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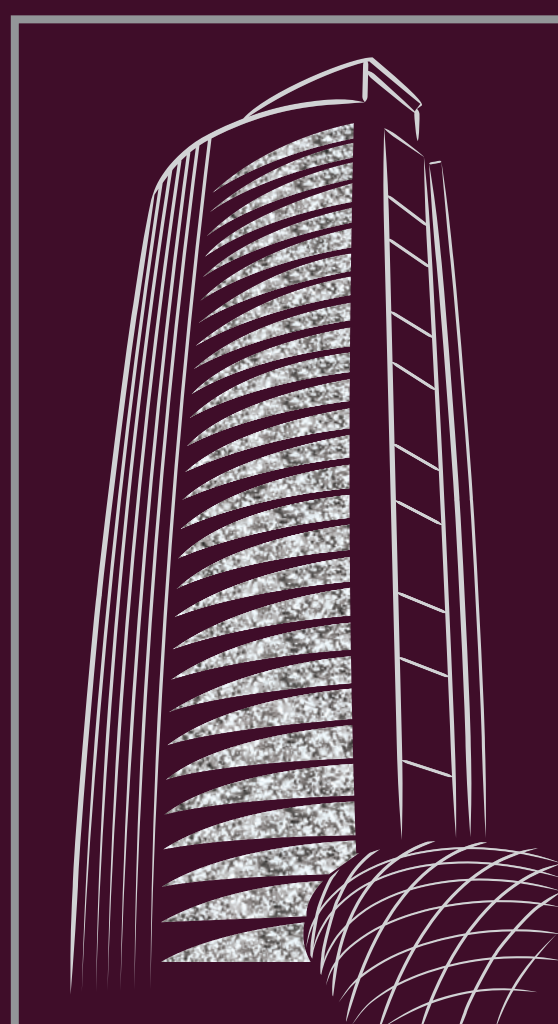
MITI REPORT 2016



MINISTRY OF INTERNATIONAL TRADE
AND INDUSTRY MALAYSIA

COVER RATIONALE

The Ministry of International Trade and Industry (MITI) is represented by the edifice of its new Headquarters in Kuala Lumpur. To mark the 25th year of the publication of the annual MITI Report, the visual of MITI Headquarters is outlined in silver, the colour associated with 25th anniversary.

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To purchase this publication or for other information, please contact:

Senior Director
Strategic Planning Division
Ministry of International Trade and
Industry Malaysia
Level 22, MITI Tower
No. 7, Jalan Sultan Haji Ahmad Shah
50480 Kuala Lumpur, Malaysia
Tel: +603-6200 0252 Fax: +603-6206 4059
MITI Homepage: www.miti.gov.my
Email: mitiweb@miti.gov.my

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Sasyaz Holdings Sdn. Bhd. (219275-V)
29, Jalan PJU 3/48
Sunway Damansara Technology Park
47810 Petaling Jaya, Selangor, Malaysia
Tel: +603 7803 3754
Fax: +603 7804 8245
Email: enquiry@sasyaz.com.my

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FOREWORD

Malaysia's trade performance continued to improve in 2016 despite the uncertainty in the global market, weak aggregate demand, low commodity prices and volatile financial markets in major economies.

Malaysia's total trade in 2016 expanded by 1.5 per cent to RM1.48trillion from RM1.46trillion in the previous year. Exports rose by 1.1 per cent to RM785.93billion and imports increased by 1.9 per cent to RM698.66billion, resulting in a trade surplus of RM87.27billion. This represents the 19th consecutive year of trade surplus since 1998. The significant increase in total trade was contributed by strong demand for manufactured goods and agricultural products from Malaysia's major trading partners including The People's Republic of China (PRC) and the United States (US).

Under the Eleventh Malaysia Plan (11MP), MITI undertook several major initiatives in 2016 to boost Malaysia's economy and for industries to move up the global value chain. These include a number of roadmaps and blueprints launched:

- The National eCommerce Strategic Roadmap (NeSR) was officially launched by the Prime Minister of Malaysia in October 2016. The NeSR aims to double the eCommerce annual growth rate from 10.8 per cent in 2016 to 20.8 per cent in 2020, with a contribution of RM211billion to the GDP by 2020. In addition, the Government established the first Digital Free Trade Zone (DFTZ) in the world outside of the PRC, which will provide a digital ecosystem for companies to conduct their eCommerce operations as well as boost growth and usage of eCommerce in the country.

- There is an urgent need for Malaysia to embrace Industry 4.0, especially at the firm level to sharpen Malaysia's competitiveness in our manufacturing industry. MITI has begun collaborating with relevant Ministries and Agencies as well as captains of industry to craft a national Industry 4.0 policy and action plan. Some major challenges to be addressed in the adoption of Industry 4.0 include development of essential IT infrastructure, talent and human capital, targeted incentives as well as standards and technology.

- The National Aerospace Blueprint continues to chart the transformation of Malaysia's aerospace industry. The Government is projecting that the industry will generate a total revenue of RM55.2billion and create 32,000 high-skilled jobs by 2030 in aerospace activities such as aircraft maintenance, repair and overhaul (MRO) services as well as manufacturing of high-tech components.

- The Services Sector Blueprint, launched in 2015, aims to unlock the potential of the sector and transform it to become more knowledge-intensive and innovation-led. The services sector is expected to grow at 6.8 per cent per annum and contribute 56.5 per cent to the GDP in 2020, and provide 9.3million jobs in the country.

Small and Medium Enterprises (SMEs) play a significant role in Malaysia and are important generators of employment and income as well as drivers of innovation and growth. SMEs are the backbone of Malaysia's economy accounting for 97.3 per cent of a total of 662,939 business establishments. Productivity and innovation are vital to the survival and profitability of SMEs by sharpening their competitive edge. SME GDP growth is estimated to expand between 5.0 and 5.5 per cent in 2016 and between 5.0 and 6.0 per cent in 2017. In 2015, SMEs' contribution to GDP was 36.3 per cent and to exports, 17.6 per cent while employment rose by 5.6 per cent to 65.5 per cent, indicating the capability of SMEs to expand their business, deliver greater value-add to a global marketplace and generate higher employment growth.

Exports of manufactured goods enlarged by 3.2 per cent or RM20.24billion, accounting for 82.2 per cent of total exports. The increase was contributed mainly by E&E products at RM9.8billion, while other products including chemicals and chemical products, optical and scientific equipment, processed food, machinery, equipment and parts, transport equipment as well as textiles, apparels and footwear continued to register positive growth. Exports of palm oil and palm oil-based agriculture products continued to be the main contributor to higher exports of agricultural goods, i.e. expansion by 4.7 per cent to RM70.43billion, accounting for 9 per cent share of total exports in 2016.

On the global trade front, the Government continued to take a holistic and pragmatic approach in negotiating new bilateral and regional free trade arrangements as well as reviewing existing agreements. In 2016, FTA partner countries absorbed 62.4 per cent of Malaysia's total exports, with ASEAN remaining the strategic trading partner for Malaysia.

There are concerns that the global economic growth will be affected by developments such as Brexit, the new US trade policy, the uncertainty regarding the Trans Pacific Partnership Agreement (TPPA), the PRC's structural changes and the volatility of oil prices. Being a trading nation with an open economy, Malaysia needs to swiftly respond to these global dynamics. The Government will continue to adopt the necessary policy responses to minimise any negative impact and strengthen the economic foundation, while continuing to maintain a conducive environment for trade and investment flows.

The private sector must rise to the challenge and be more resilient in a fast-changing global environment by pursuing various strategies such as enhancing skills upgrade, embracing innovation, technology and creativity as well as changing mind sets towards greater productivity. While moving towards higher productivity, industry must not only focus on the supply chain but also to actively engage in higher value-added production activities through developing strategic collaboration or technology partnerships. This will provide the foundation for future growth in producing more complex and high-value products.

We must realise that the world economic scenario has changed radically with new developments occurring rapidly. Social networks, disruptive technologies, mobile platforms and apps, advanced Analytics and Big Data, Cloud and artificial intelligence (AI) are now replacing our traditional way of doing business. MITI will continue to work together with our stakeholders and clients in identifying future challenges and gaps in order to realise our economic transformation agenda.

Dato' Sri Mustapa Mohamed

Minister of International Trade and Industry, Malaysia

CONTENTS


2007
REPORT
2008
2010

MITI'S MILESTONES

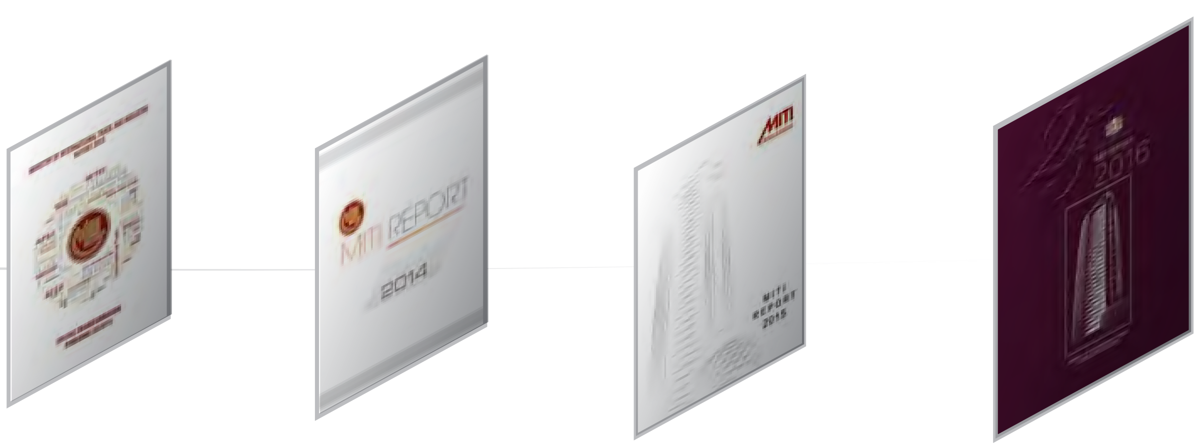
1992–2015

This first publication of the Malaysia International Trade and Industry Report 1993 was a response to the need felt by both the public and private sectors over the years for a comprehensive report on the country's trade and industry policies and performance which could be used as a reference for planning and implementation purposes.

Dato' Seri Rafidah Aziz
Minister of International Trade and Industry
(16 July 1993)

MITI Report 1993 was favourably received as hitherto, such a comprehensive and authoritative publication had yet to be made available to the public. As Malaysia's trade expanded, as industries multiplied and as investments, both domestic and foreign, surged, MITI continued with its mission to garner vital data on these economic activities.

In affirmation of the nation's tremendous progress over the past 25 years, MITI Report 2016 features Milestones, offering a snapshot of significant developments in Malaysia's trade and industry during this time span.



The Ministry of International Trade and Industry (MITI) is the primary ministry bearing the responsibility of positioning the country as the desired destination for foreign investments.

With forward-thinking industrial policies drawn up by the best in the country, MITI blazed the trail to emerge as one of the fastest growing economies in East Asia in the last 25 years. It was no mean feat given that the nation was grappling with issues such as the widening socio-economic divide. Malaysia was also working towards transforming the primary commodity-based economy to one that was upper middle-income and industrialised.

To those who have put their shoulders to the wheel, it is a testament to how MITI has been the country's instrument in charting our course for economic prosperity, reflecting the resilience of the people of Malaysia.

'Malaysia's pursuit of open trade policies and its attractiveness to foreign direct investment (FDI) have led to impressive growth and continued economic transformation.'

World Trade Organisation 1997

MITI stands tall and proud in having a significant role in building the economic landscape of this beautiful, industrious country.

1992 – 2000: THE EARLY YEARS

During this span, it was the manufacturing sector that was at the helm steering economic growth. In 1992, manufactured goods accounted for 69 per cent of total exports. By 1997, this number had risen to 81 per cent, reaching a peak of 85.6 per cent of total exports (RM319.46 billion) in 2000.

The Industrial Master Plan 1 (IMP1) (1986 – 1995) was the blueprint that carved out the direction the country took in terms of industrial development. The IMP1 laid the foundation for manufacturing industries and promoted processing of natural resources instead of exporting them raw. The manufacturing sector was targeted to become the leading growth sector of the economy.

Amidst rapid globalisation and industrialisation, the country's export of manufactures grew exponentially. During the 1987 – 1997 period, Malaysia had an annual economic growth of more than 8 per cent. It was a golden era of economic buoyancy and robust growth for Malaysians.

With the restructuring of the Ministry of Trade and Industry in 1990 into two specific arms, i.e. the Ministry of International Trade and Industry (MITI), and the Ministry of Domestic Trade and Consumer Affairs, it was imperative that the newly formed MITI continue to push forward and gain momentum regionally and globally.

MITI embarked on a multi-pronged approach to bolster the manufacturing sector, which then assumed the role of being the engine of growth. The aim of MITI's well-poised strategy was not only to attract foreign investments to Malaysia but also to create markets in the ASEAN (Association of South East Asian Nations) region. Founded in 1967, ASEAN is one of the most successful intergovernmental organisations in the developing world.

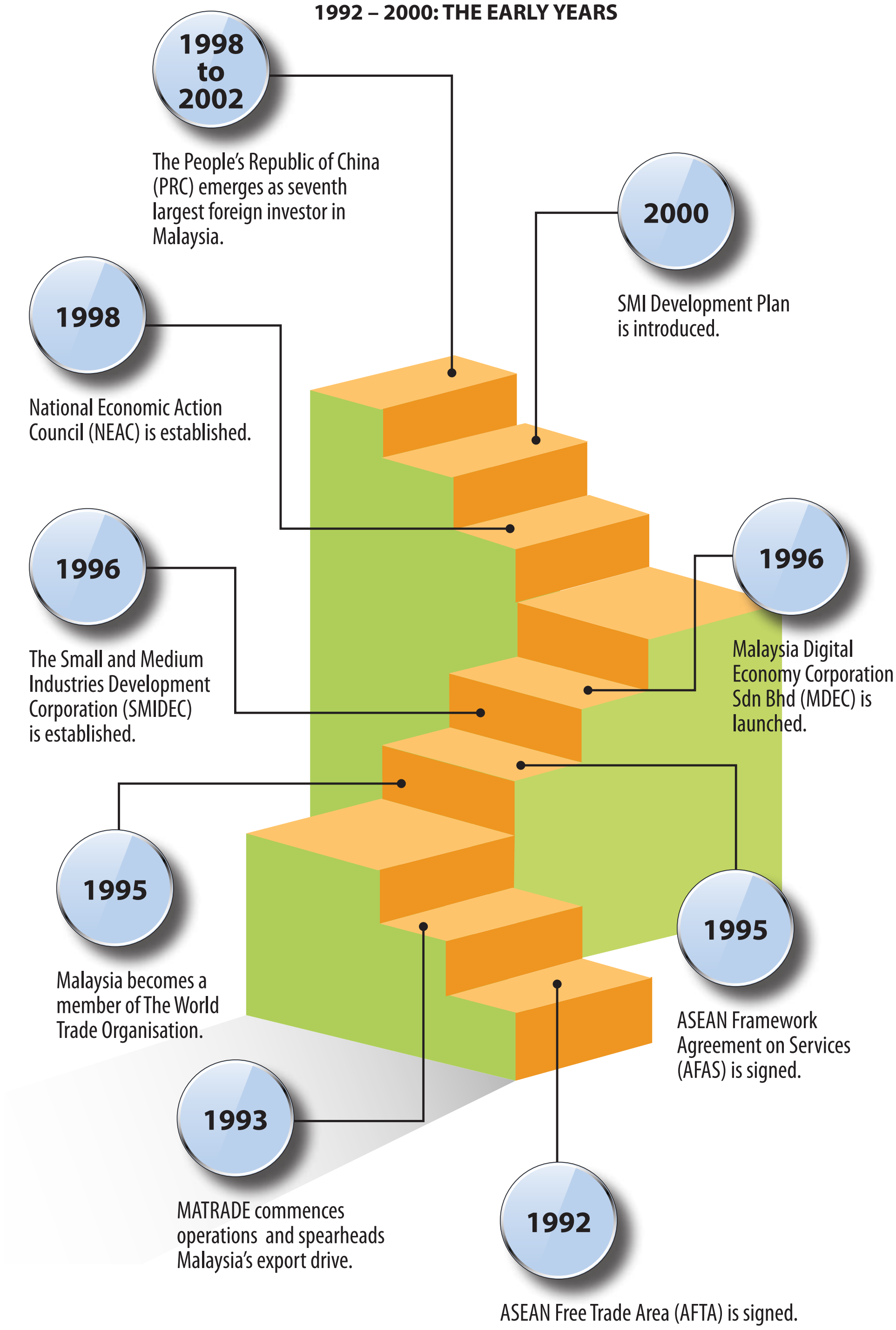
In 1992, with the signing of the ASEAN Free Trade Area (AFTA), ASEAN Member States (AMS) committed to opening up their markets through gradual tariff liberalisation. The ultimate objective of AFTA is to create a single market.

'The creation of AFTA would provide a good testing ground for new Malaysian exporters to gauge their competitive position in ASEAN before entering the global market.'

Dato' Seri Rafidah Aziz (1993)

Yet another measured move was the establishment of the Malaysia External Trade Development Corporation (MATRADE) in 1993 with the mission to develop and spearhead the nation's exports to the world.

1992 – 2000: THE EARLY YEARS



As Malaysia is one of the founding members of WTO in 1995 by virtue of its membership in GATT since 1957 and participation in the Uruguay Round, MITI assumed its role as the focal point in consolidating and streamlining Malaysia's active participation at the WTO. Being a WTO member facilitated Malaysia's liberalisation initiatives as reflected in the various Free Trade Agreements that have been signed

The services sector, while assuming a modest role so far in terms of intermediate services supporting the manufacturing sector, was now being viewed as an area that needed to be developed in tandem with the latter.

Complementing AFTA, which facilitated the free flow of goods between AMS, was the ASEAN Framework Agreement on Services (AFAS) for the free flow of services, which was signed in 1995.

The Small and Medium Industries Development Corporation (SMIDEC) was established in 1996 under MITI with the primary objective of encouraging the development of Small and Medium Enterprises (SMEs). SMIDEC spurred the development of SMEs by providing infrastructure facilities, financial assistance, advisory services, market access and other support programmes. Its aim was to develop Malaysian SMEs to be capable, resilient and competitive in the global market.

Late 1997 saw the onslaught of the Asian financial crisis and Malaysia was not spared although it came away relatively unscathed. Malaysia recovered fast among the ASEAN countries, primarily due to macroeconomic measures being put in place, such as the pegging of the Ringgit to the US Dollar (USD) and the easing of monetary policy. MITI participated in drawing up some of the recovery measures, for instance, the liberalisation in the equity rules for the manufacturing sector.

The National Economic Action Council (NEAC) was established in January 1998 in response to the Asian financial crisis. Its primary role was to protect the global competitiveness of the country's economy and further strengthen the nation's economic base. The Council members came from both the public and private sectors and this dynamic alliance set the stage for future public – private collaborations.

Malaysia gained resilience with its effective management of the financial crisis. At the same time, the country's high dependency on the manufacturing sector and foreign direct investment, which made the nation vulnerable to the vagaries of the competitive global environment, came to the fore.

The emergence of the People's Republic of China (PRC) as a regional economic powerhouse and as Malaysia's seventh largest foreign investor in 1998 was another factor not to be underestimated. It was time to review our heavy reliance on the manufacturing sector and relook at the contribution of the services sector as well the need to nurture domestic industries.

In 2000, the Small and Medium Industries (SMI) Development Plan Plan was introduced to further understand the challenges faced by the SMEs (formerly known as SMIs). A course of action would subsequently be implemented to increase the capacity and capabilities of SMEs.

2001 – 2008: MITI EVOLVES

The Second Industrial Master Plan (IMP2) was from 1996 – 2005. The main thrust was to broaden manufacturing capabilities through the strategies of cluster-based industrial development and manufacturing ++. IMP2 stressed that it was necessary for Malaysia to enhance competitiveness, improve productivity as well as promote supporting industries and related services.

Under IMP2, it was clear that greater attention had to be paid to the role and development of services so that it could become a more significant contributor to the nation's economic development.

In 2001, as a consequence of the Asian Financial crisis, the manufacturing sector output declined and export-oriented industries contracted. However, the domestic industry remained resilient and grew by 7.4 per cent. It was time for a new wave of economic activity, where domestic demand and investment would assume a more prominent role to give the much needed economic support for the country.

The General Agreement on Trade & Services (GATS), which commenced in 2000, took root and saw the beginnings of the shift from trade in goods to trade in services.

In 2002, the services sector surpassed the manufacturing sector in terms of new jobs created. The unfortunate occurrence of SARS in 2003 totally blindsided the service-oriented tourism sector and related services.

The National SME Development Council (NSDC) was formed in 2004 to coordinate inter-Ministry and Agency efforts on SME development, as well as to provide a policy strategic framework for the industry going forward.

MITI's scope was officially widened in 2006 to include responsibility for coordinating and monitoring the implementation of programmes and activities carried out by all Ministries, Agencies and authorities for the growth of the services sector.

PRC became Malaysia's fourth largest trading partner, a probable prediction of the times ahead when it would replace the United States (US) as Malaysia's largest trading partner. In the same year, PRC gained accession to the WTO, becoming its 143rd member. This reflected the PRC's readiness to be part of the global trading system with its accompanying rules.

The first ASEAN Economic Community (AEC) Blueprint, signed in November 2007, was a master plan to chart the region's journey towards the formal establishment of the AEC on 31 December 2015.

The time had arrived for public – private collaboration to be taken to another level. Even as early as 1992, MITI had already had insights into the collaboration that would be needed between the private and public sectors to enable the country to flourish.

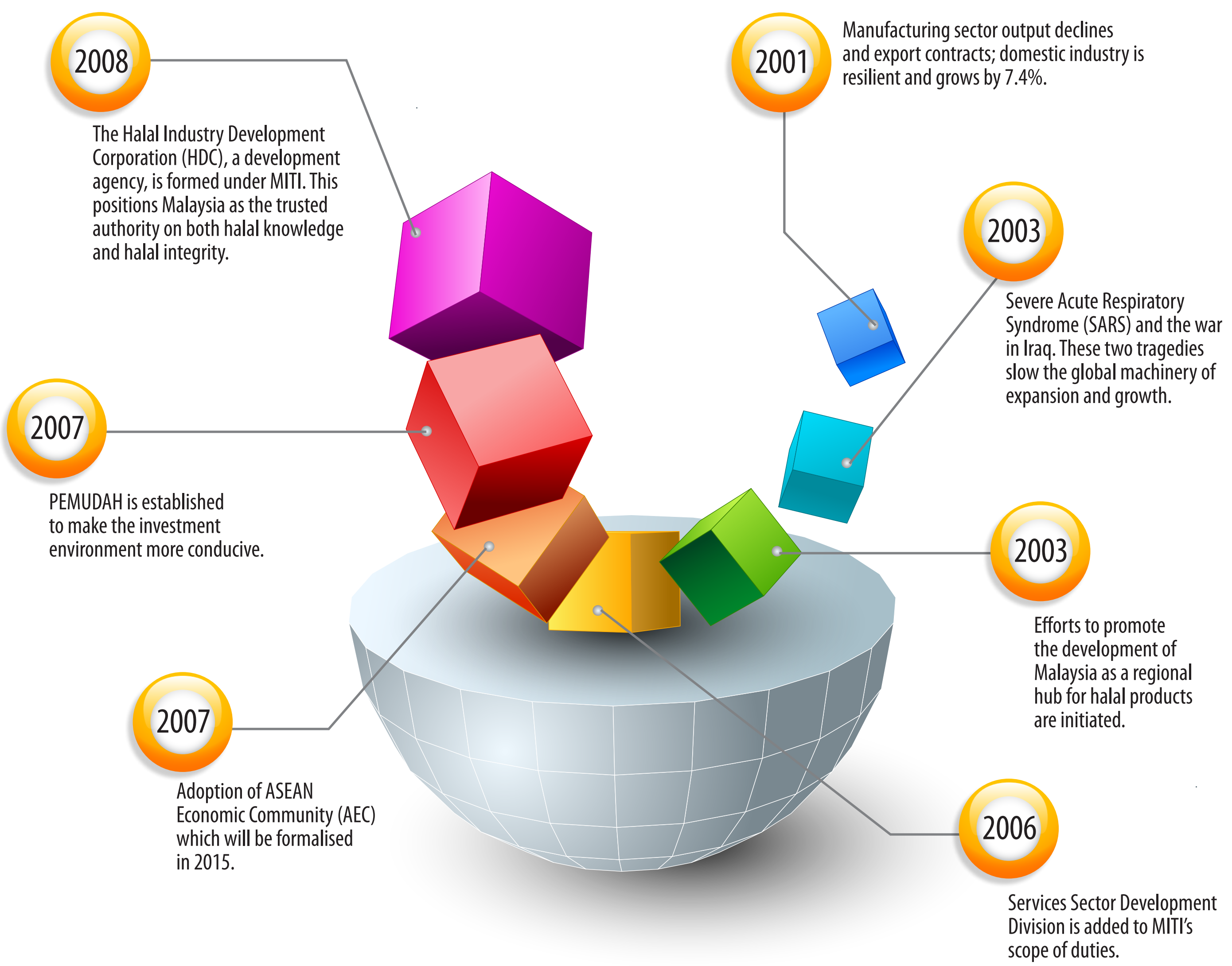
In 2007, it became apparent that a concerted cross-Ministerial initiative was required to effect greater improvement in the way Government regulated business, one that involved active participation by the private sector. This led to the establishment of PEMUDAH, a Special Task Force to Facilitate Business. MITI was appointed as Secretariat of this Task Force.

