

A) Talking Points:

PRESENTATION BY

Trade and Investment Opportunities

- Malaysia is the second biggest ASEAN investor in Indonesia. Both countries want to achieve bilateral trade worth US\$30 billion by 2015.

DR SULAIMAN B MAHBOB

- We have explored many areas of mutual interest. Malaysia has approached Indonesian investors to invest in various sectors in Malaysia such as property, manufacture and technology, and they include investments in telecommunications, banking and services.

**INTERNATIONAL INSTITUTE OF PUBLIC POLICY AND
MANAGEMENT,
UNIVERSITY OF MALAYA,
AT I.P.D.N,
BANDUNG, INDONESIA**

- Malaysia has invested in Indonesia. The large number of Malaysian plantations in Indonesia is also evidence of the possibility of investment in services across both countries.
- There is scope for investment in services. CIMB in Indonesia is also evidence of the possibility of investment in services across both countries.
- Indonesia's state power company PT Perusahaan Listrik Negara (PLN) had earmarked large-scale electricity trading with Malaysia, after the construction of a transmission network connecting Kalimantan and Sarawak. Up to 100 megawatts of electricity could be traded via the planned 275 kilovolt transmission line.

7TH NOVEMBER 2014

B) Current State

BI) Trade

-Indonesia is ranked among Malaysia's Top 10 major trading partners for the period January - August 2014.

-Indonesia is at number 9 with a percentage share of 4.1 %

(PRESS RELEASE MALAYSIA EXTERNAL TRADE STATISTICS AUGUST 2014)

(TRADE PERFORMANCE FOR THE PERIOD OF JANUARY-AUGUST 2014 AND THE MONTH OF AUGUST 2014)

Malaysia –Indonesia Economic Relations

Economic Relations between Malaysian-Indonesia at a glance –in Facts & Figures

Presentation by Dr. Sulaiman Mahbob

A) Talking Points:

Trade and Investment Opportunities

- Malaysia is the second biggest ASEAN investor in Indonesia. Both countries want to achieve bilateral trade worth US\$30 billion by 2015.
- We have explored many areas of mutual interest. Malaysia has approached Indonesian investors to invest in various sectors in Malaysia such as property, manufacture and technology, and they include investments in telecommunications, banking, plantation, hotel, restaurant and oil and gas sectors.
- Malaysia has invested in agriculture in Indonesia. The large number of Malaysian plantations in Indonesia is testimony to this.
- There is scope for trading in services. The presence of CIMB in Indonesia is also evidence of the possibility of investment in services across both countries.
- Indonesia's state power company PT Perusahaan Listrik Negara (PLN) had earmarked large-scale electricity trading with Malaysia, after the construction of a transmission network connecting West Kalimantan and Sarawak. Up to 100 megawatts of electricity could be traded via the planned 275 kilovolt transmission line.

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- **Export**

What we export to Indonesia –

->Among Malaysia's Top 10 major trading partners –Indonesia is at number 9 with a percentage share of 4.2 %. (Total Exports –RM 505.1 billion)

->Within the ASEAN 10 countries –Indonesia ranks number 3 with a percentage share of 15.0 %. (RM 141.3 billion, 28.0% of total Exports)

- **Import**

What we import from Indonesia –

->Among Malaysia's Top 10 major trading partners –Indonesia is at number 9 with a percentage share of 4.0 %. (Total Imports –RM 452.8 billion)

->Within the ASEAN 10 countries –Indonesia ranks number 3 with a percentage share of 15.5 %. (RM 118.4 billion, 26.1% of total Imports)

B2) Investment –FDIs

According to Malaysian Investment Development Authority (MIDA) statistics in 2013 there were 6 Investment Projects from Indonesia worth RM 214.3 billion that were approved, up from 5 Investment Projects worth RM 85.7 million in 2012.

Meanwhile for the first 6 months (i.e. January to June) of 2014, Malaysia received 2 Investment Projects worth RM 68.4 million in 2012 from Indonesia.

