapore-Kunming Rail Link (SKRL). The AHN runs the length of 38,400 km through all ten ASEAN countries and has 35 designated transit transport routes which deemed crucial in facilitating the movement of goods in transit. While for the SRKL, the railway network will span across seven ASEAN countries including Singapore, Malaysia, Thailand, Vietnam, Cambodia, Myanmar and Laos. The railway project target on construction of missing link sections and will require substantial resources to implement.

XIV. HEAVY INDUSTRIES

- Heavy industries in Malaysia. The heavy industry in Malaysia is mainly supported by the steel and iron sectors which produce billets, coils, slabs, rods, bars, wires and etc. These two sectors can be seen as the start of the value chain, supplying of basic raw materials and components for other sectors such as construction, automotive, furniture, machinery as well as engineering fabrication sectors.
- AEC to benefit capital-intensive industries. The heavy industry is known for its capital-intensive nature. Under the AEC, there will be a freer flow of capital among the ASEAN countries. The aim is to strengthen the ASEAN capital market development and integration as well as allowing greater capital mobility. Through this, restrictions will be removed or relaxed (including on capital flows) to facilitate the flows of payments and transfers for current account transactions as well as support foreign direct investment

Table 22: Production of Petrochemicals Feedstocks in 2012

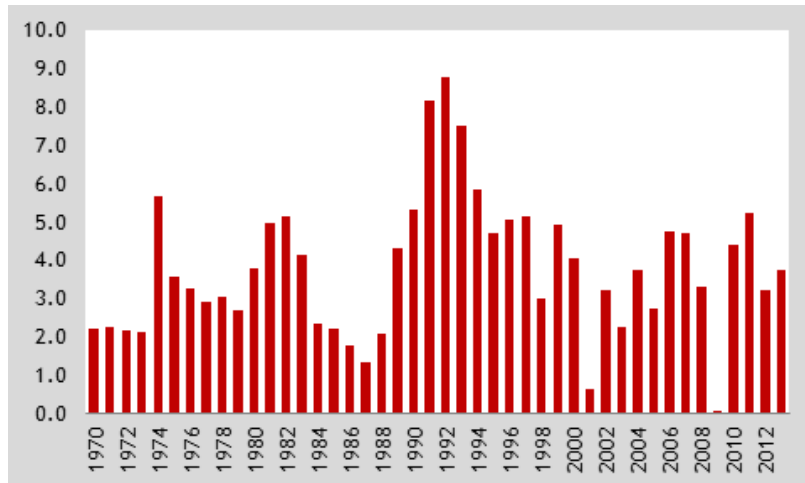
Petrochemical Products	Capacity	Company/Refinery
Naptha	611,000 bpd	<ul style="list-style-type: none"> • Petronas Penapisan (Terengganu) Sdn Bhd • Petronas Penapisan (Melaka) Sdn Bhd • Malaysia Refinery Company Sdn Bhd • Petron Malaysia Refining & Marketing Bhd • Kemaman Bitumen Company Sdn Bhd
Methane Ethane Propane Butane Condensate Liquefied Petroleum Gas (LPG)	42.16 mmtpa	<ul style="list-style-type: none"> • Petronas Gas Berhad • Malaysia LNG Sdn Bhd • MLNG Dua Sdn Bhd • MLNG Tiga Sdn Bhd
Ethylene	1.22 mmtpa	<ul style="list-style-type: none"> • Lotte Chemical Titan Holding Sdn Bhd • Petronas Chemical Ethylene Sdn Bhd • Petronas Chemical Olefins Sdn Bhd
Propylene	0.955 mtpa	<ul style="list-style-type: none"> • Lotte Chemical Titan Holding Sdn Bhd • Petronas Chemical MTBE Sdn Bhd • Petronas Chemical Olefins Sdn Bhd
Benzene Toulene Xylene	0.888 mtpa	<ul style="list-style-type: none"> • Lotte Chemical Titan Holding Sdn Bhd • Petronas Chemical Aromatics Sdn Bhd

Source: MIDA

and initiatives to promote capital market development. These efforts will benefit the heavy industries in Malaysia by facilitating capital movements.

- Malaysia as a viable petrochemical hub in the ASEAN region. In Malaysia, there are six oil refineries which produce more than 70mtpa of petrochemicals. With the full realization of the ASEAN Free Trade Area (AFTA), in 2012, Malaysian exports to ASEAN countries increased by +9.7% to RM788.22b. This accounts for 27.3% of Malaysia’s trade. The AEC is expected to further benefit the petrochemical sector by its elimination of tariffs on all intra-ASEAN goods and the non-tariff barriers.