In 2008, Malaysia surged ahead, achieving an unprecedented total trade of RM1.2trillion with Malaysia's exports surpassing USD100billion for the first time.

'The private sector has a catalytic role in promoting both trade and investment while the Government would create a conducive environment and infrastructure for trade and industry to take place.'

MALAYSIA INTERNATIONAL TRADE & INDUSTRY REPORT 1992

2001 – 2008: MITI EVOLVES



MALAYSIA AS A GLOBAL HALAL HUB

Malaysia is a pioneer in the halal industry and as early as 1974, the Research Centre for Islamic Affairs in the Prime Minister's Office had started to issue halal certification for products that met the requirements. In 2000, when Malaysia became the first country to have a documented and systematic halal assurance system, it was a milestone for the nation.

With this head start in the halal evolution, Malaysia has gone from strength to strength to become the benchmark for halal standards and is in an advantageous position to access a global halal market valued at USD2.30 trillion.

The Halal Industry Development Corporation (HDC) was established as a one-stop agency in the development of the halal Industry. By leveraging on its close partnership with MITI, Malaysian Investment Development Authority (MIDA) and MATRADE, HDC works closely with potential investors to position Malaysia as the most attractive place in the region to invest in halal-related enterprises.

2009 – 2015 : MITI CONSOLIDATES

The objective of the Third Industrial Master Plan (IMP3) (2006-2020) is to achieve long-term global competitiveness through transformation and innovation of the manufacturing and services sectors. IMP3 covers the manufacturing sector including agro-based industries and the non-Government services sector. Twelve industries in the manufacturing sector have been targeted for further development and promotion. Among them, six are non-resource-based and the rest are resource-based industries.

THE GLOBAL FINANCIAL CRISIS – 2008/9

The global financial crisis that began in 2008 flowed into 2009, making it one of the toughest years in that decade for Malaysia. Exports plunged and foreign direct investments slowed down significantly. Total trade staggered at RM987billion with exports shrinking by 16.7 per cent. The manufacturing sector received the greatest blow with a contraction of 12.3 per cent in 2009 and exports declined 21.1 per cent.

The healthy trade surplus from previous years and the prudent measures that had led to an impressive Balance of Trade sustained the country through a difficult phase. Malaysia displayed great resilience in weathering the adversity. With the cooperation of all relevant Ministries, the nation was able to effect commendable recovery by embarking on incisive measures such as the Economic Stimulus Package (ESP) to buffer home-grown industries and boost domestic aggregate demand.

MITI was entrusted with the colossal responsibility of disbursing a portion of the ESP amounting to RM792.4million. The first tranche went to the Services Sector Capacity Development Fund and the Cluster-based Human Resource Skills Training for Bumiputera Private Skills Training Institutes. The second tranche was channelled to the Automotive Development Fund (ADF) and the High Impact Project Fund.

The New Economic Model (NEM) was unveiled in 2010 to replace the New Economic Policy (NEP). The aim of the NEM is to transform the Malaysian economy into one with high incomes and quality growth by 2020, with the growth to be inclusive and sustainable to enable the benefits to be broadly shared across all communities

EASE OF DOING BUSINESS

With the establishment of PEMUDAH, the regulations that hampered more than facilitated doing business were removed.

This resulted in Malaysia, for the first time, being ranked among the Top Ten nations for competitiveness in the IMD World Competitiveness Yearbook 2010.

'MITI will continue to steer the nation towards a high income economy that is knowledge-driven and high technology industry-based. The focus will be on attracting quality investments and encouraging existing industries to shift from lower value-added products and services to reinvesting in higher value-added and knowledge-intensive products and services.'

Dato' Sri Mustapa Mohamed
Minister of International Trade and Industry
09.04.2009 - Present

SMALL & MEDIUM ENTERPRISES : SMALL IS THE NEW BIG

The rebranding of SMIDEC to Small and Medium Enterprise Corporation Malaysia (SME Corporation Malaysia) (SME Corp. Malaysia) in 2009 gave SMEs a fresh start and enthusiasm for a new beginning.

As the Central Coordinating Agency under MITI for overall SME development in Malaysia, SME Corp. Malaysia coordinates, streamlines, monitors and evaluates the progress and effectiveness of SME development programmes implemented by 15 Ministries and 65 Agencies.

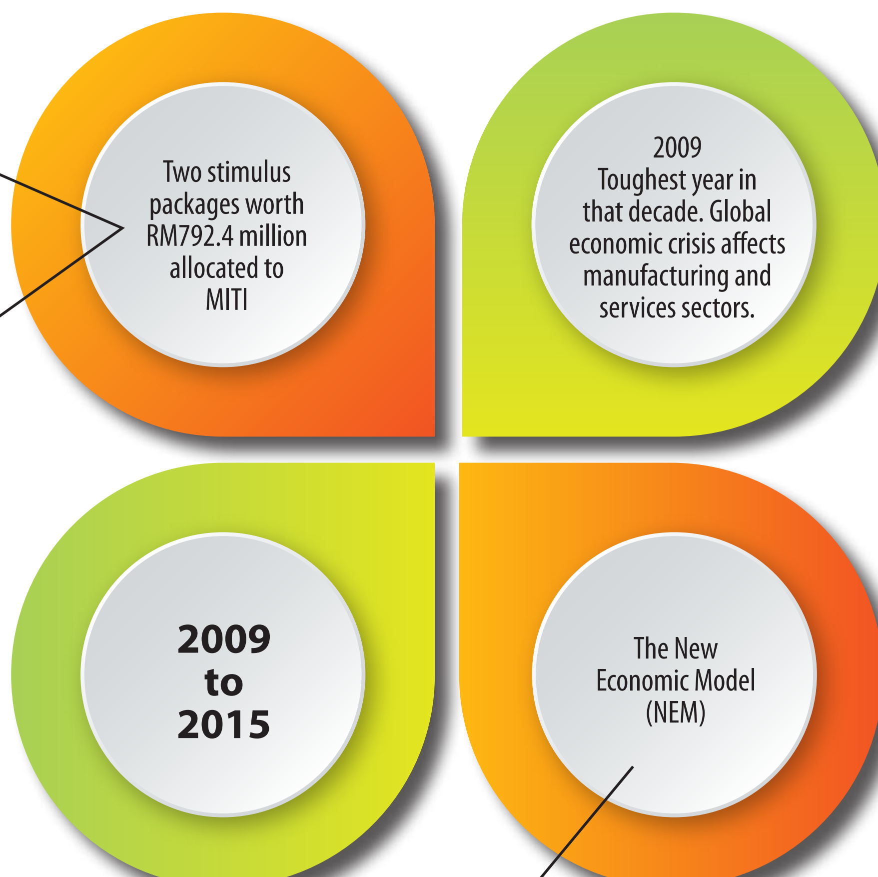
2009 – 2015: MITI CONSOLIDATES

FIRST STIMULUS PACKAGE

- Services Sector Capacity Development Fund (SSCDF) – RM100 million
- Cluster-based Human Resource Skills Training for Bumiputera Private Skills Training Institutes – RM42.4 million

SECOND STIMULUS PACKAGE

- Automotive Development Fund (ADF) – RM200million
- High Impact Project Fund – RM450million



- 2009 - Services sector becomes the largest contributor to GDP (57.8%)
- 2012 - The SME Masterplan is launched.
- 2015 - Services Sector Blueprint is launched.

ASEAN 2015

ASEAN Leaders made a declaration on the establishment of the ASEAN Community and also issued the Kuala Lumpur Declaration on ASEAN 2025: Forging Ahead Together.

The ASEAN Economic Community (AEC) is established. ASEAN lays out a new plan in the form of AEC Blueprint 2025 that aims to further strengthen regional economic integration.

- To transform the Malaysian economy and achieve high incomes and quality growth by 2020.
- Government Transformation Programme (GTP) is consolidated to upgrade the public delivery system.

SME Corp has conducted numerous development and capacity building programmes. In 2011 alone, a total of 30,000 people were trained under the SME Development and Bumiputera Entrepreneurs scheme. The SME Master Plan, launched in 2012, is intended to boost the GDP contribution of Malaysian SMEs from 32.0 per cent to 41.0 per cent by 2020.

With the services sector assuming greater significance in the economic growth of the nation, it is reassuring to note that 90 per cent of SMEs are in that sector.

In 2011, HDC nurtured 97 local companies through the Halal Business Transformation programme and trained 12,000 consumers, 245 Halal Executives and 490 Halal Auditors in halal issues.

The Tenth Malaysia Plan (2011-2015) and the Economic Transformation Programme (ETP), which were launched in 2012, outlined a mandate for the Malaysia Productivity Corporation (MPC) to spearhead a comprehensive review of business regulations. MPC is responsible for establishing a regulatory framework which serves to ensure that all new and existing regulations are of a high standard on a continuing basis. This is similar to Good Regulatory Practices (GRP) systems in other countries.

The development of the services sector will be guided by the Services Sector Blueprint, launched in 2015. The Blueprint aims to unlock the potential of the sector and transform it to become more knowledge-intensive and innovation-led. The services sector is expected to grow at 6.8 per cent per annum and contribute 56.5 per cent to GDP in 2020, providing 9.3million jobs.

ASEAN

At the 27th ASEAN Summit held in Kuala Lumpur on 22 November 2015, ASEAN Leaders made a declaration on the establishment of the ASEAN Community. This is considered a momentous milestone in ASEAN's history since its founding in 1967.

Together with the launch of the ASEAN Community, the ASEAN Leaders also issued the Kuala Lumpur Declaration on ASEAN 2025: Forging Ahead Together. The ASEAN's post-2015 vision charts the path of the ASEAN Community in the next ten years. It articulates ASEAN's goals and aspirations as the regional grouping enters the next phase of consolidation, further integration and stronger cohesiveness as a Community.

The establishment of the ASEAN Economic Community (AEC) in 2015 is a major milestone in the regional economic integration agenda in ASEAN. AEC offers opportunities in the form of a huge market worth US$2.6trillion with a population of 630 million people. In 2014, AEC was collectively the third largest economy in Asia and the seventh largest in the world.

PROGRESS

In the face of increasing competition globally, the years ahead will pose greater challenges. MITI will accept and address them with fortitude and resilience, continuing with its endeavours to shape the economic landscape of the nation. Given the speed of technological advancement, MITI will stay alert, continuously adapting and making progress in a new environment characterised by disruptive technology.

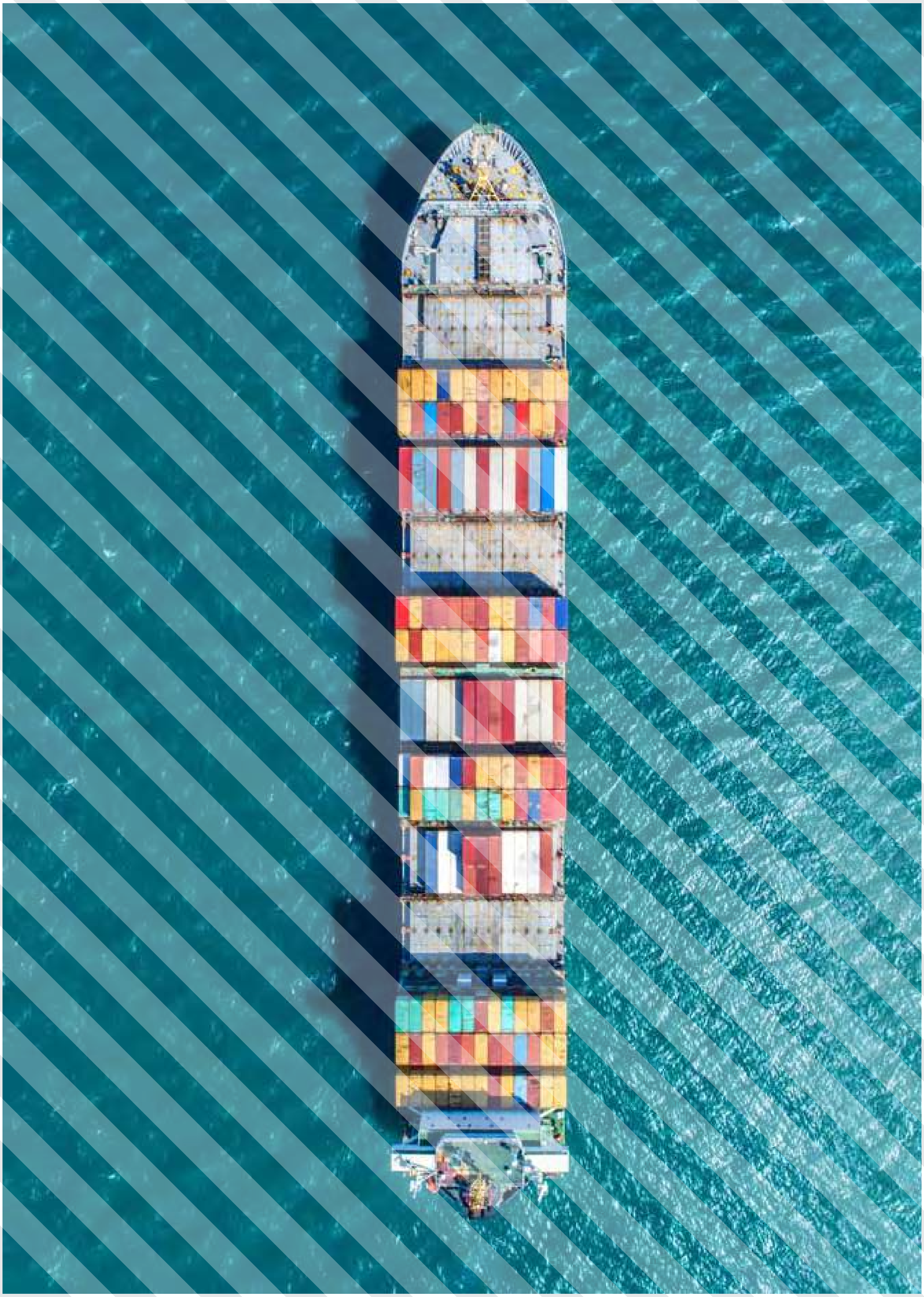
Many have passed through MITI's doors, leaving their mark, and many more will. The indomitable spirit of the MITI family prevails. The commitment to a greater cause inextricably intertwined with the awareness that working together leads to unceasing accomplishments make for a strong bond.

Therein lies the essence of MITI.

Therein lies the future of Malaysia.

"We are all Malaysians. This is the bond that unites us. Let us always remember that unity is our fundamental strength as a people and as a nation."

Tunku Abdul Rahman
Prime Minister of Malaya (1957–1963)
Prime Minister of Malaysia (1963–1970)



Malaysia's global trade exceeded RM1trillion in 2016. Containers filled with Malaysian exports are shipped to numerous destinations in both the Northern Hemisphere and the Southern Hemisphere every day.

INTERNATIONAL TRADE

For the tenth consecutive year, Malaysia's global trade exceeded RM1trillion as a result of the 1.5 per cent annual growth (2015: 1.0 per cent). Trade surplus stood at RM87.27billion (2015: RM91.58billion). Exports grew 1.1 per cent to contribute RM785.93billion (2015: 1.6 per cent, RM777.36billion) while imports amounted to RM698.66billion (2015: RM685.78 billion).

Malaysia was the world's 24th largest exporter and the 26th largest importer. *(Source: WTO Online Database, updated April 2017)*

The export sector showed diversification with the top exports being electrical and electronics (E&E) products, chemicals and chemical products, petroleum products, palm oil and palm-based agriculture products as well as machinery equipment and parts.

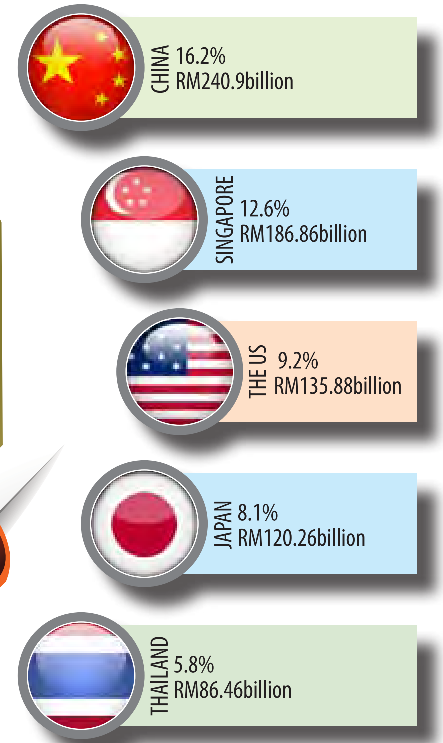
Manufactured products dominated exports, amounting to 82.2 per cent share valued at RM645.67billion (2015: 80.5 per cent share, RM625.43billion). Agricultural products took nine per cent share valued at RM70.43 billion (2015: eight per cent share, RM67.25billion) while mining goods totalled RM64.32billion (2015: RM80.19billion) representing eight per cent share (2015: 10.3 per cent share).

The impressive performance by manufactured products augurs well for Malaysia as under the Eleventh Malaysia Plan (11MP), manufacturing continues to be a core sector to drive sustainable growth for the nation to achieve High-Income status by 2020.

Imports were also led by manufactured goods which captured 88.2 per cent share valued at RM616.18billion (2015: 87.6 per cent share, RM600.89billion). Agricultural imports amounted to RM39.82billion or 5.7 per cent share (2015: RM40.69billion, 5.9 per cent share) while mining goods totalled RM29.41billion representing 4.2 per cent share (2015: RM29.21billion, 4.3 per cent share). The top imports were E&E products, chemicals and chemical products, machinery, equipment and parts as well as petroleum products.

TRADE 2016

TOP FIVE TRADING PARTNERS



ASEAN

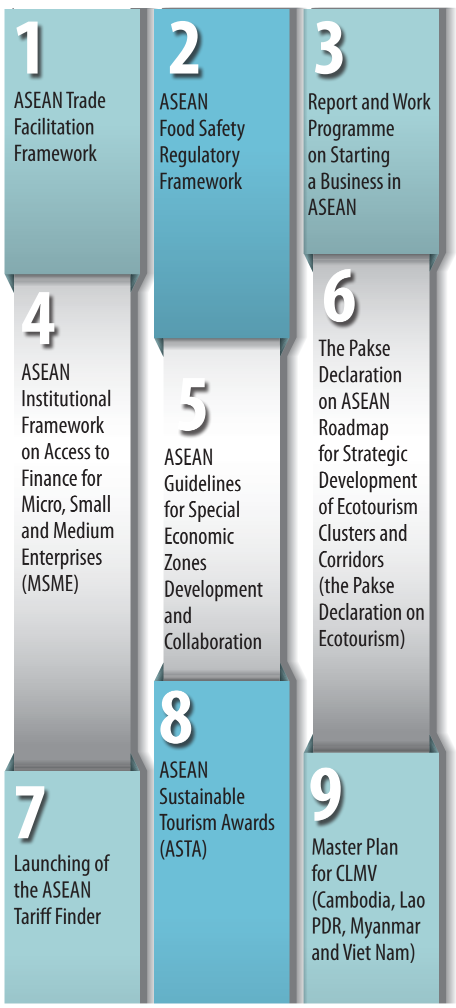
The year 2016 marked the start of the ASEAN Community and the implementation of ASEAN Community Vision 2025. The ASEAN Economic Community (AEC) was also launched in 2016. Over the years, regional trade liberalisation and facilitation have contributed significantly to the free flow of goods in ASEAN. With tariff elimination now down to a few remaining tariff lines, ASEAN Member States (AMS) have reaffirmed their commitment to address non-tariff barriers to trade and accord high priority to trade facilitation initiatives to achieve a more transparent, predictable and rule-based business environment in ASEAN.

The operationalisation of the ASEAN Solutions for Investments, Services and Trade (ASSIST) continued to bring immense benefit to the private sector. ASSIST aims to deliver practical solutions to help businesses address their concerns and difficulties while conducting business in the region.

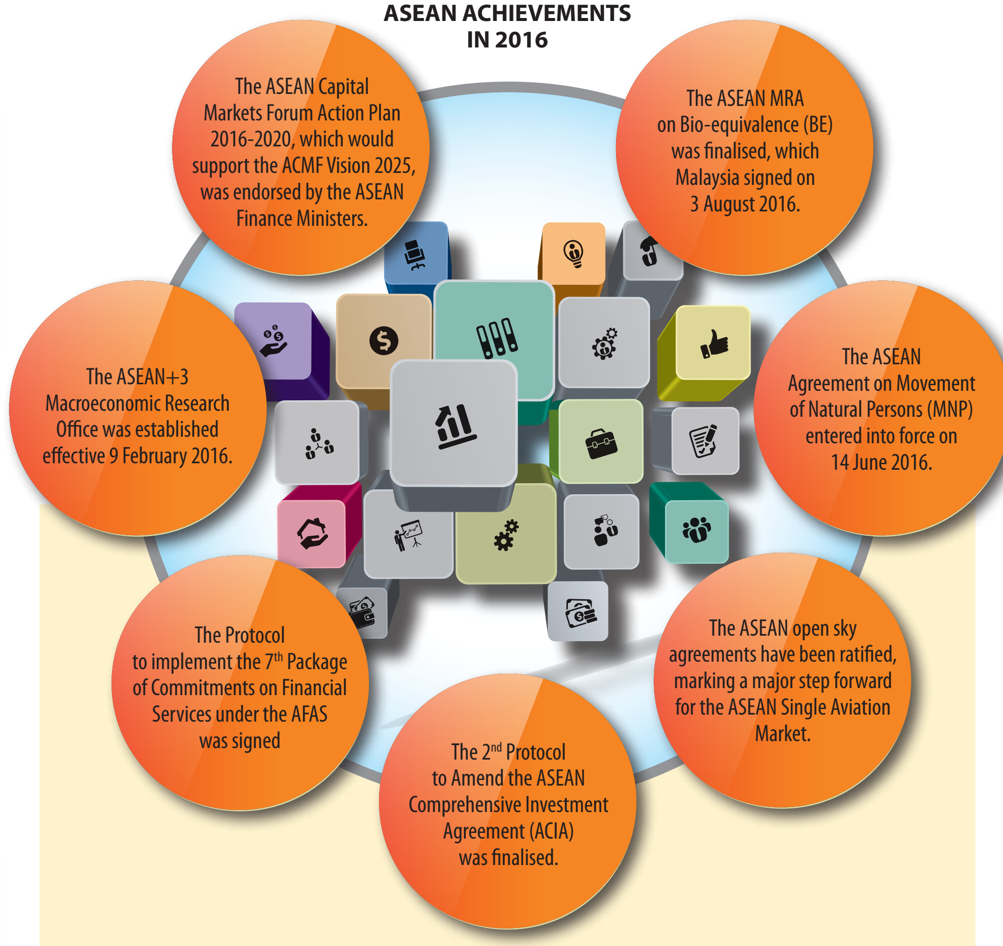
Proposals from the private sector have been incorporated into the ASEAN Strategic Action Plan for SME Development 2016-2025 (SAPSMED 2025) overseen by the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME). The ASEAN SME Service Centre Web Portal (*www.aseansme.org*), an information hub for MSMEs operating in the region, has been launched to aid SME development. The ASEAN SME Academy (*www. asean-sme-academy.org*), a self-help and self-paced online learning tool for SMEs comprising practical best practices, has also been activated.

The implementation of the ASEAN Community Statistical System (ACSS) Strategic Plan 2016-2025 to further strengthen regional statistical cooperation among AMS will advance progress in the harmonisation of international merchandise trade, international trade in services and foreign direct investment. This development is critical to AEC integration monitoring and dissemination of ASEAN statistics.