(Source: MOF, Economic Report 2014/2015, 2.9 — Foreign Investment In Approved Projects By Country)

B3) Tourist Arrivals

–Indonesians consistently rank as number 2 after Singapore with a healthy growth rate. E.g. 1.35 million Indonesians arrived from January –June 2014 (9.1 % growth)

- **Health Tourism**

According to the Malaysian Healthcare Travel Council (MHTC), in 2012, a total of 671,727 medical tourists came to Malaysia generating over RM600 million in revenue. Medical tourists arriving in Malaysia are overwhelmingly from ASEAN countries (60%), especially from Indonesia (57%). In general Indonesians tend to flock to Penang, Malacca and the Klang Valley to seek medical treatment.

In its Statistical Yearbook for Asia and the Pacific 2011 of the UN World Tourism Organization (UNWTO), Malaysia is listed among the top ten countries by inbound tourism arrivals.

B4) Labor Market (*migrant workers*)

B5) Financial Remittances & BOP

–Indonesia, Bangladesh, Nepal & Vietnam

B6) Infrastructure Projects in Indonesia ()

B7) Malaysian Companies Investing in Indonesia (*plantations in Sumatra & Riau*) *Tabung Haji, Felda, etc*

B8) The Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT) –as an early attempt at economic liberalization & integration in ASEAN.

Some points from the BCG Report:

C) Moving Forward

Talking Points:

Regional Integration

- As one of the original members of ASEAN Indonesia and Malaysia have played key roles in charting the course of ASEAN.
- Malaysia and Indonesia can join hands in creating the ASEAN Economic Community (AEC). As original members of ASEAN, both countries can play a leadership role in setting the tone for the advancement of ASEAN as a community and to achieve the goals set out in the AEC Blueprint.
- In fact, there is more that both countries can do to change the regional architecture given their role ASEAN. In this particular context, their combined input will be very useful for the successful completion of the Regional Comprehensive Economic Partnership (RCEP).
- With the completion of the RCEP there will be more opportunities for trade and investment between both countries. Further, there will be opportunities whereby Malaysia and Indonesia can cooperate with ASEAN+1 partners to invest. Thus, it may be possible for a joint venture between Indonesia and Japan to be based in Malaysia.

Indonesia is ASEAN's biggest economy –she is rapidly developing and “Darling of Emerging Market Investors”

What do BCG & Forbes say?

-> In a Forbes Op-ed titled “The Investment Case For Indonesia”, the author asserts that Indonesia has become the darling of emerging market investors.

-> In a similar note, in a report released by The Boston Consulting Group titled “Asia's Next Big Opportunity: Indonesia's Rising Middle Class and Affluent”:

> Focused on the spending habits of Indonesians. It didn't try to make an investment case, but its report stands out as an example of why Indonesia is going more mainstream for emerging market investors. The consumer drives these markets. And, if BCG has it right, Indonesia's consumers will continue to be the prime investment case for this resource rich island nation of 242 million people.

Some points from the BCG Report:

- Indonesia's middle income and affluent classes will double by 2020 from 74 Million to 141 million people. By 2020, more than half the population (53%) will qualify as middle class or richer.
- Indonesians feel more financial secure than people in other countries. Thirty-one percent of Indonesians surveyed by The Boston Consulting Group reported feeling secure, compared with only 14% of Chinese, 19% of Indians, 15% of Russians and 13% of Brazilians.
- Indonesia's middle class will become more dispersed, and new cities will emerge as centers of wealth beyond Jakarta. The number of cities with more than over a million middle-income earners will roughly double, from 12 cities to 22 in seven years.

Malaysia's Role of AEC Chairmanship

Malaysia assumes the rotating ASEAN chairmanship in 2015 and will be tasked to deliver the results of the AEC (ASEAN Economic Community) Report Card.

The Asean Secretariat publishes the AEC Scorecard, which provides quantitative indicators of the implementation progress of the measures specified in the AEC Blueprint.

This measurement is made up of four pillars of integration: single market and production base, competitive economic region, equitable economic development and integration into the global economy.

About the AEC Scorecard. The scorecard is only a compliance tool and is not for assessing the impact of the measures implemented. Most of the achievements are gauged by member states' compliance in ratifying Asean-wide agreements.

Asean has made a remarkable achievement in liberalising trade in goods through AFTA, and subsequently, through ATIGA. Unfortunately, the same cannot be said about trade in services. After several rounds of AFAS, trade in services among member states is still low. It has been argued that among the key reasons for this low level of trade is that there is only partial liberalisation of foreign equity in commercial activities?