Chart 16: Malaysia’s Foreign Direct Investment net inflows (% of GDP)



Source: Worldbank

D. STRATEGY

I. CORPORATE READINESS: MALAYSIA AND PEERS

- The coming competition onslaught. Most corporations of ASEAN-origin are arguably optimistic that the lower trade barriers on goods and services, freer investment and financial capital flows and greater skilled human capital mobility will boost the region's overall business competitiveness. However, the main issue is on whether they are ready to face the competition onslaught engendered by a more integrated regional market.
- Multinational companies (MNCs) have the upper hand. Some of the MNCs with its entrenched supply chain across the region may well be qualified as ASEAN-based according to the AEC rules of origin. These large cross-continental organizations are clearly having the upper hand to fully capitalize from the shifting regional business landscapes with the advent of AEC. These MNCs have the wherewithal to further expand their reach and take full advantage of the lowering trade barriers, able to raise the necessary capital and attract the required human talents.
- Prosper by expanding market reach... It is worth repeating that while the AEC brings with it (i) greater market reach, but at the same time it will also result in (ii) heightened competition. Hence we believe the successful ones are those who are able to assault into other territories while at the same time defending its own turf. Large local corporations with international operations belong to this group. While their overseas presence may not be as entrenched as the world's MNCs, they are expected to be able to garner the necessary resources and capitalize on the unfolding regional opportunities.
- ...or survive on status quo. On the other hand, the surviving ones are those who are defending its own turf but without the necessary means to assault into others. And the survival rate among the latter group may largely depend on its level of competitiveness in the face of heightening region-wide competition.
- Local domestic businesses must widen their geographical paradigm... We reckon most local domestic businesses belong to the surviving group and which are particularly prevalent among the SMEs. Many of these companies simply do not possess the resources to widen their geographical reach. Thus a mechanism is required to eliminate the impediment to foreign trade for the SMEs that are too financially or managerially anaemic to independently establish a foothold in foreign markets.
- ...and efforts must be made to help extend their market reach. Guided by the Japanese experience, international general trading companies (Sogoshosha or GTCs) may help to bridge the resource limitations among SMEs. In Japan, the Sogoshosha are in fact the marketing arm of countless SMEs. They act as market intermediaries for the domestic and international distribution of locally-manufactured goods. They have foreign distribution channels that are linked to the domestic distribution channels of diverse products. They possess a global network of offices, providing an infrastructure to access market reach abroad. They search all over the world, using their international offices, to meet the needs of and to identify market opportunities for their customers. Japan's world trade is greatly enhanced by that awesome tool for trade called Sogoshosha.

II. CORPORATE IMPACT

- Free flow of goods: The average intra-ASEAN tariffs were reduced to almost zero in 2013 from 13% in 1993. Moreover, the elimination of non-tariff barriers to intra-ASEAN trade is ongoing and this will further promote cross border trade.

- Bigger market to be met by heightened competition. As a result, we shall see greater interactions over time between the prevailing multitudes of goods supply chain in the various ASEAN countries. Going forward, the synergistic impact of the emerging convergence would be significant as it will not only boost the market reach of suppliers, but also promotes price efficiency and product diversity of the great ASEAN-wide supply chain. Nonetheless, despite the bigger target market, business competition along the value chain will intensify with more suppliers offering various product choices and at more competitive prices.
- Free flow of services: Most of the restrictions on trade in services for priority sectors such as air transport, healthcare, tourism and logistics services have been duly lifted. By the end of 2015, almost all restrictions on trade in services for all sectors shall be removed. Moreover, ASEAN investors will be allowed to hold at least 70% equity in most service companies when investing in other member countries. The banking services nonetheless remain a sensitive sector. In addition, all ASEAN members shall accord mutual recognition for professional services from other member countries.
- More competitive service offerings may exert downward pressure on rates. Consequent to these liberalization measures, we can expect greater cross border service offerings among the various ASEAN countries which shall over time culminate into the emergence of the great ASEAN-wide supply chain. Nevertheless, despite the wider market access, businesses cannot expect business as usual due to the heightened competition with more providers offering similar services and at more competitive rates.
- Free flow of investment: The main highlights are (i) the national treatment, and (ii) most-favoured nation treatment, conferred to all ASEAN investors when investing in other member countries with a non-discrimination principle embodied in investor-state dispute settlement mechanism.
- Towards more balanced risk/return trade-off. These measures provide an enhanced investment protection to all ASEAN investors in other member countries. Hence ASEAN businesses can rest assured that their calculated potential returns on investments in other member countries are not subjected to its open-ended political and regulatory risks.
- Free flow of capital: Apart from the free movements of capital across member countries, another key measure is the harmonization of ASEAN capital markets standards in the areas of (i) offering rules, (ii) disclosure requirements, (iii) distribution rules, and (iv) withholding tax structure.
- More vibrant ASEAN capital markets. Free unimpeded movements of financial capital across the ASEAN region and couple with the harmonization of ASEAN capital markets standards will certainly assist to broaden and deepen the pool of ASEAN capital providers and users, i.e. lenders and borrowers. A vibrant ASEAN capital markets would be better able to satisfy the varying (e.g. cross currency, multiple tenure) financing needs of the region's corporate sector. This is particularly helpful in view of the heightening cross border trades and investments among the ASEAN countries.
- Free flow of skilled labour: All ASEAN members shall facilitate the issuance of visa and employment passes for skilled labours from other member countries.
- Greater diversity and mobility in ASEAN labour markets. Similarly, free unimpeded movements of skilled human capital will certainly help to broaden and deepen the pool of human capital across the ASEAN region. Also, a diverse ASEAN skilled labour market would be better able to satisfy the varying (e.g. various skillsets) human capital needs of the region's corporate sector.