KEY AEC DELIVERABLES IN 2016



ASEAN ACHIEVEMENTS IN 2016



Work is continuing on trade facilitation initiatives:

- ASEAN Single Window (ASW), targeted to be fully operational in 2017
- ASEAN Customs Transit System (ACTS) Pilot Project
- ASEAN Agreement on Traditional Medicines
- ASEAN Agreement on Health Supplements
- ASEAN Medical Device Directive (AMDD)
- ASEAN Harmonised EEE Regulatory Regime (AHEEER)
- ASEAN General Standard for Labelling of Pre-packaged Food

The private sector continued to play an active role in ASEAN in 2016. Key private sector activities:

- ASEAN - Russia Business Forum, Sochi (17 May)
- 3rd ASEAN - Japan Public-Private Dialogue on New Industries: further productivity growth of the service industry in Asia, Bangkok (22 June)
- 9th Dialogue between ASEAN Secretary General and Federation of Japanese Chamber of Commerce and Industry in ASEAN (FJCCIA) (20 June)
- ASEAN Business and Investment Summit 2016, Vientiane (5 - 7 September)
- Canada-ASEAN Business Forum, Jakarta (7 - 8 September)
- 13th China-ASEAN Expo (CAEXPO) and the 13th China-ASEAN Business and Investment Summit (CABIS) (11 - 14 September)

Important outcomes of external economic relations include:

- Improving ASEAN Plus One Free Trade Agreements (FTAs), including the entry into force of the Third Protocol to Amend the ASEAN-Korea Trade in Goods Agreement
- The Protocol to Amend the Framework Agreement on Comprehensive Economic Co-operation and Certain Agreements Thereunder between ASEAN and China
- Conclusion of services and investment negotiations under the ASEAN-Japan Comprehensive Economic Partnership
- Planned review of the ASEAN-India Trade in Goods Agreement
- Commencement of the negotiations for further liberalisation under ASEAN-Korea Trade in Goods Agreement
- Endorsement of the Terms of Reference for General Review of the ASEAN-Australia-New Zealand FTA
- Progress of the negotiations for ASEAN-Hong Kong, China FTA
- Endorsement of the renewed ASEAN-Japan 10-Year Strategic Economic Partnership Roadmap
- Endorsement of the ASEAN-US Cooperation in Fostering Transparency and Good Regulatory Practices, and the ASEAN-US Cooperation in Fostering International Investment
- Intensification of the Regional Comprehensive Economic Partnership (RCEP) negotiations, and reiterated commitments towards the achievement of a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement

TOP ASEAN EXPORT DESTINATIONS 2016

SINGAPORE
RM114.44billion

INDONESIA
RM27.66billion

PHILIPPINES
RM13.64billion

THAILAND
RM44.1billion

CLMV COUNTRIES
RM28.96billion

SINGAPORE

- **RM114.44billion** of exports, up 5.6 per cent due to higher exports of E&E products, optical and scientific equipment, machinery, equipment and parts, transport equipment and petroleum products.
- 49.6 per cent share of total exports to ASEAN.

THAILAND

- **RM44.1billion** of exports, down 0.6 per cent due to lower exports of crude petroleum, optical and scientific equipment, and E&E products.
- Higher exports of petroleum products, transport equipment, manufactures of metal, processed food, and chemicals and chemical products.

INDONESIA

- **RM27.66billion** of exports, down 5 per cent due to lower exports of petroleum products.
- Higher exports of processed food, iron and steel products, and manufactures of metal.

CLMV COUNTRIES (CAMBODIA, LAO PDR, MYNAMAR AND VIET NAM)

- **RM28.96billion** of exports, up RM7.52billion or 35.1 per cent
- 12.5 per cent of Malaysia's exports to ASEAN
- RM23.78billion of exports to Viet Nam, a 36.7 per cent surge due to higher exports of petroleum products, manufactures of metal, E&E products, chemicals and chemical products.
- Viet Nam was Malaysia's 10th largest export destination (2015: 14th place).

PHILIPPINES

- **RM13.64billion** of exports, up RM469.2million or 3.6 per cent, due to higher exports of palm oil and palm-based agriculture products, processed food and transport equipment.

TRADE WITH ASEAN

Over the past decade, ASEAN with a population of 630million has grown into an important market for business, trade and investments. As the ASEAN Economic Community (AEC) unfolds, the regional bloc is expected to develop even further. Given the excellent trade and industry prospects in the region, Malaysian exporters have been quick to expand their presence and business in neighbouring ASEAN countries.

More than 27.1 per cent share of Malaysia's global trade is with ASEAN, boosted by growing trading activities, increased inter-company linkages, cross-border investments and outsourcing activities within the region.

Concerted efforts to raise exports to ASEAN by 5.4 per cent year-over-year with significant growth to Singapore, CLMV countries (Cambodia, Lao PDR, Myanmar and Viet Nam) and the Philippines have contributed strongly to export growth for Malaysia. Greater manufacturing activities in ASEAN have also given rise to a growth of 6.9 per cent of E&E exports to this market.

ASEAN's share of Malaysia's total exports expanded to 29.4 per cent, the highest share since 1993, valued at RM230.93billion (2015: 28.2 per cent, RM219.29billion).

Manufactured goods accounted for 89.1 per cent (2015: 86.0 per cent) of total exports to ASEAN. Expansion in this sector was contributed by higher exports of E&E products, petroleum products, manufactures of metal, processed food, transport equipment, chemical products and others.

Imports from ASEAN totalled RM171.73billion or 24.6 per cent (2015: RM182.08billion, 26.6 per cent) of Malaysia's total imports. The main imports were E&E products, petroleum products, chemicals and chemical products, as well as machinery, equipment and parts. The People's Republic of China (PRC) has been the largest source of imports since 2011, followed by Singapore, Japan, the United States (US) and Thailand. These five countries accounted for 53.1 per cent (2015: 52.9 per cent) of total imports in 2016.

COMPANIES PARTICIPATING IN MYAPEC YOUTHCONNECT

APEC

APEC has grown to become a dynamic engine of economic growth with 21 member economies and approximately 2.8billion people. About two-thirds of all trade by member economies come from the top five APEC exporters and importers, namely PRC, the US, Japan, Republic of Korea and Hong Kong, PRC. The largest exporter of merchandise was PRC whereas the largest importer was the US.

Trade with the APEC economies accounted for 76.8 per cent of Malaysia's total trade (2015: 76.6 per cent share). This significant outcome is the result of Malaysia's dynamic investment promotional activities and active participation in APEC programmes and initiatives that facilitate business and investments.

In 2016, Leaders endorsed The APEC Services Competitiveness Roadmap, which provides strategic direction for economies to develop necessary individual and collective actions. The emphasis is on the services sector as the major contributor to productivity and growth in APEC.

SME modernisation and internationalisation featured prominently in the APEC 2016 agenda. The focus was on creating an environment and policies that enable SMEs to develop and increase their participation in eCommerce. Malaysia led a project on GVC-SMEs Automotive Sector (GSAS) under the APEC GVC Blueprint 2014 in order to promote active participation in global value chains (GVCs) by Micro, Small and Medium Enterprises (MSMEs). GSAS is a joint initiative between MITI and the Malaysian Automotive Institute (MAI). It kicked off with a survey on automotive SMEs to identify more targeted and practical sector-level analysis in the automotive industry including best practices and possible impediments faced by the SMEs in GVC.

GSAS will continue in 2017 with a Workshop to Discuss Best Practices on Practical Solutions/Programmes to Integrate SME Suppliers into Automotive Global Value Chains. The Workshop will establish the Regional Automotive Supplier Excellence Programme (RASEP), a dedicated technical assistance programme for automotive SME suppliers to move up the OEM value chain.

The Agenda on Structural Reforms continued with the Renewed APEC Agenda for Structural Reform Individual Action Plans (RAASR IAP) for 2016-2020, which outline each economy's priorities for action on relevant domestic structural reforms by 2020. APEC has allocated AUD2million for Member economies to undertake capacity-building under RAASR. Under this initiative, Malaysia has identified three areas, namely reforms in public consultation, internationalisation of SMEs and empowering women in a decision-making position. Malaysia will work closely with sectoral Ministries and agencies to bid for the RAASR capacity building fund and implement the RAASR IAP.

Malaysia has piloted a short-term youth employment project called MyAPEC YouthConnect to highlight the importance of people-to-people connectivity through mobility of talents and exchange of cultures as reflected in the APEC Connectivity Blueprint 2015-2025. As a joint effort between MITI and Talent Corp, MyAPEC YouthConnect nurtures Malaysia's talent to be more dynamic and competitive in the international arena.

Under MyAPEC YouthConnect that was launched on 18 October 2016, high performing Malaysian youths can have the opportunity to work in leading companies with business presence in the APEC region while youths from other APEC economies can gain international work experience in Malaysia. A total of 52 companies including multinationals are participating in MyAPEC YouthConnect.

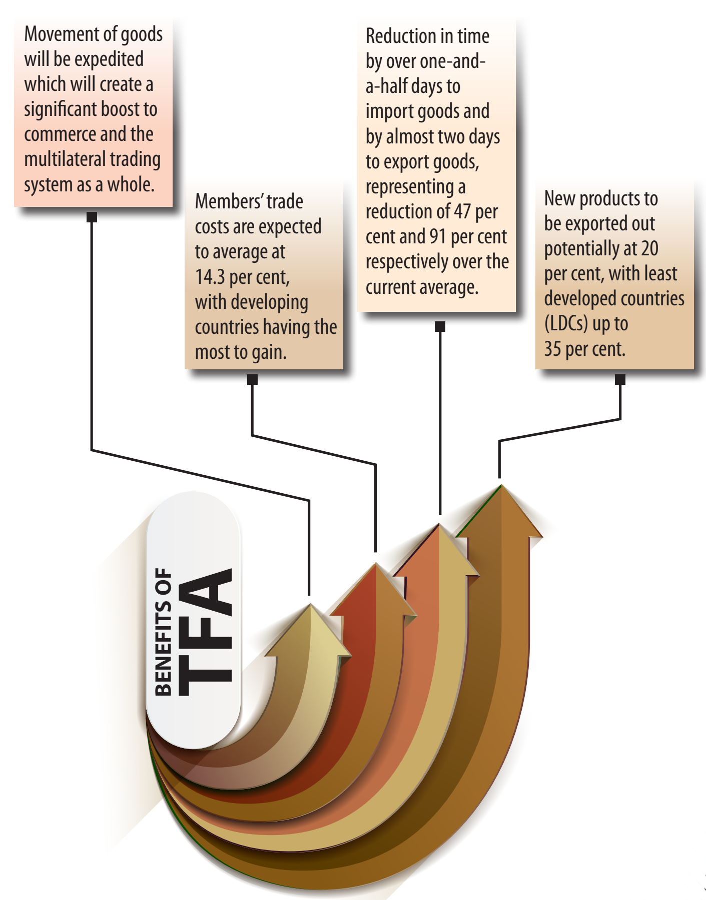
In addition, Malaysia has successfully secured two APEC-funded projects for Economic and Technical Cooperation (ECOTECH) with total value of US$260,000.00. Malaysia led the ECOTECH initiative in the area of SMEs Offline to Online (O2O) and integration of SMEs in the automotive sector GVC. Malaysia has also benefitted from APEC ECOTECH programmes through the participation of 185 APEC-funded Malaysian participants/speakers in various APEC funded workshops/seminars.

THE WORLD TRADE ORGANISATION (WTO)

The most recent advancement in WTO is the ratification of the Trade Facilitation Agreement (TFA) which entered into force on 22 February 2017.

Malaysia hosted the World Economic Forum on ASEAN 2016 (1-2 June), where it was announced that the ASEAN Regional Strategy Group (RSG) would be established. Dato' Sri Nazir Razak, Chairman of CIMB Group Holdings Malaysia, was appointed the inaugural Chair of the ASEAN RSG that comprises regional government, business and academic leaders.

BENEFITS OF THE TRADE FACILITATION AGREEMENT (TFA)



ASEAN RSG participated in the World Economic Forum Annual Meeting 2017 in Davos-Klosters, Switzerland, in January 2017 and the World Economic Forum on ASEAN to be held in Phnom Penh in May 2017. In preparation for the latter event, ASEAN RSG deliberated on the proposal to conduct a study to examine various regional integration models. The study sought to understand how the Fourth Industrial Revolution (4IR) might impact regional integration. It also generated ideas on how ASEAN could meet the challenges of the new dynamics, balance the strengths of the ASEAN Way against the speed for accelerating integration and empowering the ASEAN Secretariat.

BILATERAL ECONOMIC ENGAGEMENTS

While bilateral economic engagements with key economic partners such as PRC, Singapore, the US, Japan and Thailand continue to be in focus, MITI's trade and investment programmes are spreading out to new markets and regions in Africa, Latin America and West Asia.

Trade and investment missions in 2016 went to New Zealand (2-6 February), India and Sri Lanka (2-6 May), Peru, Mexico and Chile (13-22 May), Germany (26 September -1 October) and Iran (22-25 October).

The Malaysia Promotion Programme (MPP) to the United Kingdom (the UK) (22-25 September) saw the participation of the Employees' Provident Fund (EPF), Khazanah Nasional Berhad, Bank Negara Malaysia, Bursa Malaysia, YTL Corporation Berhad and the Malaysian community in London. MPP is an integrated public-private partnership programme aimed at promoting Malaysia in the areas of trade, investment and tourism. Among other key events, the forum on 'Business Opportunities in the Changing Economic Landscape' was jointly organised by MIDA and Malaysian High Commission in London, and attended by 250 representatives from the British business community.

Participating with MITI in the MPP in Sydney, Australia (4-6 December) were Ministry of Tourism and Culture (MOTAC), Ministry of Agriculture and Agro-Based Industry (MOA), Ministry of Higher Education (MOHE), Bank Negara Malaysia, Securities Commission, Bursa Malaysia and Halal Industry Development Corporation (HDC). MIDA and MATRADE organised a business forum on 'Leveraging Partnership, Connecting Opportunities' which attracted over 300 participants from various sectors.

TRADE WITH NORTH AMERICA CONTINUES TO EXPAND

The US continues to be Malaysia's top trading nation in North America with RM135.88billion worth of trade (9.2 per cent share of total trade) while trade with Canada totalled RM5.69billion (0.4 per cent share of total trade). In addition, the US maintained its position as Malaysia's third largest trading partner world-wide despite the challenging global environment in 2016.

Exports to the US rose 8.9 per cent to RM80.23billion (2015:14.4 per cent, RM73.67billion). Manufactured goods increased 10.0 per cent to reach 95.7 per cent of Malaysia's total exports to the US valued at RM76.75 billion (2015: increased 16.7 per cent to RM69.81billion, 94.8 per cent of Malaysia's total exports to the US).

Major exports were E&E products such as photosensitive semi-conductor devices, parts and accessories for office machines and apparatus for transmission/reception. Industries producing optical and scientific equipment, transport equipment, chemicals and chemical products, wood products, petroleum products, machinery, equipment and parts, and manufactures of metal also recorded a significant increase in exports.

Imports from the US reflected a marginal increase of 0.5 per cent at RM55.65billion (2015: increase of 5.7 per cent to RM55.34billion) with the main imports comprising E&E products, machinery, equipment and parts, chemicals and chemical products.

The US has been Malaysia's second largest investor since 1980 with 795 approved projects in the manufacturing sector valued at RM71.9billion that created 197,606 potential employment opportunities for the period from 1980 to 2016. In 2016 alone, a total of 18 projects in the manufacturing sector valued at RM2.1billion were approved, offering

2,139 potential jobs. Investments from the US across all sectors (agriculture, mining, manufacturing, construction and services) registered a total value of RM16.5billion in 2016 (2015: RM16.2 billion).

The US and Canada continue to be Malaysia's important trading partners although the US has formally withdrawn from the Trans Pacific Partnership Agreement (TPPA) in January 2017.

Notwithstanding that, Malaysia will closely monitor developments particularly the trade policies of the US and continue to engage the two North American countries to boost bilateral trade and economic relations with them, as well as further explore opportunities to promote 'Brand Malaysia' to both countries.

Exports to Canada, Malaysia's 28th largest trading partner in the world, have reached RM2.9billion (2015: RM3.0billion) with major exports being E&E products, rubber products, wood products, processed food, and chemicals and chemical products. Malaysia's imports from Canada were chemicals and chemical products, transport equipment, other vegetable oil, machinery, equipment and parts, and E&E products, valued at RM2.8billion (2015: RM2.7billion).

EUROPE CONTINUES TO BE A MAJOR TRADING PARTNER

Trade with Europe in 2016 went up 1.5 per cent to reach RM85.76billion (2015: RM84.48billion). Trade was conducted with a total of 50 countries including the UK and 27 other European Union (EU) Member States and the four European Free Trade Association (EFTA) Members States, i.e. Switzerland, Liechtenstein, Norway and Iceland.

The European Union (EU) absorbed 89 per cent of Malaysia's total trade with Europe. The largest trading partners were Germany, the Netherlands, the UK, France and Switzerland.

Total exports to Europe grew 1.5 per cent to RM85.8billion (2015: RM84.5billion), with Germany overtaking the Netherlands as Malaysia's largest export destination. Key exports were E&E products, palm oil and palm-based products, optical and scientific equipment, rubber products, chemicals and chemical products.

EU imports, however, declined by 0.5 per cent to RM67.22billion (2015: RM6958billion) with Germany retaining its position as Malaysia's largest source of imports. Top imports were E&E products, machinery, equipment and parts, transport equipment, chemicals and chemical products, as well as optical and scientific equipment.

For the EFTA region alone, exports increased to RM3.15billion (2015: RM2.30billion) while imports dropped to RM8.19billion (2015: RM10.28billion). Among the EFTA Member States, Switzerland tookthe largest share of Malaysian exports (88 per cent) in 2016 and also provided the largest amount of imports (87 per cent) to Malaysia.

European countries (mainly EU Member States) continued to be Malaysia's key sources of foreign direct investments (FDIs) particularly in the manufacturing sector. In 2016, Germany was the largest European investor in Malaysia (fourth globally after Japan, the US and Singapore), followed by the Netherlands and the UK.

The UK's impending withdrawal from the EU, commonly called Brexit, has raised concerns in the international business community. However, the impact of Brexit on Malaysia's trade and investment is expected to be minimal as the UK is only one of the gateways to the EU market for Malaysian exports. Brexit is unlikely to have any significant disruptive effect on Malaysia's external sector as Malaysia's trade with the UK stood at RM15.3billion in 2016 or 1 per cent of Malaysia's total trade (2015: RM16.4billion).

INCREASING TRADE WITH LATIN AMERICA

Latin America's growing openness is apparent through a series of economic reforms that underline the region's tremendous potential. Malaysia has already established good trade relations with countries such as Mexico, Brazil, Peru and Chile, particularly in the mining, healthcare, medical devices, palm oil, aerospace, aviation, automotive and agribusiness sectors, and intends to deepen engagement with this key region.

The Malaysia-Chile Free Trade Agreement (MCFTA), the first bilateral FTA between Malaysia and a Latin American country, entered into force on 25 Feb 2012.

Malaysia will leverage on the interest of major Latin American economies to tap the ASEAN and Asian markets. While promoting Malaysia as the gateway to ASEAN and Asia, MITI will intensify promotional efforts to gain better market access to Latin America beyond Mexico, Brazil, Peru and Chile.

Trade with Latin America increased 5.9 per cent to RM32.4 billion (2015: RM30.6 billion) with exports valued at RM15.4 billion (2015: RM14.0 billion). Latin America accounted for a higher share of Malaysia's total exports at 2.0 per cent in 2016 (2015: 1.8 per cent). The top five export destinations were Mexico, Brazil, Argentina, Chile and Peru.

There was also growth in exports to Mexico (25.4 per cent), Peru (42.2 per cent), Trinidad and Tobago (110.4 per cent), Paraguay (71.4 per cent) and Costa Rica (60.7 per cent). The main drivers for the increase in exports in 2016 were the industries producing E&E products, rubber products, machinery, equipment and parts, chemicals and chemical products as well as processed food.

Exports that showed significant increase were jewellery (300.3 per cent), petroleum products (278.7 per cent), iron and steel products (212.4 per cent), sawn timber and moulding (37.2 per cent), and chemicals and chemical products (24.7 per cent).

In the automotive sector, Malaysia's automaker Proton returned to the region after a 16-year absence, shipping the first batch of 50 units of left-hand-drive Proton Prevé to Chile in 2016.

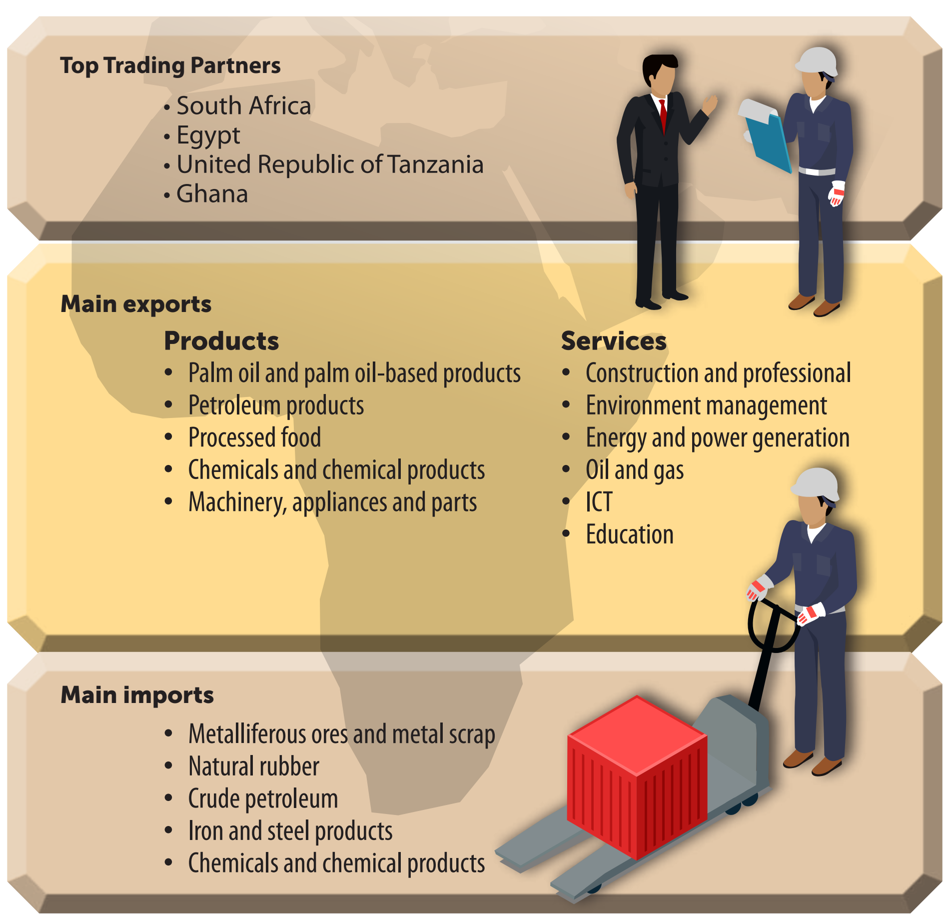
Imports from Latin America rose 2.1 per cent to RM17.0billion (2015: RM16.7billion). The main imports were other agricultures, metalliferous ores and metal scrap, processed food, other manufactures and E&E products.

BOOSTING TRADE WITH AFRICA

With 54 countries, more than one billion people, rich natural resources, improved infrastructure and strengthening economies, the African continent

TRADE WITH AFRICA 2016

2016: RM26.0billion (2015: RM30.1billion)
Growth rate of 10.6 per cent average per annum since 2006



presents vast market opportunities. MITI is keen to foster new strategic trade alliances in the region and to continue exploring opportunities for cooperation in various strategic sectors including SME development, services and the halal industry.

To boost business, MITI and its agencies organised six trade promotion programmes in 2016 including the inaugural Africa Business Day (31 October-1 November 2016) featuring business seminars, workshops, one-to-one business meetings, business showcase, industry visits and networking. Africa Business Day generated much interest among current and potential trade partners, attracting more than 570 participants from 428 organisations including delegations from Gambia, Ghana, Kenya, Lesotho, Senegal, Somalia, South Africa, Sudan, Tunisia and Uganda to explore trading opportunities at this significant event.