AFTA –ASEAN Free Trade Agreement

IGA –ASEAN Trade in Goods Agreement

AFAS –ASEAN Framework Agreement on Services

Another factor that can determine the effectiveness of Asean integration is the region's ability to allow free flow of skilled labour. Skilled labour mobility is essential for effective implementation of services and investment liberalisation.

However the flow of skilled workers can be difficult –for example professional associations may be reluctant to be involved in recognition initiatives and there may be constitutional and legal provisions that reserve jobs for nationals.

While Malaysia is lagging behind being busy managing petty issues.

RCEP, TPP A Tale of Two Trade Agreements –RCEP & TPP*

their relationship with the west
***Could be a point of contention as Indonesian is undecided as to whether to join the TPP bandwagon?**
the things we can learn from Indonesia.

Two major trade agreements, the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), stand to define the parameters of economic integration in Asia, arguably the world's most dynamic region.

These two massive Asia-Pacific trade agreements have geopolitical ramifications aside from their obvious economic impacts. For example the TPP could part of the U.S. "rebalancing" policy/US 'pivot' to Asia or a U.S.-led initiative aimed at containing China,

In general, the RCEP focuses on tariff cuts and flexibility, while the TPP is a high-standards agreement aimed at establishing WTO-plus trade standards for the region.

Relation between Malaysia and Indonesia is an illustration of the dynamics between

The Proposed Malacca Strait Bridge: *led countries.*

-> a new bridge under proposal that would connect Telok Gong, near Masjid Tanah, Malacca to Rupa Island and Dumai in Sumatra.

-> On 15 October 2013, the Malacca State Government revived the controversial 48km-long Malacca-Dumai, Indonesia, bridge project across the Straits of Malacca, after a seven-year lull. The Exim Bank of China was reportedly prepared to fund up to 85% of the cost of the project (estimated at around US\$ 14 billion) with the rest of the financing being provided from regional sovereign funds and private investors.

Malaysian Institute of Economic Research (MIER)

-> **In time to come maybe we can see a reversal in labour movements**

-i.e. Skilled Malaysians heading of to work in Indonesia

-> **Opportunities for Malaysians?**

D) Political, Social & Cultural Considerations

->Indonesia is a vibrant democracy & has a free press

-> Indonesia is more liberal & ahead of Malaysia in managing sensitivities

While Malaysia is lagging behind being busy managing petty issues.

-> Indonesia is more embracing, they are more practical in their relationship with the West

These are some of the things we can learn from Indonesia.

-> Indonesia has also a greater sense of Patriotism & Unity.

Thus if they manage their economy well, they certainly can succeed and stay ahead of the curve.

E) Conclusion

One Kin, Two Nation

-blood is thicker than water (*air dicincang takkan putus*)

Relation between Malaysia and Indonesia is an illustration of the dynamics between ethnically similar, but regionally connected countries.

Source: MALAYSIAN INSTITUTE OF ECONOMIC RESEARCH (MIER) – November 6th, 2014

PROFILE OF TRADE AND INVESTMENT WITH INDONESIA

SUMMARY OF TRADE

(a) Global Trade

No	Details	Malaysia		Indonesia	
		2013 (US\$ Bil)	2012 (US\$ Bil)	2013 (US\$ Bil)	2012 (US\$ Bil)
i.	Total Trade	434.29	423.93	369.18	381.72
ii.	Total Exports	228.27	227.54	182.55	190.03
iii.	Total Imports	206.01	196.39	186.63	191.69
iv.	Trade Balance	22.26	31.15	(4.08)	(1.66)

(b) Major Trading Partners in 2013

No.	Country	Malaysia		Country	Indonesia	
		Value (US\$ Bil)	% Share		Value (US\$ Bil)	% Share
i.	China	64.42	14.8	China	52.45	14.21
ii.	Singapore	57.39	13.2	Japan	46.37	12.56
iii.	Japan	43.20	9.9	Singapore	42.27	11.45
iv.	USA	34.61	8.0	USA	24.76	6.71
v.	Thailand	24.94	5.7	Malaysia (5th)	23.99	6.50
vi.	Indonesia (6th)	19.37	4.5			