- But not everyone is enthusiastic about the AEC labour freedom. According to a survey by JobStreet.com, 47% of respondents voiced concerns about the potential adverse effects such as losing their jobs to peers from other ASEAN countries. Likewise, employers are also at risk of losing their skilled employees to other companies from neighbouring ASEAN countries. Higher job turnover rates due to better job prospects from the borderless job market may necessitate skill retention incentives which will result in an upward pressure on the wage bill.
- Except those in the more competitive positions. But the same survey by JobStreet.com also reported that a whopping 80% of workers in the region said they would prefer to work in Singapore under the upcoming AEC. We reckon those member countries which are able to overwhelmingly attract skilled human talents will be the net beneficiaries of the AEC labour freedom. With greater talents pool to choose from, it will actually help to lower the pressure on wage bill.

III. INVESTMENT STRATEGY FOR THE EQUITY MARKET

- Size does matter. In anticipation of a more heated and competitive business environment brought about by the introduction of AEC, investment decisions in the equity market must be mindful of the ability of a business entity (i) to take utmost advantage of the ASEAN market liberalization, and (ii) to protect its existing market position. Therefore, the potential winners would arguably be those who are able to garner the necessary resources (i.e. products, talents and finances) to capitalize on the unfolding regional opportunities and at the same time retain its competitive dominance in the home market. On that score, apart from possessing a compelling value proposition, the relative size of a corporation also does matter.
- Emphasis on sectors with competitive strengths. In view of the above, we are quite sanguine on the ability of our prospective regional champions to successfully compete at the regional levels as proven by some which are already there. For example, several of our banks are ahead relative to other regional peers with regard to their ASEAN reach. Moreover, our near end-to-end value chain capabilities in the oil & gas sector put our companies in a good stead to win jobs around the region. In addition, our competitive advantages in the field of (i) oil palm plantation, (ii) healthcare, (iii) low-cost aviation, and (iv) halal consumer products can be exploited to create truly ASEAN champions.
 - Banking. The AEC will enable banks to gain access to newer markets for banking products and services. In preparation for keener industry competition, we reckon that Malaysian banks have already taken proactive steps in expanding abroad into other ASEAN countries. These banks have grown as attested by the rise in number of branches in these markets. Most Malaysian banks have expanded into ASEAN countries to create a stronger regional platform in line with the Financial Sector Blueprint.
 - Oil & Gas. The cabotage laws and policies have been in-place amongst ASEAN countries for the purpose of protecting its own local interest in the marine and shipping industry. However, with the free flow of services proposed under the AEC, Malaysian OSV operators could potentially bid for ASEAN oil & gas jobs previously only available to respective local operators.
 - Plantation. The two world's major producers of CPO, Indonesia and Malaysia, imposed different set of export duties until this day. But in-line with the aims of becoming an ASEAN single market, the restrictive export duty policy of the respective countries is expected to be withdrawn.

- Healthcare. International Living, an American publication, recently rates Malaysia's healthcare system as the 3rd best out of 24 countries in its 2014 Global Retirement Index even surpassing Spain, Italy, Ireland and New Zealand. The publication praised Malaysia's healthcare system, which scored 95 out of a possible 100 points, with having medical practitioners that are "equal to or better than" those in most Western countries.
- Aviation. The Multilateral Agreement for the Full Liberalisation of Passenger Air Services (MAFLPAS) which allows for the abolishment of the third, fourth and fifth landing right among all other ASEAN second-tier cities will take effect next year. Malaysia's regional dominance in the low-cost aviation space is expected to be further entrenched.
- Consumer (halal) products. The urbanization coupled with the ever growing ASEAN's middle to high income population in the region represents golden opportunities for retailers and food producers. Malaysia has a unique proposition in the F&B space due to its leadership in the world's Halal market.



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BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.



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