WEST ASIA IS AN EMERGING TRADE AND INVESTMENT PARTNER

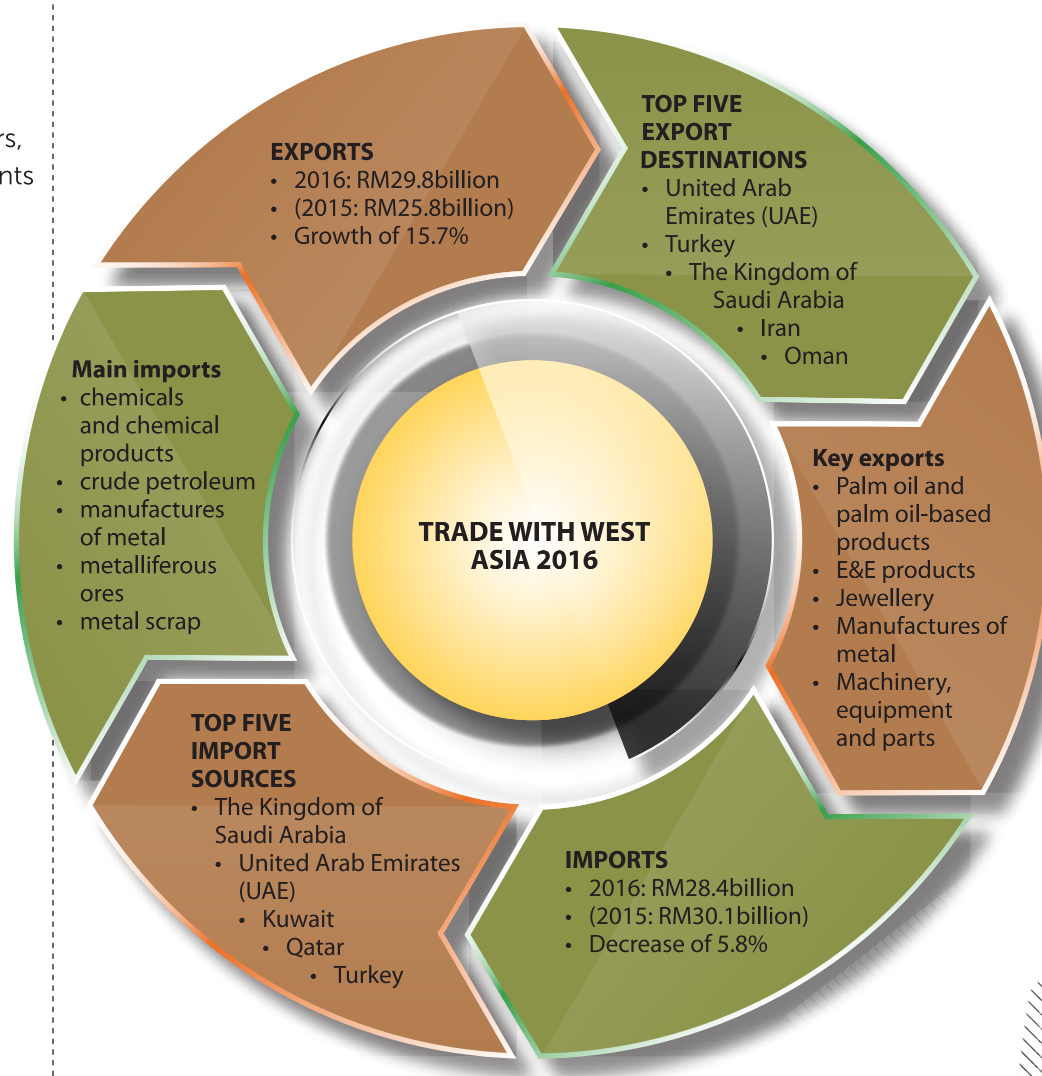
Trade with West Asia expanded 4.1 per cent as economies in the region became increasingly diversified and economic activities began to pick up. In 2016, The Kingdom of Saudi Arabia, Turkey, Iran, Bahrain, Lebanon and Iraq registered growth in trade with Malaysia.

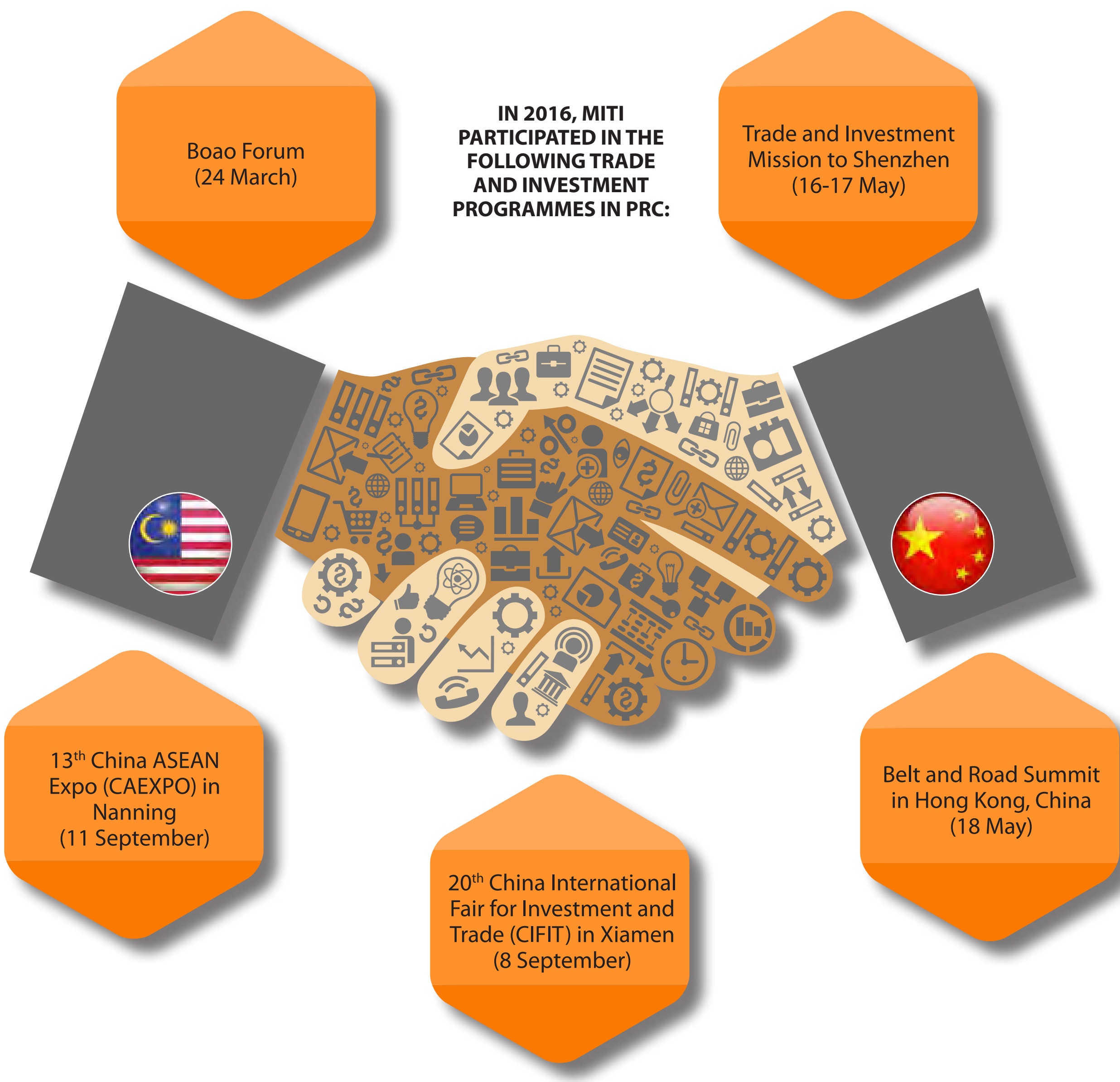
Exports of petroleum products to West Asia increased by 2,578.6 per cent to rake in RM445.9million (2015: RM16.6million). Exports to Turkey jumped 89.0 per cent, the highest export growth rate for the region, following the implementation of the Malaysia-Turkey FTA.

A noteworthy achievement is the growing trade with Iran, which saw a surge of 34.1 per cent to reach RM2.81billion in 2016 (2015: RM2.09billion), spurred by the lifting of international sanctions imposed on the Republic following the Implementation Day of the Joint Comprehensive Plan of Action (JCPoA) on 16 Jan 2016. During the years of international sanctions on Iran,

Another positive development is the Memorandum of Understanding (MoU) between PETRONAS and the National Iranian Oil Company (NIOC), which was signed on 21 Dec 2016 in Tehran, to collaborate on a six-month field study in South Azadegan and Cheshmeh Khosh.

TRADE WITH WEST ASIA 2016





STRENGTHENING COOPERATION, BUILDING OPPORTUNITIES WITH PRC

The People's Republic of China (PRC) is the world's second largest economy with a population of about 1.37billion at the end of 2015, which is expected to reach about 1.42billion by 2020.

Malaysia and PRC are currently collaborating on two significant investment projects, the Malaysia-China Kuantan Industrial Park (MCKIP) and the China-Malaysia Qinzhou Industrial Park (CMQIP).

During the Official Visit by the Prime Minister of Malaysia, Dato' Sri Mohd. Najib bin Tun Abdul Razak to the People's Republic of China (PRC) (31 October-6 November), a total of 14 G-2-G agreements/MoUs and 20 B-2-B business proposals with total estimated value of RM143.64billion (USD35.91billion) were signed.

The Prime Minister noted that Genting Secret Garden Resort had made a huge investment of RMB20billion (RM13billion) in their project on the outskirts of Zhangjiakou City in Hebei Province, which will be an important venue for Beijing Winter Olympics 2022.

MITI and the PRC's Ministry of Commerce (MOFCOM) signed a Joint Progress Report and mutually agreed to continue the Five Year Programme for another five-year term from 2018 to 2022. The Malaysia-China Business Forum (1 November) was attended by more than 450 corporate leaders from both PRC and Malaysia.

THE 3RD JOINT COOPERATION COUNCIL MEETING ON MCKIP AND CMQIP (28 MARCH)

The 3rd Joint Cooperation Commission (JCC) Meeting on Malaysia-China Kuantan Industrial Park (MCKIP) and China-Malaysia Qinzhou Industrial Park (CMQIP) was held in Qinzhou, Guangxi Zhuang Autonomous Region, PRC. The meeting was co-chaired by MITI Deputy Minister (Trade), Dato' Lee Chee Leong and the Chief Minister of Pahang, Dato' Sri Haji Adnan Haji Yaakob. The Chinese delegation was led by Chinese Co-Chairs H.E. Gao Yan, Vice Minister of Commerce of the People's Republic of China and H.E. Zhang Xiaoqin, Vice Governor of Guangxi Zhuang Autonomous Region.

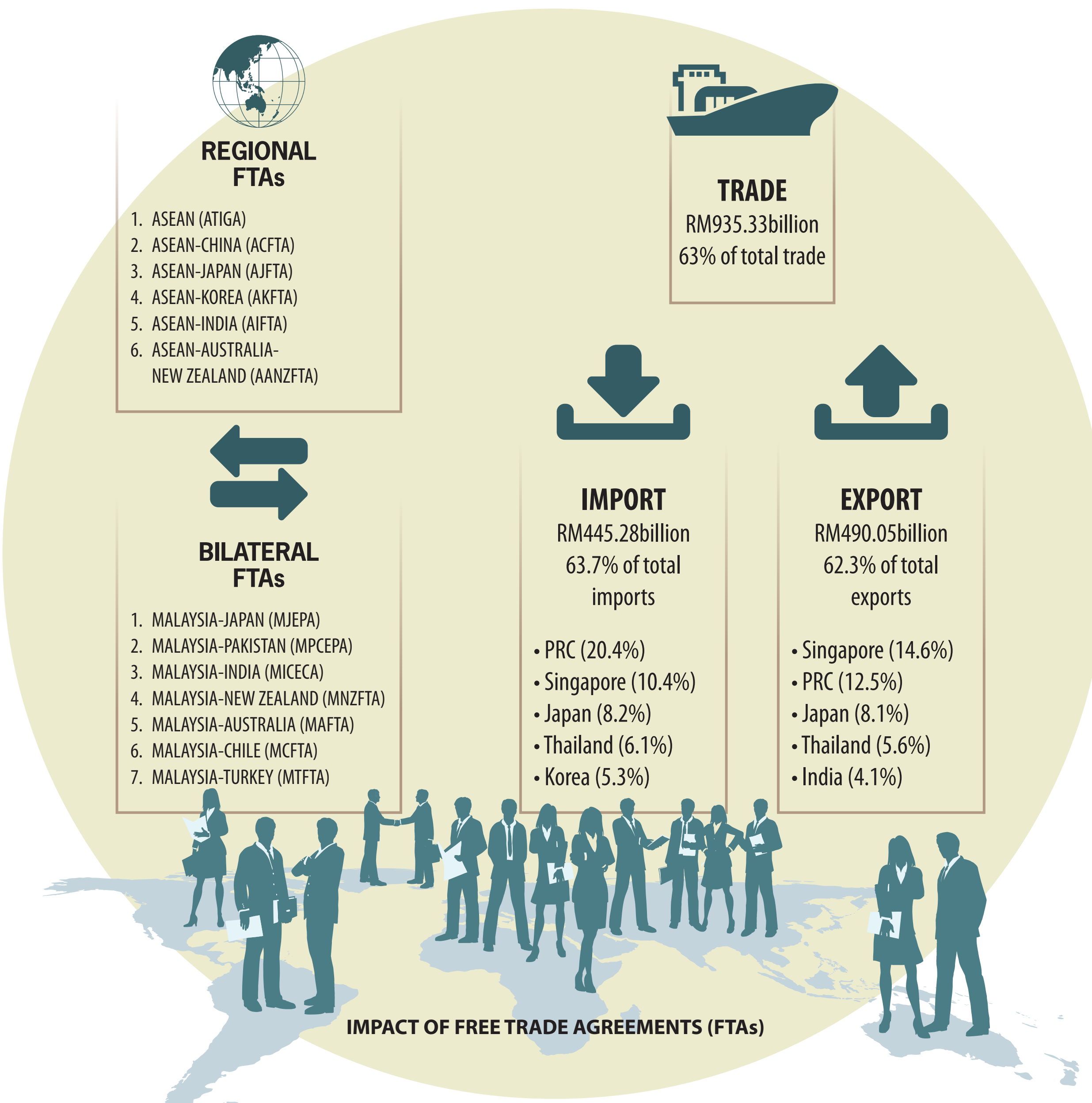
Respective authorities for the industrial parks reported on the progress and developments taking place. The JCC Meeting endorsed the work reports of the industrial parks and spoke highly of the measures taken by the central and local governments of the two countries to support construction of the parks.

The Malaysian Government has spent RM1.5 billion to support the development of MCKIP and the Pahang State Government has announced the addition of 1,000 acres to the existing 1,400-acre site. The master plan for the development of MCKIP has been finalised. The first investment at MCKIP is by Alliance Steel Sdn Bhd for a comprehensive iron and steel project which has commenced construction and is progressing smoothly.

Two new investments have been committed in MCKIP, namely the light industrial park investment by Zhongli Group and the manufacturing and engineering centre invested by ZKenergy. The total investment value of the projects and the port is estimated at USD3.38billion.

CMQIP has a total planned area of 55 km2 including a 7.87 km2 start-up zone. Nearly 40 high/new technology projects with a total estimated investment of RMB40billion have been settled in the park. With the RMB2.4billion fiscal support from PRC Central Government for the period from 2013 to 2015, the infrastructure projects of "Seven Connects, One Soil Levelling and One Green" have been completed.

Ten urban supporting facility projects have also been finalised, costing a total of RMB 4.5 billion. The development goal of the Phase I (15km2), which was originally planned to be completed in 2020, is now expected to be accomplished earlier in 2018.



During the period from 2014 to 2016, a total of 1,262,914 Preferential Certificates of Origin (PCOs) under regional FTAs and 300,701 PCOs under bilateral FTAs were issued. Regional FTAs were more utilised as Malaysian exporters are rapidly expanding their presence and market share in the ASEAN region.

Exports to six ASEAN countries, i.e. Viet Nam, Singapore, Myanmar, the Philippines, Cambodia and Lao PDR as well as Turkey, Pakistan and India showed an increase in 2016. The main exports were E&E products, petroleum products, chemicals and chemical products, LNG and manufactures of metal.

YEAR	NO. OF PCOs ISSUED	FOB VALUE (RM billion)
2014	510,653	238
2015	513,668	178
2016	539,260	148
TOTAL	**1,563,581**	**564**

Number of PCOs issued and Total FOB Value (RM), 2014-2016

The most significant bilateral FTA was the Malaysia-Turkey FTA (MTFTA), where 13,975 PCOs with FOB value of RM7.5billion have been issued from the implementation of the FTA in August 2015 until the end of 2016.

Effective 1 January 2016, the Malaysia-New Zealand FTA (MNZFTA) signed in October 2009 has eliminated tariffs on 100 per cent of Malaysia's exports to New Zealand and 99.5 per cent of New Zealand's exports to Malaysia, four years earlier than the ASEAN-Australia-New Zealand FTA (AANZFTA).

Regarding the Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA), it was agreed in September 2016 to further liberalise selected top products between the two countries. Both Parties have also revisited the earlier commitments on Rules of Origin (ROO) and Preferential Certificate of Origin (PCO) to ensure better inclusiveness and facilitation of business activities.

The Regional Comprehensive Economic Partnership (RCEP), which is driven by ASEAN and builds on the existing ASEAN+1 FTAs namely with PRC, Japan, Republic of Korea, India, Australia and New Zealand, is still under negotiation. The 16 RCEP countries have a combined GDP of US$22.8trillion or 30.7 per cent of the world's GDP and account for 28.9 per cent of global trade valued at US$9.6trillion.

The current scope of the RCEP negotiations covers three core areas, namely trade in goods, trade in services and investment. Fourteen negotiating groups have been established to negotiate the various chapters which include Rules of Origin (ROO), customs, sanitary and phytosanitary, standards, financial and telecommunication services, Economic and Technical Cooperation (ECOTECH) and Small and Medium Enterprises (SMEs), intellectual property, competition, eCommerce as well as legal and institutional issues. A major outcome in 2016 was the conclusion of the chapters on ECOTECH and SMEs.

Negotiations on the ASEAN-Hong Kong, PRC FTA (AHKFTA) are expected to be concluded by the end of 2017. AHKFTA covers among others, trade in goods and related issues, trade in services, investments and ECOTECH, When AHKFTA comes into force, ASEAN will be able to enjoy a more integrated and strengthened trade relationship with Hong Kong, PRC. ASEAN will also have the opportunity to benefit from the Special Administrative Region's expertise and best practices in the services sector. (The ASEAN-HKC Investment Agreement is negotiated as a stand-alone agreement in parallel with AHKFTA.)

Malaysia looks forward to the possible resumption of negotiations on the Malaysia-European Union Free Trade Agreement (MEUFTA), which had begun in 2010 and come to a pause in 2012. When concluded, MEUFTA will be a comprehensive, high quality agreement that will be beneficial to businesses and traders from both Malaysia and the EU.

ATIGA

The ASEAN Trade in Goods Agreement (ATIGA) continued to be the most utilised scheme under regional FTAs with 667,273 PCOs issued. Malaysian manufacturers, exporters and SMEs benefit from the implementation of the ASEAN Self-Certification Scheme under ATIGA. The Self-Certification Scheme enables the Certified Exporter (CE) to make out an invoice declaration for the export of goods and that would be sufficient to obtain preferential tariff concession under ATIGA. The implementation of the Self-Certification Scheme is aimed at facilitating intra-ASEAN trade, reducing cost and time of doing business as well as maximising government resources.

Currently, there are two pilot projects for the Self-Certification Scheme that have been approved by the ASEAN Economic Ministers and ASEAN Free Trade Area Council. Malaysia, Brunei Darussalam, Singapore, Thailand, Cambodia and Myanmar are participating in the First Self-Certification Pilot Project (1st SCPP). Indonesia, Lao PDR and the Philippines are participating in the Second Self-Certification Pilot Project (2nd SCPP). Since the commencement of the 1st SCPP, MITI as the Issuing Authority for Malaysia has appointed 179 Certified Exporters.

ASEAN is in the midst of discussing the implementation of the ASEAN-Wide Self-Certification Scheme where the key areas of differences between the two Pilot Project Groups would be harmonised and all the AMS would be using the same self-certification system. The ASEAN-wide Self-Certification System is one of the trade facilitative initiatives to achieve the ASEAN Single Market and Production Base.

EXPORT PROMOTION ACTIVITIES IN 2016

RM1billion in potential sales benefiting 49 Malaysian companies in the construction and related services, and aerospace industries

- Participation in Malaysia International Halal Showcase (MIHAS), Canton Fair, Gulfood, Offshore Technology Conference (OTC) Houston, Arab Health, Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC), and other international trade fairs — **RM2.74billion** in potential sales
- Participation in Export Acceleration Mission (EAM) to Myanmar — **RM1billion** in potential sales
- Participation in Export Acceleration Mission (EAM) to Farnborough, the UK
- Participation in 29 International Sourcing Programmes (INSPs)
- Market Immersions in Myanmar and Indonesia — **RM9.13million** worth of sales

RM10.08billion in potential sales benefiting 2,081 Malaysian exporters from E&E, oil and gas, ICT, lifestyle, healthcare and other industries

TRADE PROMOTION

MITI and MATRADE organised 25 export promotion activities in 2016 that generated a total of RM24.92billion in potential sales.

To enable Malaysian companies to capture a bigger slice of the global market, MITI and MATRADE are focusing promotional efforts on sustaining exports in high potential markets, diversifying into greenfield markets and sectors as well as growing exports of services and high-value products. The focus is also on continuous upscaling and up-skilling of Malaysian exporters through strategic alliances with various industries and stakeholders.

MITI and MATRADE will ratchet up efforts from 2017 onwards to promote Malaysian service providers in the global supply chain through strategic collaboration with large corporations.

The halal global market offers huge potential for Malaysian manufacturers and exporters. Malaysia International Halal Showcase (MIHAS) is a signature halal industry event launched in 2004 to promote halal food and beverages (F&B). It has evolved to include non-food segments such as halal pharmaceuticals and halal beauty products as well as *syariah*-compliant financial, logistics, eCommerce and tourism services.

SECURE TRADE ENVIRONMENT

Through the Strategic Trade Secretariat (STS), MITI promotes trade of strategic and dual use items in a secure trade environment and cooperates with the international community to ensure that Malaysia fulfills her international commitments to global security.

MITI works closely with partner donor countries including the US, the EU, Japan and Australia to share Malaysia's best practices and wealth of experience with countries currently setting up their respective export control laws. In 2016, Malaysia hosted working visits by export control officers from Viet Nam and Cambodia to study Malaysia's export control system.

In recognition of Malaysia's contributions and expertise in implementing an effective and efficient export control system, especially in the context of the ASEAN region as a transit and transshipment hub, MITI officials were invited to be speakers at workshops organised by the EU in Brunei and the Philippines in 2016.

RANKING

WORLD COMPETITIVENESS YEARBOOK (WCY) 2016

In the WCY 2016 released by the Institute for Management Development (IMD) in Lausanne, Switzerland, Malaysia declined to the 19th position from the 14th out of 61 economies in the previous year.

2016	ECONOMIC PERFORMANCE	2015
11th		6th
25th	Current Account Balance (per cent of GDP)	15th
37th	Export of Goods - Growth (per cent change based onUS$ value)	21st
31st	Terms of Trade Index (Unit value of exports over unit value of imports)	16th
39th	Exchange rates support the competitiveness of enterprises	17th
50th	Export of commercial services - growth (per cent change based on US$ values)	55th
25th	Employment - Growth (Estimates: per cent change)	11th
47th	Portfolio Investment Liabilities (US$ billion)	24th

2016	GOVERNMENT EFFICIENCY	2015
18th		16th
43rd	Total General Government Debt - Real Growth (per cent change, based on national currency in constant prices)	31st
18th	Bureaucracy does not hinder business activity.	7th
41st	The risk of political instability is very low.	30th
50th	Interest Payment (per cent of current revenue)	47th
52th	Females in Parliament (per cent of total seats in parliament)	51st

2016	BUSINESS LEGISLATION	2015
20th		24th
32nd	Societal Framework	35th
21st	Productivity and Efficiency	24th
18th	Government Efficiency	16th
14th	Malaysia's Business Efficiency	10th
6th	Labour Market	4th
9th	Management Practices	6th

2016	BUSINESS EFFICIENCY	2015
14th		10th
21st	Initial Public Offerings (average 2013-2015) in US$ million	6th
39th	M&A Activity (number of deals per listed company, average 2013-2015)	22nd
20th	The value system in your society supports competitiveness	9th
50th	Stock Market Index (per cent change on index in national currency)	40th
51st	Part-Time Employment (per cent of total employment)	49th
51st	Female Labour Force (per cent of total labour force)	51st

RANKING: GLOBAL COMPETITIVENESS REPORT 2016-2017

	2016-2017	2015-2016
INSTITUTIONS	26th	23rd
• Judicial independence	45th	33rd
• Business cost of terrorism	78th	72nd
• Business cost of crime and violence	60th	49th
• Organised crime	59th	54th
MACROECONOMIC ENVIRONMENT	35th	35th
• Government budget balance	69th	85th
• Government debt	84th	92nd
HEALTH AND PRIMARY EDUCATION	44th	24th
• HIV prevalence	85th	74th
• Tuberculosis incidence	93rd	90th
• Life expectancy	67th	58th
• Primary education enrolment rate	77th	41st
HIGHER EDUCATION AND TRAINING	41st	36th
• Secondary education enrolment rate	95th	100th
• Tertiary education enrolment rate	85th	69th
GOODS MARKET EFFICIENCY	12th	6th
• Total tax rate % profits	79th	76th
• Trade tariff % duty	63rd	63rd
• Business impact of rules on FDI	41st	18th
LABOUR MARKET EFFICIENCY	24th	19th
• Redundancy costs	120th	107th
• Female participation in the labour force	104th	118th
FINANCIAL MARKET DEVELOPMENT	13th	9th
• Ease of access to loans	25th	2nd
• Regulation of securities exchanges	30th	20th
TECHNOLOGICAL READINESS	43rd	47th
• Fixed-broadband Internet subscriptions	73rd	68th
• Internet bandwidth	75th	77th
• Firm-level Technology Absorption	19th	23rd
• Mobile-broadband subscription	21st	48th
BUSINESS SOPHISTICATION	20th	13th
• Control of international distribution	15th	7th
MARKET SIZE	24th	26th
• Foreign market size index	17th	18th
INFRASTRUCTURE	24th	24th
• Quality of air transport infrastructure	20th	21st

The World Economic Forum (WEF), which publishes the Global Competitiveness Report (GCR) 2016-2017, has ranked Malaysia 25th out of 138 economies with a score of 5.16 (GCR 2015-2016: 5.23) compared with 18th out of 140 countries in 2015-2016.