(c) Major Exports Destinations in 2013

No	Country	Malaysia		Country	Indonesia	
		Value (US\$ Bil)	% Share		Value (US\$ Bil)	% Share
i.	Singapore	31.90	14.0	Japan	27.09	14.84
ii.	China	30.69	13.4	China	22.60	12.38
iii.	Japan	25.31	11.1	Singapore	16.69	9.14
iv.	USA	18.43	8.1	USA	15.69	8.60
v.	Thailand	12.67	5.5	India	13.03	7.14
vi.	Indonesia (6th)	10.49	4.6	Malaysia (7th)	10.67	5.84

(d) Major Import Sources in 2013

No.	Country	Malaysia		Country	Indonesia	
		Value (US\$ Bil)	% Share		Value (US\$ Bil)	% Share
i.	China	33.72	16.4	China	29.85	15.99
ii.	Singapore	25.49	12.4	Singapore	25.58	13.71
iii.	Japan	17.89	8.7	Japan	19.29	10.33
iv.	USA	16.17	7.9	Malaysia (4th)	13.32	7.14
v.	Thailand	12.27	6.0	Korea	11.59	6.21
vi.	Indonesia (8th)	8.87	4.3			

OVERVIEW OF BILATERAL TRADE: MALAYSIA – INDONESIA (USD MIL)

Year	TOTAL EXPORTS		TOTAL IMPORTS		TRADE BALANCE		TOTAL TRADE	
	USD Mil	Growth Rate %	USD Mil	Growth Rate %	USD Mil	Growth Rate %	USD Mil	Growth Rate %
2000	1,706.40	0.0	2,269.22	0.0	-562.82	0.0	3,975.62	0.0
2001	1,560.47	-8.6	2,246.22	-1.0	-685.74	-21.8	3,806.69	-4.2
2002	1,790.40	14.7	2,548.22	13.4	-757.81	-10.5	4,338.62	14.0
2003	2,127.99	18.9	2,940.85	15.4	-812.86	-7.3	5,068.84	16.8
2004	3,062.91	43.9	4,201.16	42.9	-1,138.25	-40.0	7,264.07	43.3
2005	3,311.87	8.1	4,371.98	4.1	-1,060.11	6.9	7,683.85	5.8
2006	4,076.55	23.1	4,939.70	13.0	-863.16	18.6	9,016.25	17.3
2007	5,151.31	26.4	6,261.68	26.8	-1,110.37	-28.6	11,412.99	26.6
2008	6,236.55	21.1	7,271.73	16.1	-1,035.18	6.8	13,508.28	18.4
2009	4,904.23	-21.4	6,555.01	-9.9	-1,650.78	-59.5	11,459.23	-15.2
2010	5,611.99	14.4	9,145.11	39.5	-3,533.12	-114.0	14,757.09	28.8
2011	6,806.13	21.3	11,476.94	25.5	-4,670.80	-32.2	18,283.07	23.9
2012	8,941.90	31.4	10,073.59	-12.2	-1,131.68	75.8	19,015.49	4.0
2013	10,494.19	17.4	8,874.64	-11.9	1,619.55	243.1	19,368.83	1.9
2013 (Jan-Aug)	7,005.2	0	5,857.9	0	1,147.3	0	12,863.0	0
2014 (Jan-Aug)	6,513.3	-7.0	5,651.8	-3.5	861.5	-24.9	12,165.1	-5.4