WORLD BANK RANKS MALAYSIA 23RD FOR EASE OF DOING BUSINESS

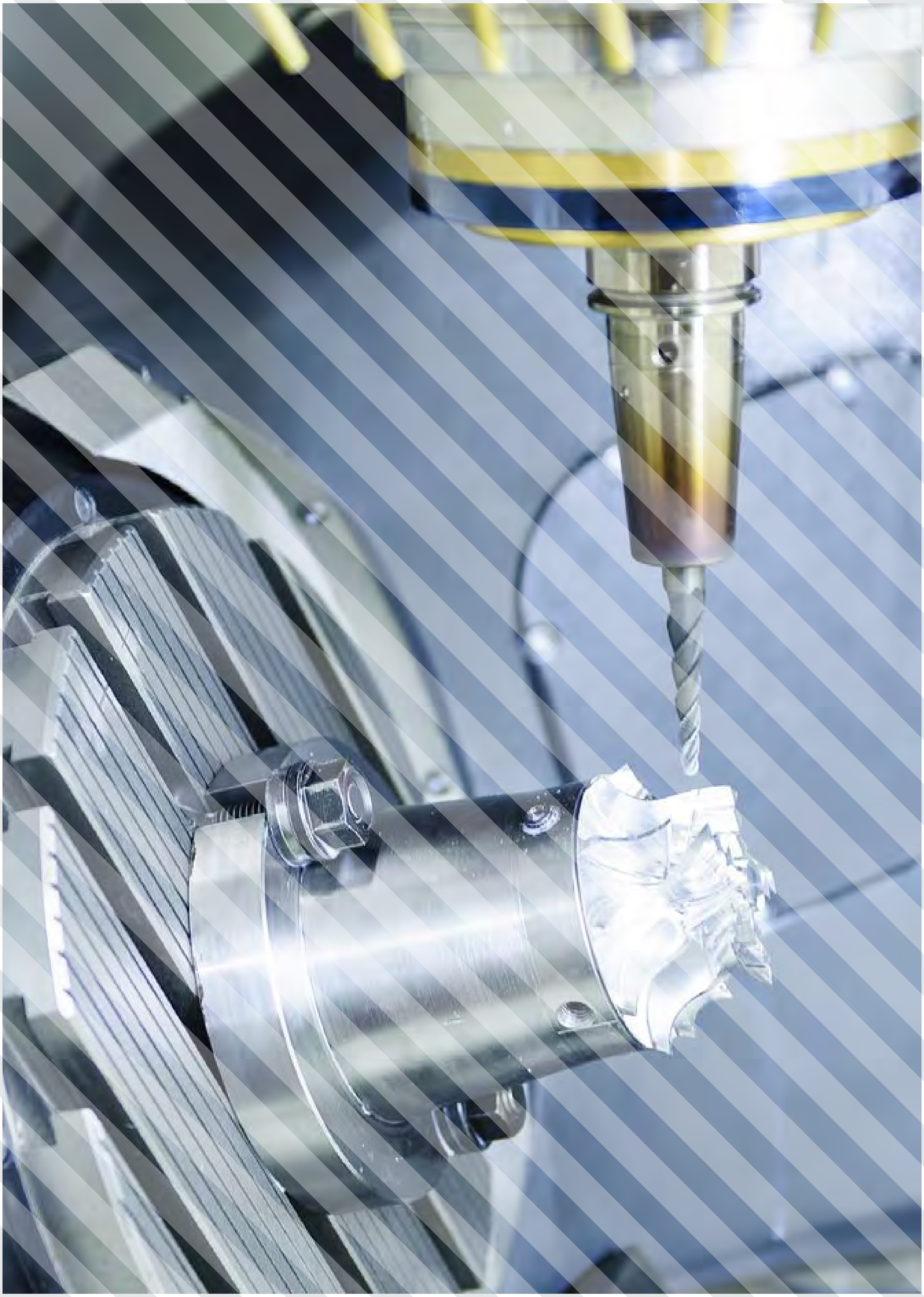
The World Bank's Doing Business Report (DB) measures regulations that enable or prevent private sector businesses from starting, operating and expanding using 11 indicator sets: Starting a Business, Dealing with Construction Permits, Getting Electricity, Registering Property, Getting Credit, Protecting Minority Investors, Paying Taxes, Trading across Borders, Enforcing Contracts, Resolving Insolvency and Labour Market Regulation.

DB 2017 ranks Malaysia at the 23rd position with an overall distance to frontier (DTF) score of 78.11 among the 190 economies surveyed, down from the 22nd position on a score of 78.18 last year. Malaysia was initially ranked 18th in DB 2016, but the ranking for that year was revised to 22nd taking into account certain changes in methodology.

Within ASEAN, Malaysia was ranked second after Singapore and ahead of economies such as Thailand (46th), Indonesia (91st), Japan (34th), PRC (78th), France (29th), Switzerland (31st) and India (130th).

For DB 2017, the World Bank added a gender component for the first time to three indicators: Starting a Business, Registering Property and Enforcing Contracts. Three gender-related measures were added to the Starting a Business (SAB) indicator set, namely whether a woman required permission to leave the house, whether there were gender-specific identification procedures and whether a married woman required her husband's permission to start a business.

Revisions made to the methodology since DB 2015 included the introduction of DTF scores and changes in the scope of the study for three indicators, namely Getting Credit, Protecting Minority Investors and Resolving Insolvency. DB 2016 made further changes to the methodology to take into account five other Doing Business indicator sets, namely Registering Property, Dealing with Construction Permits, Getting Electricity, Enforcing Contracts and Trading across Borders.



Under the Eleventh Malaysia Plan (11MP) the manufacturing sector is to focus on producing more high-value, diverse and complex products. Domestic and foreign investments in high value-added and high technology sectors directly support the capital economy.

INVESTMENTS

The Eleventh Malaysia Plan (11MP, 2016-2020) sets a target of RM291billion per annum (current prices) average private investment for Malaysia to reach its economic transformation goals by 2020. As outlined in the 11MP, the Malaysian National Development Strategy aims to rapidly deliver high impact on both the capital economy and the people economy at a lower cost to the Government.

In response, MITI and MIDA have been strategically making targeted endeavours to attract investments in high value-added and high technology sectors such as transportation, logistics, trade facilitation, ICT infrastructure, energy and utilities which would directly support the capital economy. MIDA's efforts are also directed at investments in knowledge-intensive activities that would create higher-skilled employment opportunities and improve productivity as well as investments in sustainable technologies to help to achieve the Government's green growth objectives.

These assiduous efforts to attract quality, capital-intensive investments continue to bear fruit as in 2016, the capital intensity of all projects approved, as measured by the capital investment per employee (CIPE) ratio, stood at RM912,239.

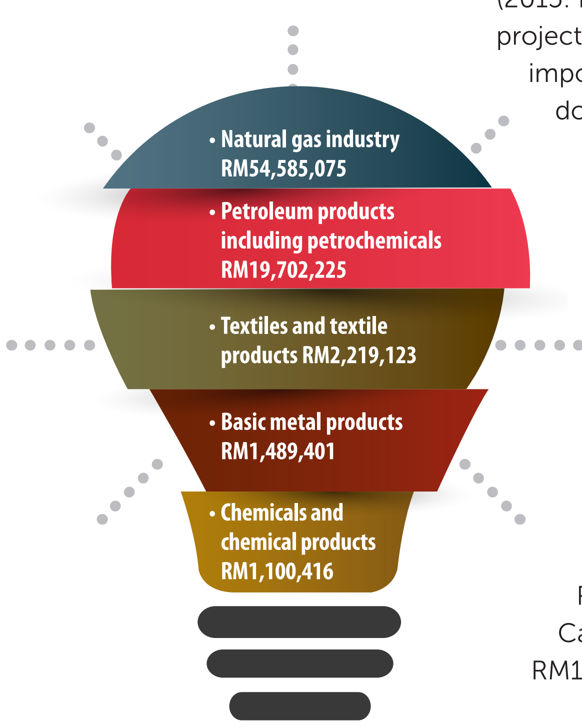
In 2016, despite the global slowdown, Malaysia succeeded in securing both foreign direct investments (FDIs) and domestic direct investments (DDIs) worth a combined total of RM207.9billion, reflecting a growth of 11.3 per cent (2015: RM186.7billion). These investments were mainly in high quality projects and they underscore the sturdiness of Malaysia's economy. Equally important, they point to the confidence that both the foreign and domestic investors have in Malaysia as a viable investment destination.

DDIs constituted the larger portion at 71.6 per cent of the total private investments approved, particularly in the services, agriculture and construction sectors attributable to capacity expansion in these sectors (2015: 80.7 per cent).

The inflow of FDIs provided the balance of 28.4 per cent (2015: 19.3 per cent) of total private investments, bringing with it employment creation, the prospect of technology transfer and business growth opportunities for small and medium enterprises (SMEs) as support services providers or vendors.

Realised private investments as measured in terms of Gross Fixed Capital Formation (GFCF) rose 6.4 per cent to RM211.5billion (2015: RM198.8billion).

CAPITAL INVESTMENT PER EMPLOYEE (CIPE) RATIO



All projects RM912,239

INVESTMENTS IN THE SERVICES SECTOR

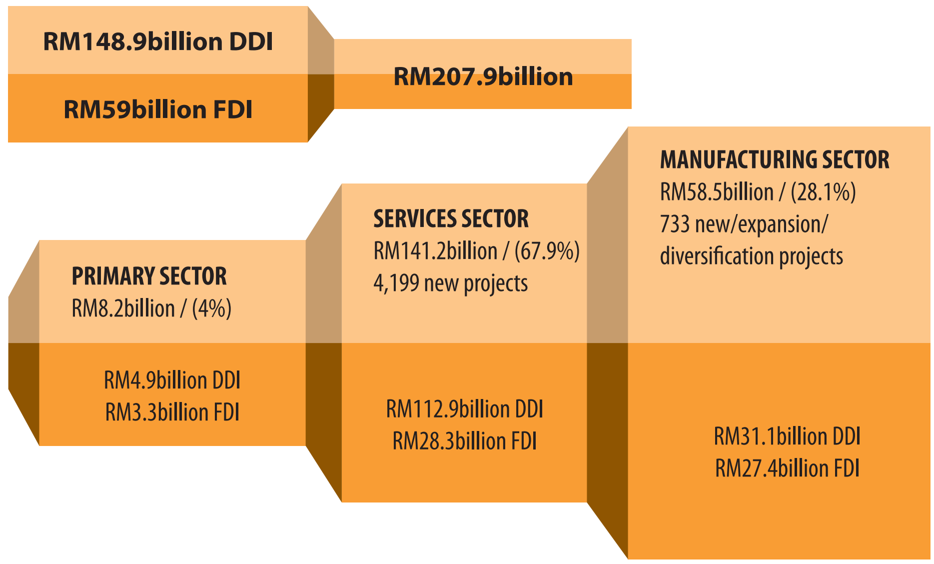
The services sector is one of the main pillars of the national economy and its contribution has increased steadily over the years in terms of investments and employment opportunities. It will continue to assume a primary role in propelling Malaysia's economy from middle income to high income based on innovation and creativity.

The development of the services sector is guided by the Services Sector Blueprint (launched in 2015), which aims to transform the sector to be more knowledge-intensive and innovation-led. The services sector is projected to grow at 6.8 per cent per annum, provide 9.3million jobs and contribute 56.5 per cent to the GDP in 2020.

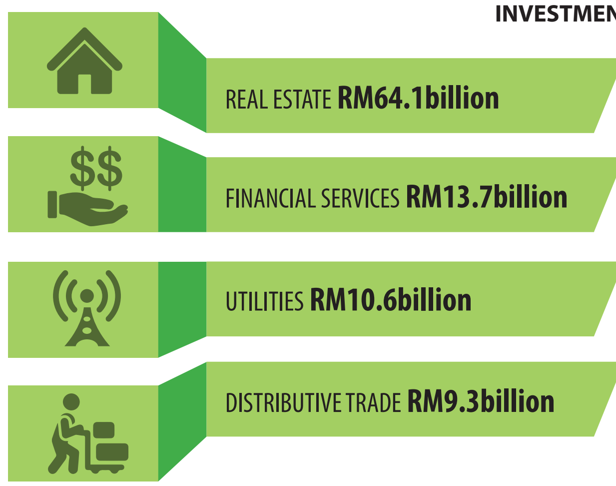
Malaysia is well-positioned to become the regional or global operations base for multinational companies (MNCs). Recognising that Malaysia has this competitive advantage, more MNCs have adopted Malaysia's Principal Hub (PH) model which facilitates faster decision-making and supports evolving supply chain trends. In 2016, MIDA approved 13 new PH projects with investments of RM13.8billion which will create 1,980 high value jobs.

The services sector continued to expand in 2016, taking the lion's share at 67.9 per cent of total approved investments for 4,199 new projects (2015: 57.9 per cent, 4,150 projects), which are expected to create 88,110 employment opportunities.

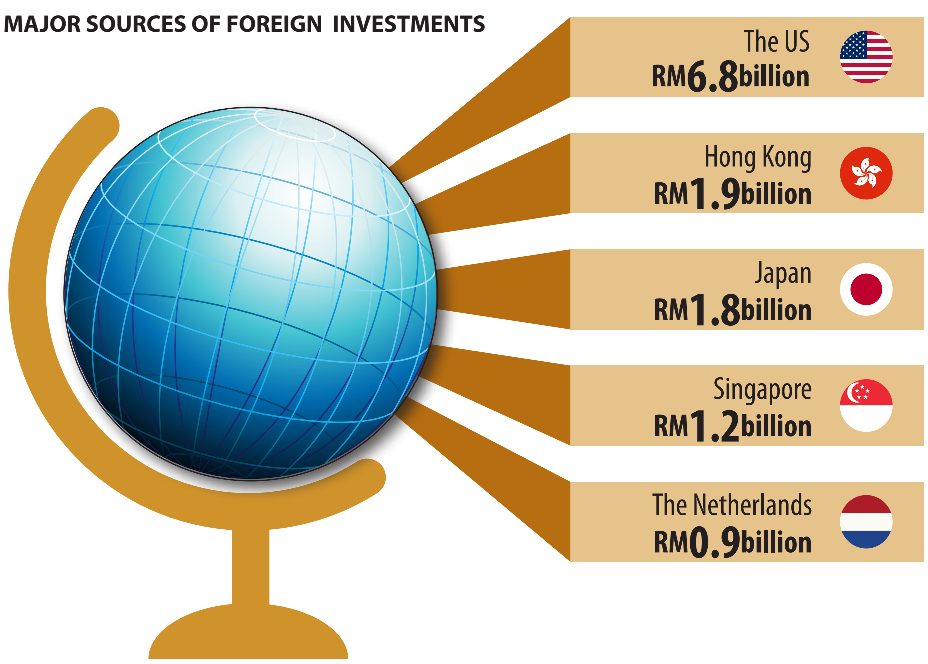
TOTAL INVESTMENTS 2016



INVESTMENTS IN SERVICES SECTOR 2016



MAJOR SOURCES OF FOREIGN INVESTMENTS



INVESTMENTS IN THE MANUFACTURING SECTOR

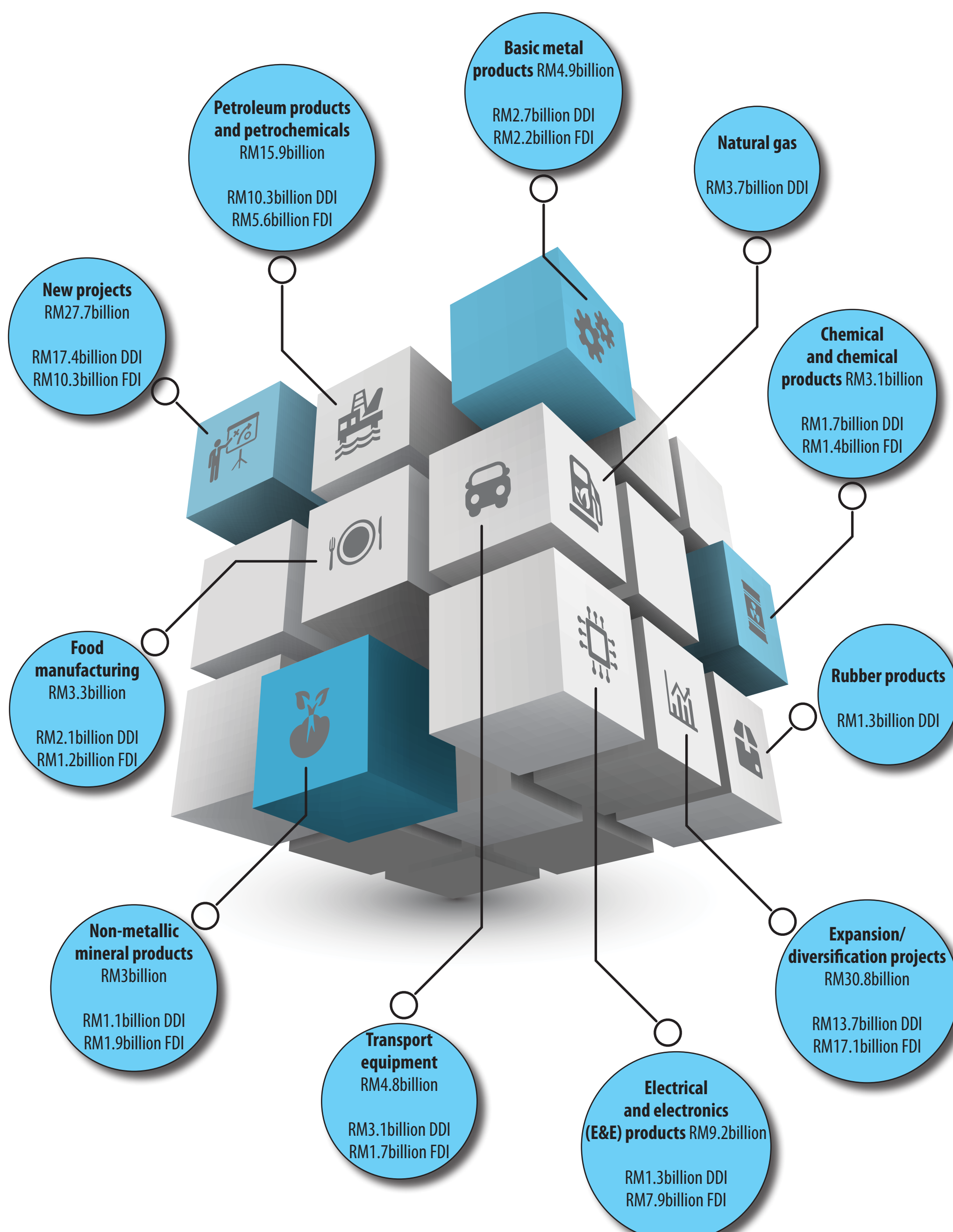
Approved investments for the manufacturing sector totalled RM58.5billion for 340 new projects and 393 expansion/diversification projects (2015: RM74.7billion investment, 680 projects total). Domestic investments accounted for 53.2 per cent of the total approved investments, with the balance coming from foreign investments.

Contributions from domestic investors are important to ensure Malaysia's continued competitiveness and for accelerating the shift to high value-added, high technology, knowledge-intensive and innovation-based industries.

Investments for new projects amounted to RM27.7billion (47.4 per cent of total manufacturing investments approved), with domestic investors contributing RM17.4billion (62.8 per cent) and foreign investors, the balance.

Existing companies demonstrated their sustained commitment to growth with RM30.8billion worth of investments (52.6 per cent) of the total approved manufacturing investments for the 393 expansion/diversification projects. The amount from foreign investment was RM17.1billion (55.5 per cent) while RM13.7billion (44.5 per cent) was from domestic investors.

MAJOR MANUFACTURING INVESTMENTS 2016



Eight industries comprising petroleum products and petrochemicals, electrical and electronics (E&E), basic metal products, transport equipment, natural gas, food manufacturing, chemical and chemical products, and non-metallic mineral products captured a combined investment total of RM47.9billion, representing 81.9 per cent of total investments approved. The petroleum products and petrochemicals sub-sector took the largest share at RM15.9billion. Rubber products, a major export, secured RM1.3billion of DDI for an expansion project.

Among the foreign investments in expansion/ diversification projects, the largest amount of RM7.9billion was earmarked for the electrical and electronics (E&E) sub-sector attributed to an expansion project valued at RM2billion to produce household appliances, LED lighting and commercial hand dryers.

The People's Republic of China (PRC) was the manufacturing sector's biggest investor contributing RM4.8billion, followed by the Netherlands with investments of RM3.2billion, Germany (RM2.6billion), the United Kingdom (UK) (RM2.6billion), Republic of Korea (RM2.2billion) and Singapore (RM2.1billion). These six countries jointly accounted for 63.9 per cent of total approved foreign investments in 2016.

Significant projects from the PRC include those in the steel, non-metallic mineral and solar industries. The investments from the Netherlands, Germany, the UK and the Republic of Korea include high value chemical and petrochemical projects as well as projects to manufacture advanced electronic products.

A total of 513 projects or 70 per cent of the projects approved are located in the three States of Selangor (242 projects), Johor (165 projects) and Penang (105 projects). These States continue to be the top three preferred locations for investment projects.

In terms of approved investments, Johor received the largest amount at RM26.4billion followed by Selangor (RM7.9billion), Sarawak (RM4.6billion), Penang (RM4.3billion) and Perak (RM4billion).

EMPLOYMENT OPPORTUNITIES IN APPROVED MANUFACTURING PROJECTS 2016

13,480 (21%)
jobs for managerial, technical and supervisory

10,844 (16.9%)
jobs for skilled workers

11,565 (18%)
jobs in Sales, clerical and other categories

OPPORTUNITIES BY SECTOR

16,260 jobs in E&E sector

7,239 jobs in Transport equipment

6,916 jobs in Rubber products sector

64,120
TOTAL EMPLOYMENT OPPORTUNITIES

INVESTMENTS IN THE PRIMARY SECTOR

The primary sector comprises the agriculture, mining as well as plantation and commodities sub-sectors. This sector contributed RM69.4million towards approved investments in 2015, half of which was from FDI. The mining sub-sector was the largest recipient of investments with approved investments reaching RM2.8billion for 26 projects, the plantation and commodities sub-sector obtained RM712.2million and the agriculture sub-sector, RM261.2million.

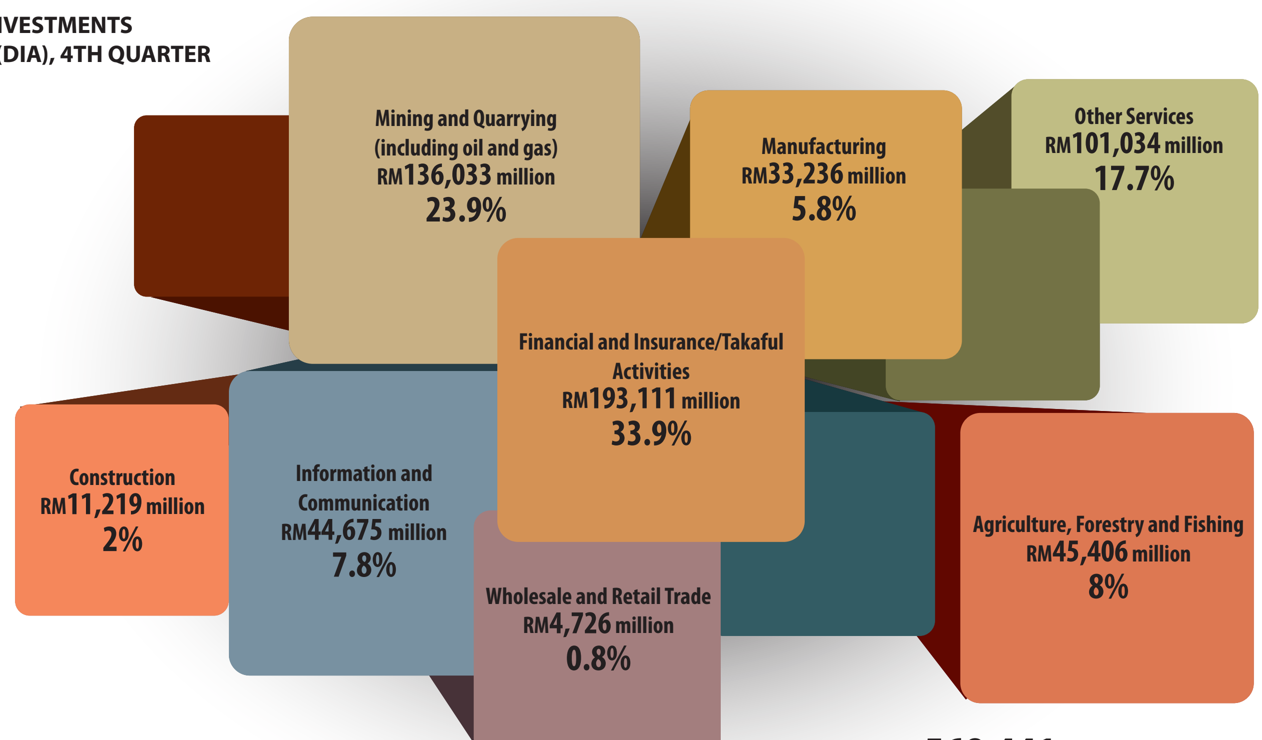
DIRECT INVESTMENTS ABROAD (DIA)

As Malaysia moves towards developed nation status, FDIs are not the only private investments that will contribute towards its economic growth. While Malaysia continues to encourage and attract FDIs into the country, the Government is concurrently facilitating private initiatives to venture abroad. Towards this end, Malaysia continues to pursue and deepen economic cooperation across the globe through various avenues including negotiations of International Investment Agreements such as the Investment Guarantee Agreements at bilateral level and Free Trade Arrangements at bilateral and regional levels. These initiatives are not only to lure strategic investments into the country but also enhance opportunities for Malaysian investments abroad.

Direct investments abroad by Malaysian companies have been broad-based, with companies investing in almost all economic sectors in more than 100 countries. In the early years, investments were undertaken primarily by Government-linked companies (GLCs) mainly in the oil and gas, and agriculture sectors. However, in recent years, private companies have become active overseas investors. These investments have been driven by many factors including the following:

- Securing market access;
- Gaining access to raw materials;
- Strategic assets, brand and technology; and
- Decentralisation of operations to diversify risks and improve returns.

DIRECT INVESTMENTS ABROAD (DIA), 4TH QUARTER OF 2016



(Source: Department of Statistics Malaysia)

Total RM569,441 million | 100%

The emergence of the new low-cost economies has also provided options for companies with high-labour dependency especially those in the manufacturing sector to restructure and realign operations on a global scale to remain competitive.

Malaysian companies are increasingly becoming global investors. According to statistics from Bank Negara Malaysia, there are 750 active Malaysian companies with investments abroad. For the fourth quarter of 2016, the stock of Malaysian investments overseas was recorded at RM569.4billion, exceeding the RM545.6billion worth of FDI stock into Malaysia.

Furthermore, over the years, the scope of Malaysia's DIA has broadened. Initially, DIA was concentrated in the oil and gas exploration and extraction industry along with oil palm plantations. However, in recent years, DIA has spread to other sectors including telecommunications, banking and finance, infrastructure and property development, manufacturing, power generation and retail-related industries.

DIA in the fourth quarter of 2016 was generated mainly by financial and insurance/takaful activities (33.9 per cent) followed by the mining sector (23.9 per cent), agriculture, forestry and fishing (8 per cent), and the information and communication sector (7.8 per cent).

In terms of geographical distribution of overseas investments, in the same quarter, most of the DIA were chanelled into Southeast Asia (RM175.3billion or 30.8 per cent from total cumulative Malaysia's DIA abroad), Europe (RM95.8billion or 16.8 per cent) and Central and South America (RM79.8billion or 14 per cent).

Leading destinations for DIA from Malaysia were Singapore (16 per cent), Indonesia (10 per cent), Canada (9 per cent), Australia (5 per cent), India (3 per cent) and Thailand (2 per cent).

TRANSFORMATION OF LABOUR-INTENSIVE INDUSTRIES

As Malaysia moves towards becoming an advanced, high income nation with greater levels of public well-being by 2020, the current heavy reliance on unskilled or low-skilled foreign workers in certain manufacturing industries is seriously impeding these industries moving up the value chain.

In its ongoing effort to facilitate growth in labour-intensive industries, the Malaysian Government has introduced a new incentive to encourage manufacturers, particularly those in labour-intensive industries, to engage in innovative and productive activities and adopt automation in their respective industries.

The Automation Capital Allowance (Automation CA) introduced in Budget 2015 provides for an additional allowance to be given to manufacturers for investments in automation. This strategic move by the Government is expected to be a key driver to encourage innovation, quick adoption of automation in labour-intensive industries and further spearhead new automation initiatives in the manufacturing sector. Automation CA is also in accordance with the 11MP, which aims to promote automation and reduce reliance on low-skilled foreign workers in labour-intensive industries.

Automation CA further allows Malaysia to be competitive vis-a-vis other manufacturing hubs within the region and globally that have adopted similar initiatives such as the PRC, the Republic of Korea and the United States.

Standards and Industrial Research Institute of Malaysia (SIRIM) will be the governing body to ensure that expected results are delivered, while MIDA remains as the promotion and evaluation body for Automation CA applications.

In 2016, MIDA received 50 Automation CA applications and 35 of them were approved. The automation initiatives implemented collectively by the 25 manufacturers will significantly reduce dependency on foreign workers by 20 per cent while increasing average production volume by 200 - 300 per cent.

Automation CA is helping to build the foundation for smart manufacturing, which is being driven by Industry 4.0. This initiative will serve to greatly strengthen Malaysia's standing as a key manufacturing hub in the region.

SMART MANUFACTURING

The advent of new technologies together with increasing competition from emerging markets presents a new set of challenges for Malaysia. However, amid the challenges, the nation sees windows of opportunity. Malaysia has already started to embrace technological advances being made available through Industry 4.0, especially in the area of smart manufacturing, where processes and technologies will create greater production flexibility and higher efficiency.

Smart manufacturing embodies the capability to connect production systems and processes to radically transform production value chains and business models. Interconnectivity, interdependence and integration build the core components of smart manufacturing which will eventually lead to greater productivity and reduction in waste.

With smart manufacturing, Malaysia will not only be able to raise its competitiveness but also achieve a more inclusive growth and sustainable development that will move the economy up the value chain. Moreover, adoption of smart manufacturing will rebrand Malaysia's image as the centre for advanced technology and global activities. This approach will boost the nation's progress towards developed nation status.

Through the adoption of smart manufacturing, Malaysia is already seeing new innovation opportunities that can optimise the manufacturing and services industries. This optimisation will enable improved product quality, energy efficiency and safer plant floors. An increase in productivity through smart manufacturing will also allow companies to address manpower shortages.

Malaysia offers a range of business opportunities in various sectors and processes. Within the manufacturing sector, the use of additive manufacturing is being encouraged particularly in the automotive, aerospace, electronic consumer products and medical/dental devices industries. Machine to Machine (M2M) application is an emerging field and opportunities are available to investors to venture into sensor technology projects in the country.

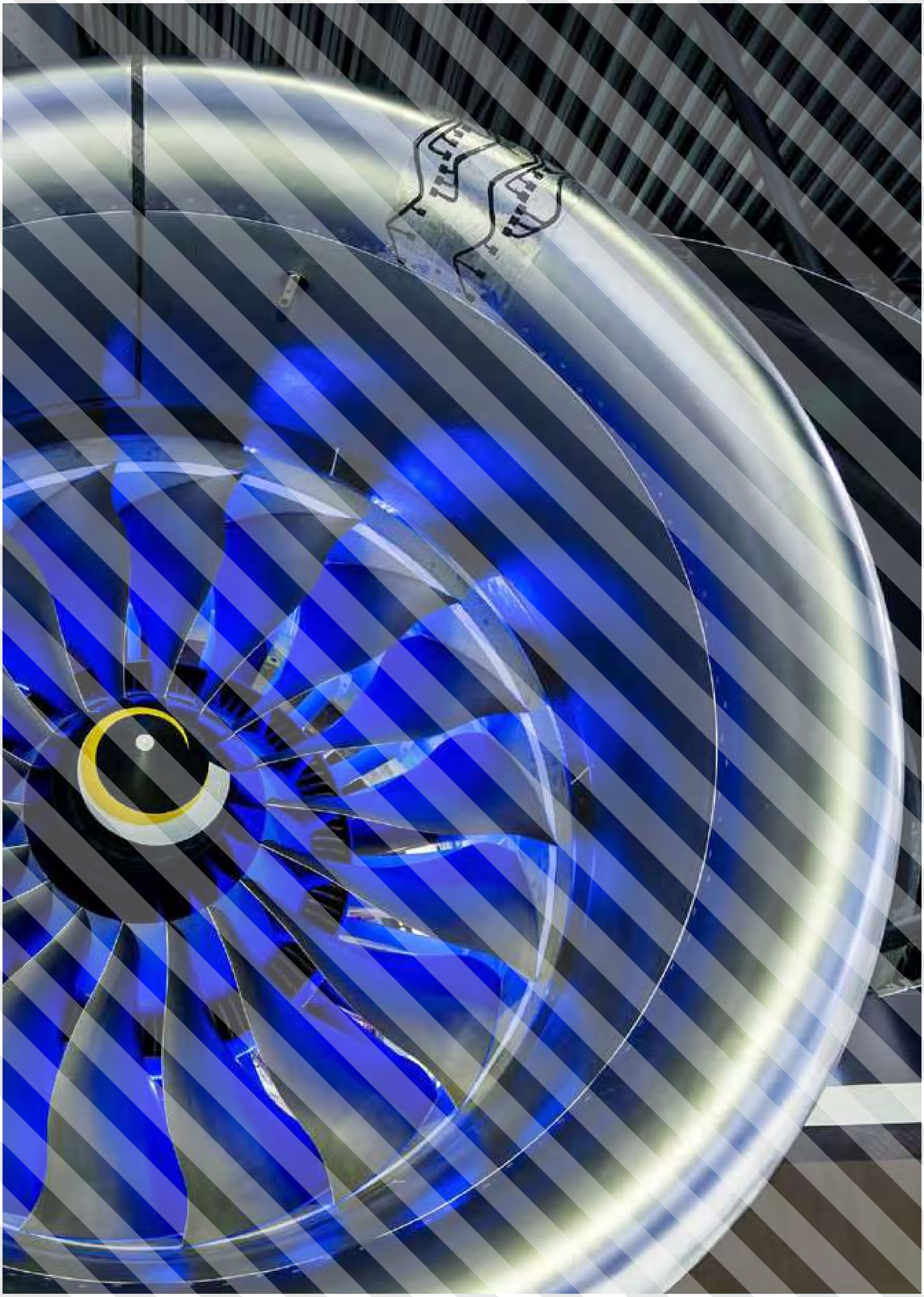
New investments in the advanced Internet of Things (IoT) enabled technologies and ecosystems will expand logistics value chains including warehouse operations, freight transportation and last mile delivery in Malaysia. These capabilities, built into the supply chains, allow companies to monitor the status of assets, goods, and people in real time throughout the value chain, thereby increasing customer satisfaction and creating competitive advantages for the companies. Other emerging opportunities for Malaysia are in the area of industrial data services, cloud-based services, industrial mobility and cyber security services.

THE WAY FORWARD

The global economy will be facing challenges on multiple fronts in 2017. Beyond just economic growth, Malaysia would need to build upon its core strengths including its strong investment policy to secure opportunities with long-term benefits for the nation.

History proves that Malaysia is a resilient nation. The sterling performance by the private sector coupled with Malaysia's diversified economy has enabled the country to continue strengthening its fiscal position. However, the priority now is that, over and above the number of investors or absolute value of investments, Malaysia needs to bring in more strategic investments that can help the country fulfil its aspirations of achieving high income and quality jobs for Malaysians as required by Industry 4.0.

The Government will continue to introduce pro-business measures as well as opportunities to bolster Malaysia's ability to face domestic and external challenges, including leveraging on FTA networks, the ASEAN Economic Community (AEC) and the Regional Comprehensive Economic Partnership (RCEP). Malaysia will continue to collaborate and engage with all stakeholders to attract investors across the full spectrum of economic sectors. As the AEC bandwagon prepares to propel the region forward with Malaysia at the forefront, investors can expect an energetic and rewarding returns.



The aerospace industry employs more than 21,000 people. Spirit Aero Systems, CTRM, SME Aerospace, Senior Aerospace Upeca and Singapore Aerospace Manufacturing (SAM) are among the leading aero structure manufacturing companies operating in Malaysia.

INDUSTRIAL DEVELOPMENT AND COMPETITIVENESS

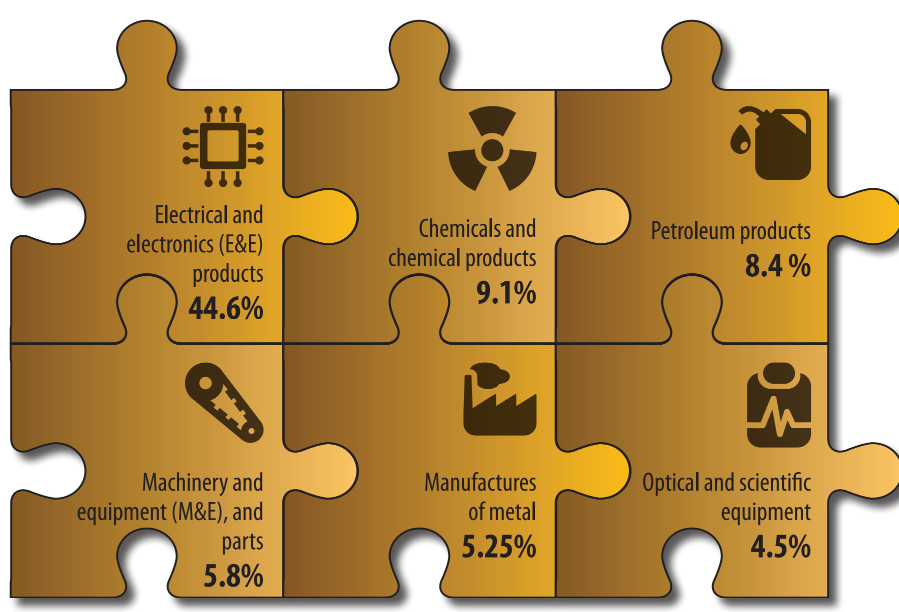
MANUFACTURING

The manufacturing sector experienced a very challenging year in 2016 as it had to address several issues that impacted the sector's competitiveness such as the global economic slowdown, depreciation of the Ringgit and volatility of oil prices. Nevertheless, many industries were still able to generate positive growth with manufacturing companies continuing to post strong performance.

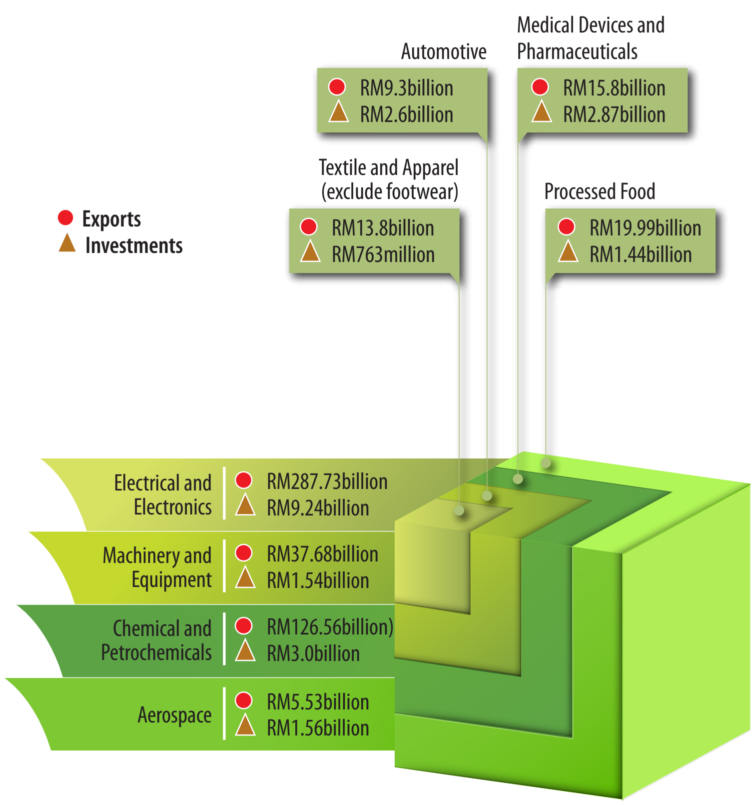
The Government, taking cognizance of the fact that the manufacturing sector was beset by challenges, outlined several major initiatives in 2016 to boost the economy and the industry. Under the Eleventh Malaysia Plan (11MP) the manufacturing sector will focus on producing more high-value, diverse and complex products, driven by three catalytic sub-sectors, namely electrical and electronics (E&E), chemicals as well as machinery and equipment (M&E). In addition, the medical devices and aerospace sub-sectors were identified as potential growth areas. Furthermore, several facilitative policies and a conducive ecosystem were put in place to ensure a business-friendly environment that would assist further industrial development.

Due to the strong overseas demand for Malaysia's main exports, namely E&E products, food and basic metal products, the manufacturing sector in 2016 grew 4.4 per cent (2015: 4.9 per cent) to contribute RM255billion or 23 per cent to Malaysia's GDP growth.

TOP CONTRIBUTORS TO MANUFACTURED EXPORTS



INDUSTRY EXPORTS AND INVESTMENTS 2016



ELECTRICAL AND ELECTRONICS (E&E)

As a catalytic sub-sector under the 11MP, E&E held on to its status as the backbone of the Malaysian manufacturing sector, contributing 27.4 per cent share of GDP to total manufacturing in 2016 (2015: 26.7 per cent) as well as the largest share to total manufactured exports. Investments amounted to RM9.24billion for 107 projects in 2016.

Among MITI's major initiatives to develop the E&E sub-sector is the WTO Information Technology Agreement (ITA2) which came into force in July 2016. Malaysia's commitment to ITA2 includes 201 products covering 410 affected national tariff lines (9 digits), out of which 351 lines (86 per cent) are already at zero duty (nil import duty). The remaining 59 tariff lines have current applied duties ranging from 5 - 30 per cent which will be progressively eliminated. With ITA2, Malaysia's ICT industry will have easier access to a wider market globally for its products and will provide market opportunities for more than 600 local producers to boost their exports to participating countries.

Another significant boost to the E&E sub-sector was the conclusion of negotiations with the United States (US) to implement Phase 1 of the APEC TEL MRA (the Mutual Recognition Arrangement for Conformity Assessment of Telecommunications Equipment). This is pursuant to the US Federal Communications Commission's (USFCC) new ruling on Authorisation of Radiofrequency Equipment where the USFCC will no longer accept test reports from laboratories in countries without the MRA with the US. The implementation of the MRA is vital to ensure that test reports from Malaysian laboratories are accepted by the US authority and facilitate Malaysia's telecommunications equipment exports to the US, which was valued at RM11.4billion, representing 22.7 per cent of the RM41.1billion worth of global exports in 2015.

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

MACHINERY AND EQUIPMENT (M&E)

In 2016, the M&E industry enhanced its trade performance with 88 approved investment projects valued at RM1.54billion. Exports amounting to RM37.68billion (2015: RM36.16billion) were largely driven by general industrial machinery and equipment, particularly air-conditioners and specialised products for the oil and gas exploration and production industry. Among the major exports were parts for sinking and boring machinery.

Designated a catalytic sub-sector under the 11MP, M&E is to focus on high technology and high value-add production. Meanwhile, it will continue to develop its core activities such as research and development (R&D), design and development (D&D), software development, system integration, assembly, testing and calibration. The M&E industry is also moving towards Industry 4.0 where opportunities lie in specialised modules and machinery for smart factories.

CHEMICALS AND PETROCHEMICALS

The second largest contributor to Malaysian exports in 2016 after the E&E sub-sector, chemicals and petrochemicals grew 3.14 per cent and contributed RM84.19billion worth of exports (2015: RM122.58billion).

Total investments for the chemicals and petrochemicals sub-sector were valued at RM3.05billion for 69 approved projects. The petroleum (including petrochemical) sub-sector received investments totalling RM15.92billion for 18 approved projects.

A significant quality investment worth RM2billion was for the expansion project in a propylene, ethylene, benzene and toluene plant in Johor. This project when completed, would require 65 new staff on top of the existing workforce of 1,074 employees.

Among the major initiatives conducted in 2016 were the implementation of the GHS Software for Chemical Mixture Project under the 11MP and the development of the ASEAN-Japan Chemical Safety Database (AJCSD). The former, also known as Classification Tool for Chemical Mixture (CATCH), is expected to fulfil the requirement of both the GHS Purple Book (6th revised edition) and CLASS Regulation 2013 under health and environmental hazards requirements. CATCH covers 4,011 chemicals listed under five national legislations and two international conventions.

AEROSPACE

The aerospace industry generated annual revenue of RM12.7billion in 2016 and employed more than 21,000 workers. Annual revenue for the aerospace manufacturing portion increased 11 per cent to RM6.4billion.

Total aerospace exports comprising mainly parts and components recorded a high value of RM5.53billion with the US, the United Kingdom (the UK), Japan and Singapore as the main export destinations. Imports of aircraft, raw materials and spares totalled RM11.94billion, mainly attributable to fleet expansion and replacement of the aviation sector that would directly benefit Malaysia through the increase of aviation and tourism activities. Aerospace investments amounted to RM1.56billion, with 56.9 per cent coming from foreign investments. The nine approved aerospace projects are expected to generate 1,766 employment opportunities.

While aero structure manufacturing remains competitive, several potential expansion programmes are expected to be executed throughout 2017. Leading aero structure manufacturing companies operating in Malaysia include Spirit Aero Systems, CTRM, SME Aerospace, Senior Aerospace Upeca and Singapore Aerospace Manufacturing (SAM).

The National Aerospace Industry Coordinating Office (NAICO) established in August 2015 under MITI assumed a critical role in 2016 as the focal point for linking aerospace industry enterprises, relevant Ministries/Agencies and academia to collectively work to boost the capability and capacity of Malaysia's aerospace industry. NAICO is also the Secretariat for the Malaysian Aerospace Council chaired by MITI Minister, which meets regularly to discuss the development of the local aerospace industry.

NAICO's initiatives in 2016 included the Aerospace Industry Collaboration Programme (ICP) Strategy which would be the strategic reference for future aerospace ICP projects. In the sphere of human capital development, NAICO collaborated with TalentCorp Malaysia to develop a

Critical Occupation List (COL) for the aerospace industry, which would serve as a strategic reference for human capital development programmes for the aerospace industry.

To sustain Malaysia's global competitiveness in the fast evolving aerospace industry, specific programmes focusing on industry-led research and technology (R&T) have been implemented under the 11MP. MITI together with Aerospace Malaysia Innovation Centre (AMIC) is promoting the implementation of Industry 4.0 focusing on smart robotics manufacturing system, online automation system and virtual reality for training and factory optimisation.

MEDICAL DEVICES AND PHARMACEUTICALS

Medical devices, being a potential growth sub-sector under the 11MP, is one of the fastest growing industries in the Malaysian healthcare spectrum. In 2016, the medical devices industry showed encouraging growth where 78 per cent of the total trade was contributed by exports amounting to RM15.8billion, a rise of 2 per cent (2015: RM15.5billion). Total trade was valued at RM20.4billion, with imports at 22 per cent of this amount. The Focus Group on Medical Devices established under the National Export Council has projected that this industry will reach exports worth approximately RM27.1billion by 2020.