Year	TOTAL EXPORTS		TOTAL IMPORTS		TRADE BALANCE		TOTAL TRADE	
	USD Mil	Share %	USD Mil	Share %	USD Mil	Share %	USD Mil	Share %
TOTAL	6,513.3	100.0	5,651.8	100.0	861.5	100.0	12,165.1	100.0
MANUFACTURED GOODS	3,851.2	59.1	3,445.1	60.9	406.1	47.2	7,296.3	60.0
AGRICULTURE GOODS	1,811.1	27.8	1,277.1	22.6	534.0	61.8	3,088.2	25.4
MINE & QUARRY	651.0	10.0	529.6	9.4	121.4	14.1	1,180.6	9.7
OTHERS	1,000.0	15.4	1,000.0	17.7	0.0	0.0	2,000.0	16.5
Chemicals & Chemical Products	1,350.0	20.7	1,200.0	21.2	150.0	17.3	2,550.0	21.0
Ferrous Products	1,750.0	26.9	1,750.0	31.0	0.0	0.0	3,500.0	28.8
Other Metals	1,500.0	23.0	1,500.0	26.5	0.0	0.0	3,000.0	24.6
Manufactures of Metals	1,750.0	26.9	1,750.0	31.0	0.0	0.0	3,500.0	28.8
Palm Oil	1,350.0	20.7	1,200.0	21.2	150.0	17.3	2,550.0	21.0

Source: Departmental Statistics, Malaysia
 Exchange Rate: USD 1 = RM
 2013 (Jan-Aug): 3.1155
 2014 (Jan-Aug): 3.2454
 Base Exchange rate used for period: 3.40

5 EXPORTS TO INDONESIA

Rank		Jan - Aug 2014				Rank		Jan - Aug 2013	
		USD Mil	Share %	Change (Value)	Change %			USD Mil	Share %
	TOTAL	6,513.3	100.0	-491.9	-7.0		TOTAL	7,005.2	100.0
	MANUFACTURED GOODS	6,215.0	95.4	-494.5	-7.4		MANUFACTURED GOODS	6,709.5	95.8
	AGRICULTURE GOODS	178.0	2.7	-29.7	-14.3		AGRICULTURE GOODS	207.7	3.0
	MINING GOODS	62.3	1.0	32.0	105.2		OTHERS	57.7	0.8
	OTHERS	58.0	0.9	0.3	0.6		MINING GOODS	30.4	0.4
1	Petroleum Products	2,351.0	36.1	-325.4	-12.2	1	Petroleum Products	2,676.4	38.2
2	Chemicals & Chemical Products	1,106.1	17.0	-1.9	-0.2	2	Chemicals & Chemical Products	1,108.0	15.8
3	Machinery, appliances & parts	587.2	9.0	-6.6	-1.1	3	Machinery, appliances & parts	593.8	8.5
4	Electrical and Electronic Products	470.8	7.2	-59.4	-11.2	4	Electrical and Electronic Products	530.2	7.6
5	Processed Food	281.5	4.3	-31.0	-9.9	5	Processed Food	312.4	4.5

Source: Department of Statistics, Malaysia
 Exchange Rate
 2013 (Jan-Aug): 3.1165
 2014 (Jan-Aug): 3.2454

Notes: exchange rate average for period: BNM
TOP 5 IMPORTS FROM INDONESIA

Rank		Jan - Aug 2014				Rank		Jan - Aug 2013	
		USD Bil	Share %	Change (Value)	Change %			USD Bil	Share %
	TOTAL	5.65	100.0	-0.21	-3.5		TOTAL	5.86	100.0
	MANUFACTURED GOODS	3.91	69.2	0.46	13.3		MANUFACTURED GOODS	3.45	58.9
	AGRICULTURE GOODS	0.91	16.0	-0.22	-19.8		MINING GOODS	1.26	21.5
	MINING GOODS	0.82	14.5	-0.44	-34.9		AGRICULTURE GOODS	1.13	19.3
	OTHERS	0.01	0.3	0.00	-19.6		OTHERS	0.02	0.3
1	Chemicals & Chemical Products	0.89	15.7	0.21	30.2	1	Other Mining	0.90	15.3
2	Petroleum Products	0.75	13.3	0.15	24.2	2	Chemicals & Chemical Products	0.68	11.6
3	Other Mining	0.62	11.0	-0.28	-31.0	3	Petroleum Products	0.60	10.3
4	Manufactures of Metal	0.41	7.3	0.00	1.0	4	Palm Oil	0.57	9.8
5	Palm Oil	0.36	6.4	-0.21	-36.9	5	Manufactures of Metal	0.41	7.0

Source: Department of Statistics, Malaysia
 Exchange Rate: USD 1 : RM
 2013 (Jan-Aug): 3.1165
 2014 (Jan-Aug): 3.2454

Notes: Exchange rate average for period: BNM