Among the leading international companies that have invested in setting up medical devices facilities in Malaysia are Boston Scientific Medical Devices and Abbott Manufacturing from the US, MeHow Medical (M) from Hong Kong and Synbone Sdn. Bhd. from Switzerland. The establishment of these plants marks a major milestone in the Government's efforts to develop Malaysia into a regional hub for medical devices.

The Medical Device Investment Advisory Panel (MDIAP), comprising members from both the private and public sectors, is a new initiative by MITI and MIDA. Established in 2016, MDIAP will draw up strategic initiatives and discuss industry issues to further drive the expansion of the industry in accordance with the 11MP.

AUTOMOTIVE

Contributing approximately four per cent to Malaysia's GDP and employing close to 600,000 people, the automotive industry is an important and strategic contributor to the manufacturing sector. The various initiatives and programmes under the National Automotive Policy (NAP) 2014 continued to be implemented in 2016 in an on-going effort to enhance the capacity and capability of the domestic automotive industry.

One of the highlights in 2016 was the launch of the global after-market standard 4R2S (Reduce, Reuse, Recycle, Remanufacturing, Service and Spare Parts). 4R2S aims to transform, regulate and enhance the after-market industry in Malaysia in terms of safety, quality and green conservation.

In terms of export of transportation and mobility parts and components, the Malaysian Automotive Industry (MAI) has followed through with the *Peningkatan Eksport Komponen Automotif* (PEKA) initiative. In 2016, a total of 58 manufacturers of parts and components who participated in PEKA exported RM9.3billion of such products.

As part of the development of the automotive supply chain, the Automotive Supplier Excellence Programme (ASEP) continued to be implemented in 2016. MAI launched the MAI Intelligent Technology Systems (MITS) as part of Industry 4.0 and other digital economy initiatives under the National Automotive Policy 2014. MITS will serve as a transformation and mobility data hub besides functioning as a collaborative platform with the industry for sustainable engineering and manufacturing as well as other value-added operations.

Moving forward, although it has been challenging to obtain support from the relevant stakeholders, MAI will continue to deploy Industry 4.0 initiatives to improve their system integration. In 2017, the Design, Engineering and Prototyping (DEP) initiative will be deployed to an additional 100 companies, 550 engineers as well as 300 parts and components companies to enhance their capabilities. This approach will align the strategy of suppliers to be part of global supply chain. It will also help to shift the focus of parts and components manufacturers to exports rather than just concentrating on the domestic market.

In the area of human capital development, MAI has continued with its various training initiatives such as the Industry-Led Professional Certificate (IPC), Automotive Industry Certification Engineering (AICE), Automotive Apprenticeships and other Customised Human Capital Development programmes. As a result of these efforts, a total of 24,120 people have been trained in various aspects of the automotive industry, and 23,756 new employment opportunities have been created.

However, a pressing challenge is to develop a long-term career for the graduates of these programmes as a number of them leave the automotive industry after just one year. Therefore, in 2017, MAI will work towards increasing the number of graduates in the IPC-*Pentauliahan Pencapaian Terdahulu* (PPT) programme, which certifies graduates with *Sijil Kemahiran Malaysia* (SKM) Certification up to Level 4. This higher qualification will serve to further motivate PPT trainees to develop careers in the automotive industry.

IRON AND STEEL

Since March 2016, the price of iron and steel in the global market has increased dramatically in the wake of a price increase of up to 30 per cent in the People's Republic of China (PRC), a major iron and steel producer. According to the World Steel Association (WSA), the global iron and steel industry showed an improved price in 2016 due mainly to measures by the PRC Government to reduce and re-balance their production capacity excess.

With improvement and stabilisation of prices in the global market, Malaysian iron and steel manufacturers increased production capacity to meet local demand, which had risen rapidly. The price increase in the global market and the rising price of raw materials such as iron ore and iron scrap helped local producers, especially in the upstream, to increase profit and local market share. The local iron and steel industry consequently began to record profit in 2016 with the majority of the companies showing earnings recovery.

Investments in the basic and fabricated metal sub-sectors recorded an increase of 2.7 per cent to RM6.3billion for 75 projects in 2016 (2015: RM6.2billion) which will create more than 7,000 employment opportunities.

To enhance the competitiveness of Malaysian iron and steel companies globally, on 15 April 2016, the Malaysian Government improved the current duty exemption procedures through the duty drawback facility to import raw materials required for producing finished goods for the export market. This measure is to ensure that only export-oriented companies would qualify for the incentives.

FOOD

The food processing industry, accounting for about 10 per cent of Malaysia's manufacturing output, is predominantly Malaysian-owned and dominated by small and medium-sized companies. The major food sub-sectors are fish and fish products, livestock and livestock products, fruits, vegetables and cocoa.

Exports of processed food rose 11 per cent to RM19.99billion (2015: RM18.01billion) while imports increased 5.3 per cent to RM18.66billion (2015: RM17.73billion). Total investments of RM3.33billion were approved for 58 projects for food manufacturing with foreign investments contributing RM1.27billion and domestic investments, RM2.06billion (2015: total investment RM2.65billion, RM0.59 foreign, RM2.06billion domestic).

The halal food industry continued to be a key area of focus in 2016 as 60 per cent of Malaysia's population are Muslims and the demand for halal food by Malaysian consumers has increased over the years.

TEXTILES, APPAREL AND FOOTWEAR

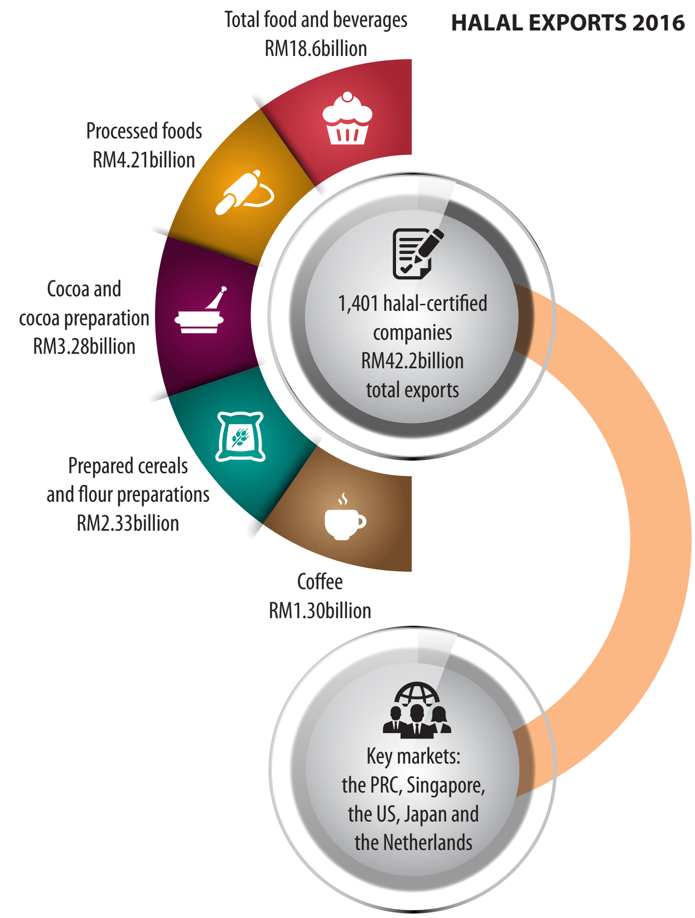
Surmounting the challenges of 2016, the resilient textiles, apparel and footwear industry continued to rank among Malaysia's top 10 export earners with exports valued at RM13.8billion (2015: RM13.2billion). The US was the largest export destination absorbing 15 per cent of total exports. Imports of textiles, apparel and footwear grew 13.4 per cent to RM18.1billion (2015: RM15.9billion). Investments in the textiles, apparel and footwear industry amounted to RM763million with foreign investments totalling RM362million. These investments were focused mainly on the upstream activities such as yarn spinning and textiles manufacturing.

Realising the need to elevate industry productivity, the Malaysian Textile and Apparel Centre (MATAC) led a project with MITI funding under the 11MP to spearhead the development of the Labour Saving Device (LSD) and Technical Textile. LSD is a breakthrough manufacturing concept focusing on integration of machines and networks to increase the productivity of work processes while reducing manpower. Technical Textile will provide the competitive edge for Malaysian manufacturers to compete with low wage labour countries like Viet Nam.

HALAL INDUSTRY

Demand for Malaysia's halal products continue to grow and exports have steadily increased over the years, with the bulk of export revenue coming from halal ingredients, food and beverages and palm oil derivatives (palm olein and stearin).

Total cumulative investments in Halmas Halal Parks from 2011-2016 reached RM11.89billion representing a CAGR of more than 13 per cent, and 10,941 employment opportunities were created during this period. Investments in Halal Parks have come from the US, Japan, Italy, the Kingdom of Saudi Arabia and Singapore. New investments in 2016 totalled RM2.59billion with the ingredients sector attracting



RM1.38 billion. The food sector received RM0.7billion while other sectors including pharmaceuticals, cosmetics and personal care products obtained RM0.51billion. Among the major investments of more than RM100million were those made by Kawan Food, Kellogg's, Peresscol, Sabah International Dairies and Motivage Sdn Bhd.

Halal Industry Development Corporation (HDC) has been tasked by the Government to channel incentives including tax deductions and tax exemptions to eligible companies operating in the HDC-accredited Halmas-status industrial parks. This is to attract companies to locate in the Halal Parks. These incentives are specially tailored to pull in the right investments and energise activities in the promoted halal manufacturing sectors and selected value chain segments.

The Halal Business Transformation Programme (HBT) is a significant capacity-building initiative by HDC to facilitate the development of Malaysian companies especially SMEs into global companies in the halal industry. HBT aims to enhance business performance and growth of halal companies through the production of high quality and innovative halal products and services for the world.

Since 2011, HBT has benefited over 3,011 home-grown companies by enhancing their competitiveness in the promoted halal sectors through pre-certification, market access and capacity building programmes. From this group, 40 per cent have succeeded in attaining double digit growth. In 2016, the cumulative revenue of these companies was RM2.76billion.

In October 2015, the Malaysian Government agreed to strengthen HDC's role as the focal point for the halal industry development agenda in Malaysia. As the focal point, HDC is responsible for planning, executing, monitoring and reporting the halal industry development agenda of the country. In June 2016 the Malaysian Government agreed on the establishment of Halal Malaysia Council with HDC and JAKIM appointed as co-secretariat of the Council. The Council, which is chaired by the Deputy Prime Minister, is an advisory body for the formulation of the National Halal Policy.

The Global Halal Support Centre (GHSC) has distinguished itself as the first of its kind for the global halal industry. Aimed at providing world-class knowledge and support services to stakeholders and clients in the halal industry, the GHSC has contributed immensely towards making Malaysia the Global Reference Centre on halal matters. Since its inception in 2011, a total of 111 million visitors including online users from 150 countries have utilised GHSC's facilities.

The implementation of the Halal Industry Master Plan (2008 - 2020) has entered its final phase where the emphasis is on broadening the geographic footprint of home-grown companies and the internationalisation of the halal industry.

HDC will strive to make Malaysia the Global Reference Centre for halal integrity knowledge and the global leader in production, trade and innovation of selected halal sectors such as specialty processed food, cosmetics and personal care products, ingredients, pharmaceuticals, livestock and services such as logistics, tourism and healthcare.

In recognition of its efforts to develop Malaysia's halal industry since 2006, HDC received 'The Halal Industry Development Award' presented on 29 September 2016 at the Global Islamic Finance Awards Gala (GIFA) 2016 in Jakarta, Indonesia. GIFA is the leading best practices recognition of Islamic banking and finance and celebrates the success of institutions and individuals with the ultimate objective of promoting social responsibility, *Syari'ah* authenticity and commitment to Islamic banking and finance.

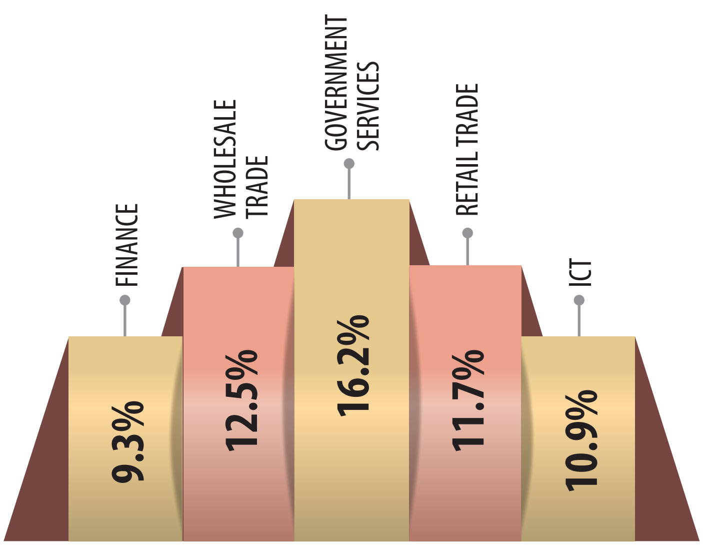
SERVICES SECTOR

In 2016, the services sector continued to be the highest contributor to Malaysia's GDP at 54.2 per cent (2015: 53.5 per cent). In general, almost all activities in the services sector recorded positive growth. Food and Beverages (F&B) chalked up the highest growth at 4.8 per cent and Retail Trade recorded 3.2 per cent.

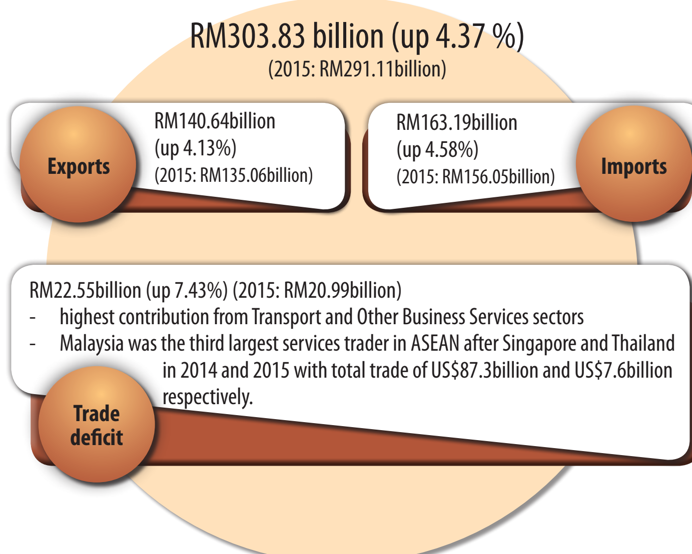
While the services sector is developing in the right direction, it is still a major concern that the Government services segment is the largest contributor to the services sector. MITI would like to see a more private sector-driven services industry as Malaysia moves towards high income nation status.

Services continued to dominate approved investments with 71.9 per cent for the period January-September 2016 (January-September 2015: 54.8 per cent). The highest approved investments for this period were for real estate at 53.1 per cent, other services (comprising healthcare, education, utilities, distributive trade, hotel and tourism, and telecommunications) at 16.3 per cent and financial services at 10.0 per cent. However, investments in the knowledge-intensive sub-sectors such as financial, legal, accounting as well as telecommunication and information services remained low.

TOP FIVE SERVICES CONTRIBUTORS TO GDP IN 2016

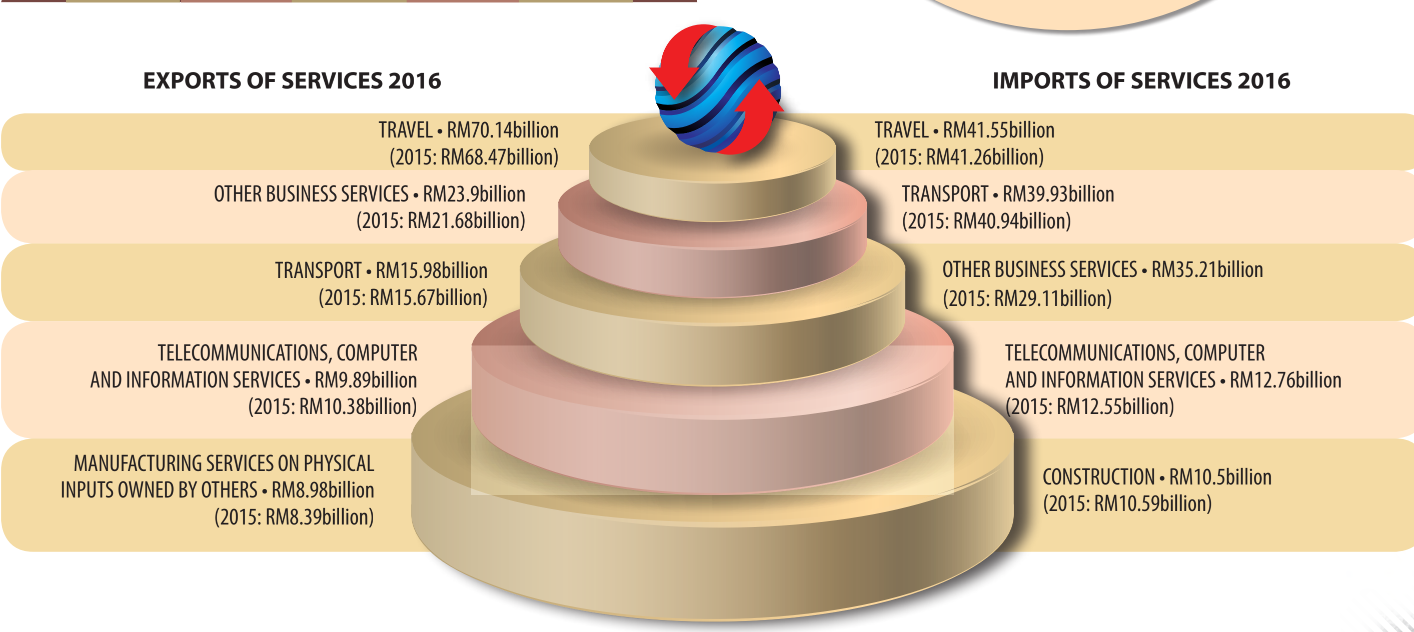


TRADE IN SERVICES 2016



EXPORTS OF SERVICES 2016

IMPORTS OF SERVICES 2016



For the period January-September 2016, real estate investments grew 175 per cent to RM57.5billion (January-September 2015: RM20.9billion) while investments in other services (MSC status, support services, telecommunications and communications, hotel and tourism, healthcare, education, transport, Bionexus status and software) declined 51.9 per cent. However, such a large concentration of investments in real estate may not necessarily contribute to positive spin-offs to other parts of the economy such as employment, productivity and value-add.

MITI is working closely with the Department of Statistics Malaysia to improve the current investment data that is provided by other services-related Ministries/Agencies and identify the services sub-sectors recording positive growth trends in exports. This will provide the basis for MITI to propose strategies for overall increase in services exports.

MITI will also cooperate with services-related industry associations and professional bodies to identify, collect, compile and analyse data to develop the profile of specific services sub-sectors in terms of strength, competitiveness and expertise.

MITI is working with the relevant Ministries/Agencies to monitor the progress of programmes implemented under their respective master plans for the various services sub-sectors such as the Logistics and Trade Facilitation Masterplan.

To gauge Malaysia's level of regulatory restrictiveness for trade in services, MITI is collaborating with the Malaysian Productivity Corporation (MPC) and the Organisation for Economic Co-operation and Development *(OECD)* on the Services Trade Restrictiveness Index (STRI). This collaboration will enable MITI to update Malaysia's regulations to be relevant to fast-changing trends in international and domestic trade.

At the ASEAN level, the liberalisation of services is an important requisite to enable the realisation of the ASEAN Economic Community (AEC) as well as for services suppliers to provide services and establish companies across national borders within the ASEAN region. In this regard, MITI has concluded the 9th Package of the ASEAN Framework Agreement on Services (AFAS) and is finalising the 10th Package involving liberalisation of 128 sub-sectors.

MITI is also actively coordinating with several relevant Ministries/Agencies regarding the implementation of the APEC Services Competitiveness Roadmap (ASCR), which includes a set of actions and mutually agreed targets endorsed by Leaders at the APEC Summit 2016.

ADVANCING eCOMMERCE

eCommerce is a critical component of the digital economy. In 2015, the eCommerce share of the national GDP was 5.9 per cent valued at RM68.3billion (2014: 5.8 per cent, RM63.8billion). By 2020, eCommerce is expected to account for 6.4 per cent of GDP worth RM114billion.

In an effort to double eCommerce growth, MITI and MATRADE have been aggressively promoting its eTRADE programme to encourage more companies to export online. Selected participants can choose to participate in any of the 12 identified e-market places to expand their market access and reach new buyers.

The National eCommerce Strategic Roadmap, part of the Government's efforts towards driving the national eCommerce agenda, was launched on 13 October 2016 with planned interventions in six thrust areas.

Under the Roadmap, the Government has set a target to double eCommerce annual growth rate from 10.8 per cent in 2016 to 20.8 per cent in 2020, and reach GDP contribution of more than 20 per cent (RM211billion) by 2020.

Headed by the MITI Minister, the National eCommerce Council (NeCC) monitors the implementation of the Roadmap and provides a strategic direction to drive the development of eCommerce in Malaysia. The Secretariat of the Council, formed in December 2015, is jointly led by MITI and MDEC.

NATIONAL eCOMMERCE STRATEGIC ROADMAP

Six Trust Areas with a Supportive Governance Framework

Since its establishment, NeCC has worked towards enhancing the development and competitiveness of the eCommerce ecosystem. To date, three regional eFulfilment hubs have been established. The companies involved are Pos Malaysia, SnT Global Logistics Sdn Bhd and YCH Logistics in collaboration with ZALORA to set-up ZALORA's Regional Distribution Hub in Shah Alam, Selangor.

The implementation of the National eCommerce Roadmap strategies will help to further achieve the development of the Digital Free Trade Zone (DFTZ) which will provide a conducive environment for companies anchored on the Internet economy.

The DFTZ is established to facilitate seamless cross-border trade and enable local businesses to export their goods with a priority for eCommerce. It will have three components:

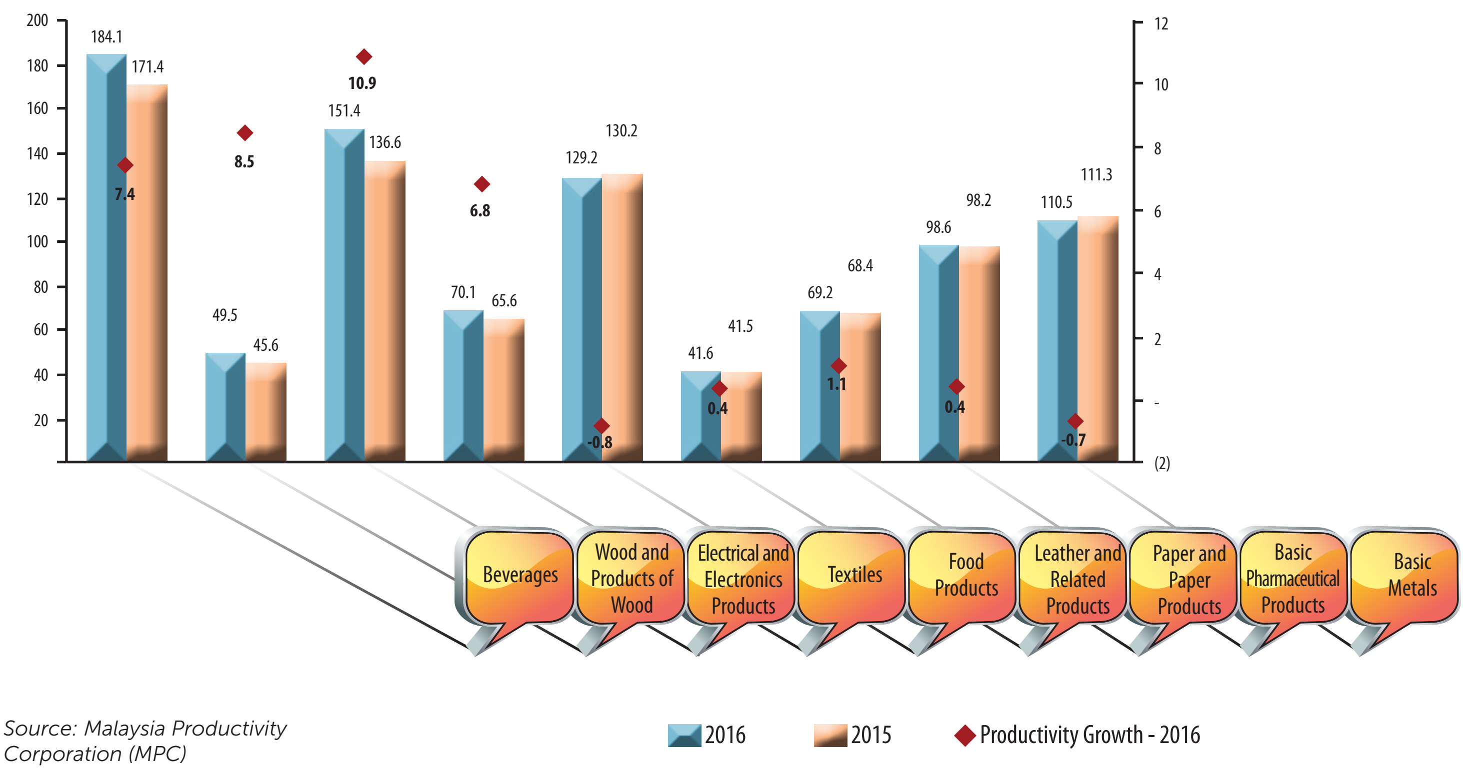
- eFulfilment Hub to facilitate SMEs and businesses in exporting their products globally with assistance from leading fulfilment service providers;
- Satellite Services Hub to connect SMEs with leading companies that offer financing, last mile fulfilment, insurance and other services which are important in cross-border trade; and
- eServices Platform to efficiently manage cargo clearance and other processes needed for cross-border trade.

Alibaba, Tencent and Wanda, three of the biggest eCommerce players in PRC, have expressed interest to participate in the development of the digital economy in Malaysia. Furthermore, it was announced during the Malaysian Prime Minister's Official Visit to the People's Republic of China (31 October - 6 November 2016) that Mr Jack Ma, executive chairman of Alibaba, had been appointed as an Advisor to the Malaysian Government for the development of the Malaysian Digital Economy.

OUTLOOK 2017

It is expected that 2017 will be another challenging year for industry. However, the Government is positive about continued growth in the manufacturing sector. It will take effective measures to sustain the growth momentum while minimising the impact of adverse global developments so that the myriad industries can stay competitive and resilient.

PRODUCTIVITY LEVEL AND GROWTH OF TOP FIVE AND LOWEST FIVE OF SELECTED MANUFACTURING SECTORS, 2015-2016



Source: Malaysia Productivity Corporation (MPC)

Cognizant of the fact that industry will have to exploit technology and greater automation to increase productivity in every sub-sector, maintain competitiveness and contribute to national growth, the Government is formulating a comprehensive National Policy of Industry 4.0.

MITI is leading the advocacy for the adoption of Industry 4.0, which is of immense value to the manufacturing sector. It will be collaborating with industry players, relevant Ministries/ Agencies, academia as well as research and technology centres to develop specific recommendations for the Government to drive this policy.

The Government will also continuously facilitate industries via various measures and policies. Apart from the catalytic sectors under the 11MP, the focus for 2017 is also on other sectors such as aerospace, automotive, and oil and gas. The allocations for manufacturing projects under the 11MP will involve projects in E&E, M&E, chemicals, aerospace and medical devices.

PRODUCTIVITY PERFORMANCE OF THE MANUFACTURING SECTOR

The manufacturing sector's added value grew at a slower rate of 4.4 per cent to RM277.9 billion in 2016 (2015: 4.9 per cent). Among the manufacturing sub-sectors, electrical and electronics (E&E) remained the largest contributor to added value at 24.3 per cent followed by refined petroleum and food products with a contribution of 16.9 per cent and 13.0 per cent respectively.

Employment in the manufacturing sector declined 0.6 per cent to 2.1 million in 2016, representing 16.6 per cent of the total Malaysian workforce. E&E was the biggest employer with 446,270 workers followed by rubber and plastic products (249,623 workers) and food products (278,648 workers).

Productivity growth within the manufacturing sector grew by 2.4 per cent to RM107,633 in 2016 (2015: RM105,138), boosted by high productivity growth rates within the E&E (10.9 per cent), wood products (8.5 per cent) and beverages (7.4 per cent) sub-sectors.

The National eCommerce Strategic Roadmap comprises six thrust areas to boost eCommerce. SME Corp. has been tasked to lead Thrust 1 of the Roadmap, which is to accelerate seller (SMEs) adoption of eCommerce.

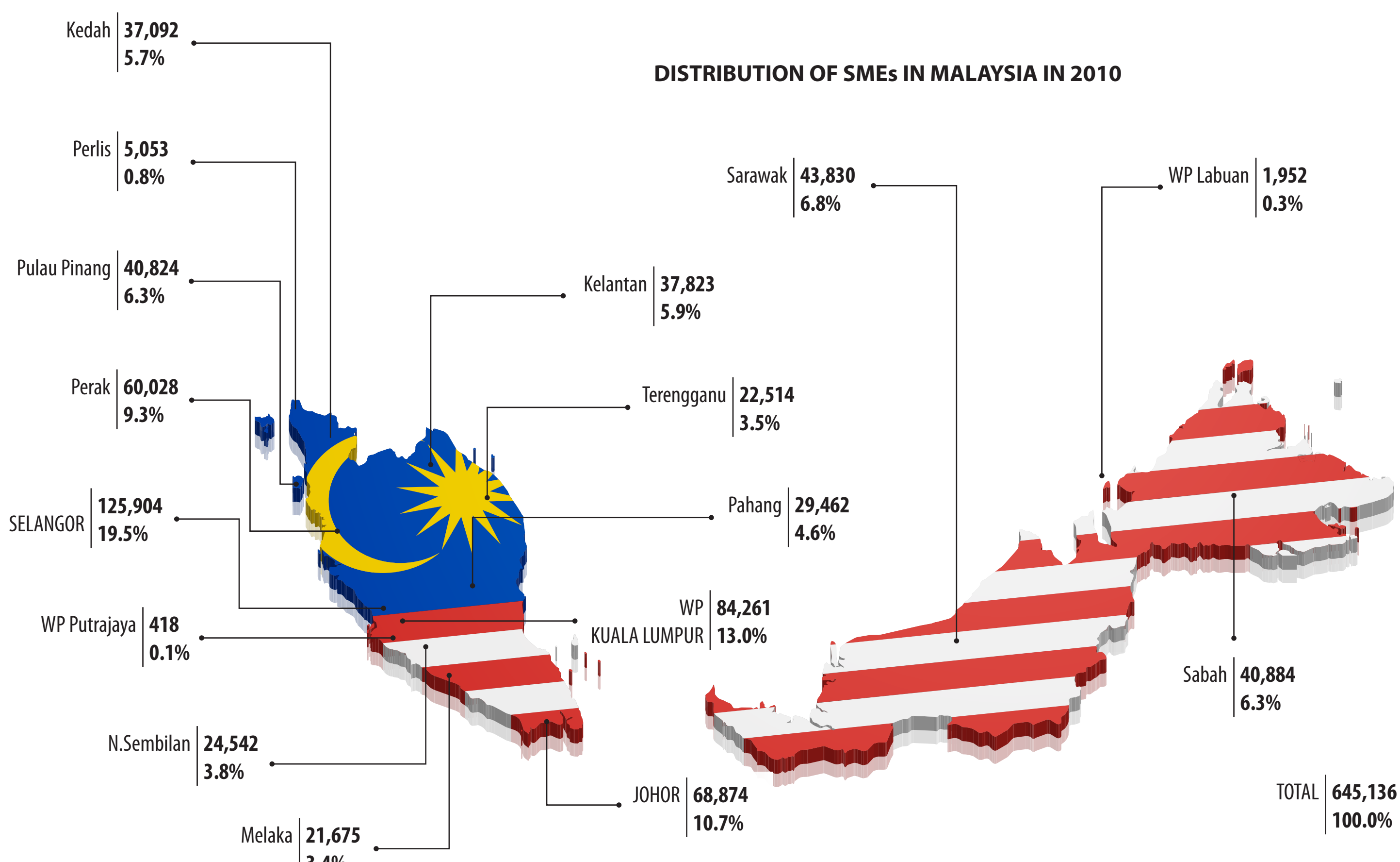
SME DEVELOPMENT AND BUMIPUTERA ENTREPRENEURSHIP

Malaysia's SMEs assume a pivotal role in the nation's commerce and industry as they account for 97.3 per cent of the total 662,939 business establishments. (*Source: Economic Census 2011)* Following the revision of SME definition effective 1 January 2014, the SME sector is expected to increase to 98.5 per cent. Selangor leads with the most SMEs at 19.5 per cent, followed by Kuala Lumpur, Johor and Perak. SMEs in Kelantan, Terengganu and Pahang account for a combined total of 14 per cent, while 13.1 per cent of the SMEs are located in Sarawak and Sabah.

Among the total number of SMEs, 77 per cent are Micro Enterprises, 20 per cent are small companies and the remaining 3 per cent are categorised as medium-sized businesses. SMEs in the services sector account for the largest share at 90 per cent, followed by six per cent in manufacturing, three per cent in construction and only one per cent in agriculture.

SMEs are important as they help to promote the stability and development of the nation by creating employment opportunities and in the process, they fuel economic progress. Many SMEs are also capable of generating creativity and innovation in their specific products or line of business.

DISTRIBUTION OF SMEs IN MALAYSIA IN 2010



Source: Economic Census 2011, Profile of Small and Medium Enterprises (reference year 2010), Department of Statistics, Malaysia*

Key Constraints to SME Growth

INNOVATION & TECHNOLOGY
- Access to national innovation system
- Low commercialisation and R&D
- Poor technology uptake

HUMAN CAPITAL DEVELOPMENT
- Workforce lacks job readiness
- Low utilisation of existing training
- Non-competitive rewards and benefits

ACCESS TO FINANCING
- Limited non-banking avenues
- Poor creditworthiness
- Lack of know-how and resources

MARKET ACCESS
- Procurement by Government/Large scale industries
- Information barrier to exports
- Limited focus on marketing & branding
- Low bargaining power

LEGAL AND REGULATORY FRAMEWORK
- Licensing/permits
- Complying with regulations
- Legislation disincentivising formation & growth

INFRASTRUCTURE
- Trade clearance and facilitation system
- Low and infrequent trade volume

Source: SME Corp., 2017

SME GDP AND OVERALL GDP GROWTH BY KEY ECONOMIC ACTIVITY (CONSTANT 2010 PRICES)

	2014 SME GDP Growth* (underlying)	2015 SME GDP Growth	Overall GDP Growth
Services	8.3	6.6	5.1
Manufacturing	8.6	6.0	4.9
Agriculture	2.7	2.0	1.2
Construction	12.6	7.6	8.2
Mining & Quarrying	7.7	8.9	4.7
Total	**7.9**	**6.1**	**5.0**

Source: Department of Statistics, Malaysia

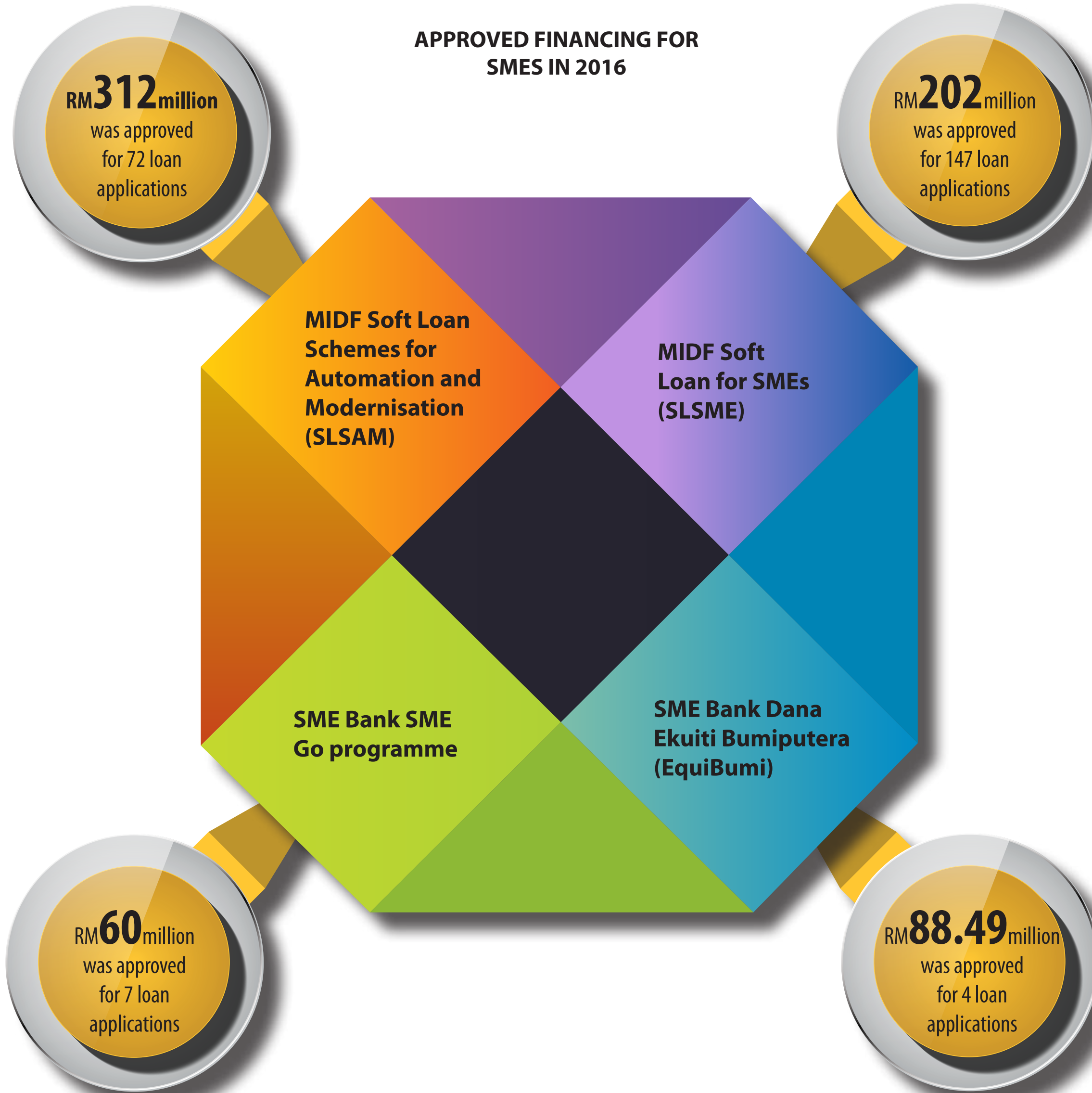
SME GDP AND OVERALL GDP SHARE BY KEY ECONOMIC ACTIVITY IN 2015 (CONSTANT 2010 PRICES)

	SME GDP	OVERALL GDP
SERVICES	58.9	53.5
MANUFACTURING	21.7	23.0
AGRICULTURE	12.0	8.9
CONSTRUCTION	5.7	4.4
MINING & QUARRYING	0.4	9.0
PLUS: IMPORT DUTIES	1.3	1.3
Total	**100**	**100**

PERFORMANCE OF SMEs

Since the establishment of the National SME Development Council (NSDC) in 2004, the growth of SME gross domestic product (SME GDP) has surpassed that of the country's overall GDP growth. In 2015, GDP of SMEs sustained a respectable growth of 6.1 per cent despite the weak external environment (2014: a one-off growth of 13.5 per cent due to the redefinition of SME; the underlying growth was 7.9 per cent). GDP of SMEs was supported by domestic demand that was led by both consumption and investment activities. The expansion was broad-based, reflecting growth in all major economic sectors with key sectors recording moderation across the board.

SMEs in all sectors except construction grew at a faster pace than the overall GDP growth, with SMEs in non-major economic sectors, namely mining, quarrying and construction registering the highest growth rates of 8.9 per cent and 7.6 per cent respectively.



Since 2004, SMEs have performed well, with growth exceeding the overall GDP, partly due to the establishment of the National SME Development Council (NSDC) in 2004. Contribution to GDP increased steadily to 36.3 per cent in 2015 (2005: 29.6 per cent) with exports rising to 17.6 per cent (2010: 16.4 per cent). In 2015, SME employment grew by 5.6 per cent to 6.6million workers while employment by large firms grew by 3.4 per cent. As a result, the share of total employment by SMEs rose to 65.5 per cent in 2015 (2013: 57.5 per cent), indicating the capability of SMEs to generate higher employment growth than the larger firms.

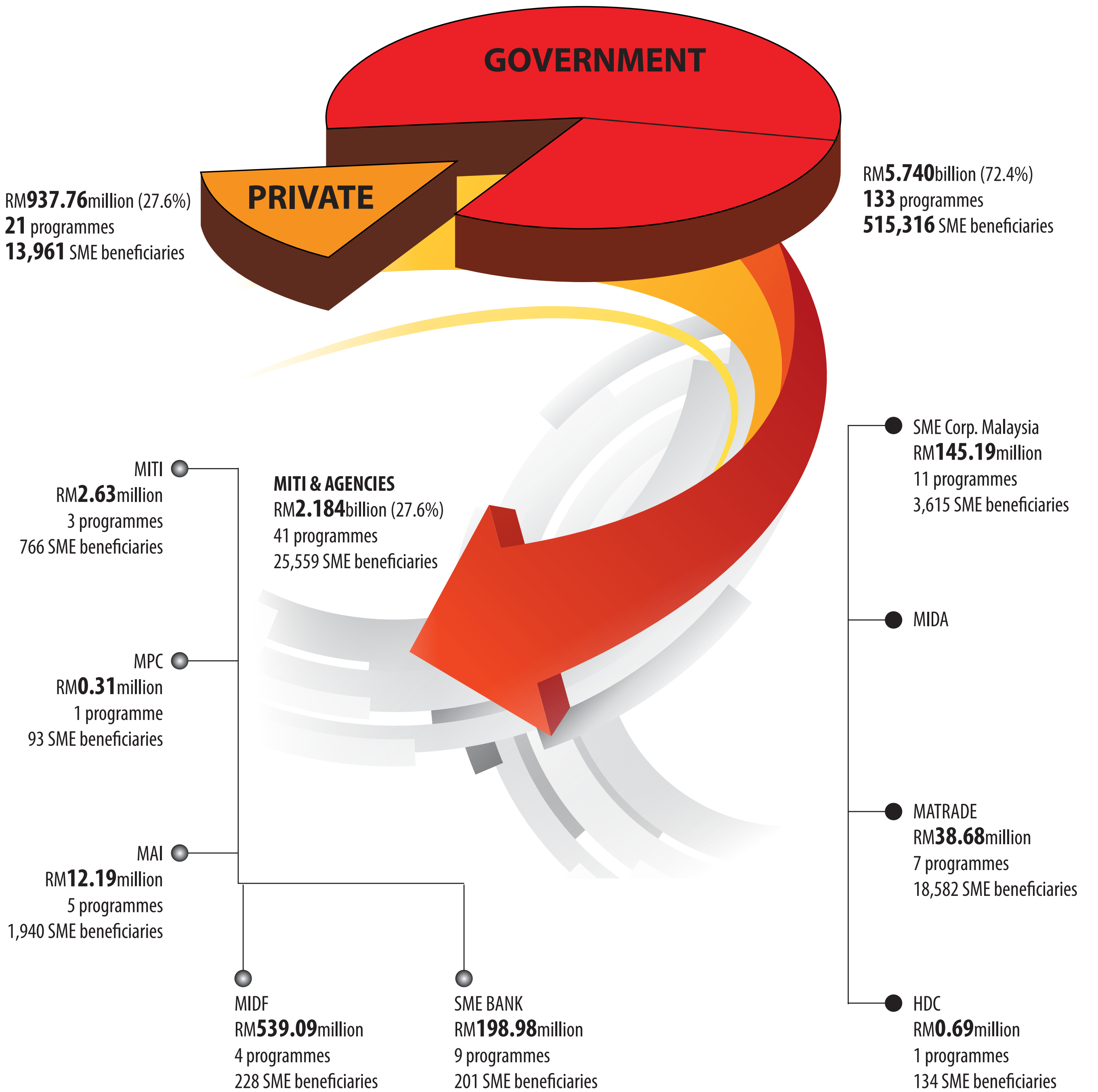
The share of SME exports to total exports increased gradually from 16.4 per cent in 2010 to 17.8 per cent in 2014, then slightly declined to 17.6 per cent in 2015. Since 2013, services exports have contributed a higher share to total exports than the goods sector. In 2015, the marginal decline of SME exports by 0.4 per cent was mainly influenced by lower tourism-related and other services activities. Evidence suggests that tourism has a strong multiplier effect on SMEs through backward and forward linkages.

SME GDP is estimated to expand in the range of 5.0-5.5 per cent in 2016, while in 2017, it will expand between 5.0-6.0 per cent. The economic contribution of SMEs to the Malaysian economy in 2016 is estimated to be in the range of 36.5-36.7 per cent of total GDP. The overall Malaysian economy recorded a growth of 4.2 per cent in 2016 and is projected to grow in the range of 4.3-4.8 per cent in 2017.

In the first quarter of 2017, the Malaysian economy recorded a higher growth of 5.6 per cent (4Q16: 4.5 per cent) at RM280.1billion. Private sector activity was higher and remained as the main driver of growth. Higher exports further lifted growth (1Q17: 9.8 per cent), as increased demand for manufactured products led to a strong expansion in real exports. Given the positive growth of Malaysia's economy in the first quarter of 2017, SMEs are expected to perform better going forward.

PROGRAMMES AND BUDGET ALLOCATION 2016

A total of 154 programmes with financial commitment of RM7.924billion (comprising Government funding and private funding) were implemented in 2016 to assist 529,277 beneficiaries.



MARKET ACCESS INITIATIVES IN 2016

GALAKAN EKSPORT BUMIPUTERA (GEB)

Launched in 2016 by SME Corp. Malaysia (SME Corp.) in collaboration with Majlis Amanah Rakyat (MARA), MATRADE and Exim Bank, GEB is a Bumiputera programme under the Eleventh Malaysia Plan (11MP). It is a new source of financial assistance for SMEs to enable them to be in a strong position to seize the myriad opportunities offered by the ASEAN Economic Community (AEC). GEB has two objectives. One objective is to increase the number of qualified and high-performing Bumiputera SMEs with export market potential. The other objective is to create networks and supply chain among Bumiputera SMEs.

- A total of 51 applications were received in 2016, out of which seven applications amounting to a combined total of RM5.3million were approved. Five of these approvals totalling RM1.1million were for matching grants while the other two were for soft loans totalling RM4.3million.

SMIDEX 2016 (17-19 May) - 18th SME Annual Showcase

This event recorded the highest amount of potential sales since its inception in 1997. In the Business Matching sessions, a total of 113 SMEs explored business opportunities with 40 potential business enablers comprising MNCs, Government-linked companies (GLCs) and large establishments in sectors such as electrical and electronics (E&E), food and beverages (F&B), chemicals, petrochemicals and engineering.

- A total of RM528.8million in potential sales was generated, 292 Business Matching sessions took place and the event attracted 10,640 trade visitors.

BUSINESS LINKAGE PROGRAMME (BLing)

BLing seeks to facilitate linkages between SMEs and large enterprises, MNCs and Government-linked Companies (GLCs) to facilitate vertical growth opportunities. This is achieved through Business Matching Sessions conducted annually during SMIDEX and at various other platforms.

- A total of RM714.7million in potential sales was generated and 786 linkages were recorded through 481 Business Matching Sessions involving 443 SMEs.

NATIONAL MARK OF MALAYSIAN BRAND

A collaborative effort between SME Corp. and SIRIM QAS International Sdn. Bhd., the mark is a stringent certification programme with the highest quality standards to represent the best of Malaysian products and services.

- A total of 130 companies have been certified with the mark since its inception in 2009, including the 10 companies that received the mark in 2016.

BRANDING AND PACKAGING MOBILE GALLERY (BRAND TRANSFORMER)

As branding and packaging are of critical importance to the success of a product or service, in 2016, the Brand Transformer continued with its mission to provide training to rural SMEs in these two aspects. The Brand Transformer went to three places, namely Kangar in Perlis (SME Week 2016), Jeli in Kelantan (Ekspo Keusahawanan Jeli) and Seremban in Negeri Sembilan (Karnival Usahawan Wanita 2016). Launched in 2012, the Brand Transformer is fitted out with an interactive, user-friendly and innovative display of packaging samples and materials.

- A total of 688 participants benefited from exposure to the Brand Transformer in 2016.

HALAL

Halal Industry Development Corporation (HDC) organised a forum on '*Bumiputera dan Industri Halal*' at MITI in February 2016. The Deputy Prime Minister, Dato' Seri Dr. Ahmad Zahid Hamidi, presented a keynote address to more than 1,200 participants comprising Bumiputera entrepreneurs and representatives from implementation agencies.

VENTURING INTO INTERNATIONAL MARKETS

MATRADE has been nurturing SMEs under the Bumiputera, Women and Youth Exporters Development Programme (BWYEDP) and assisting them to venture into international markets. SMEs are provided with customised business coaching, skills enhancement training, international business exposure, networking and mentoring as well as leadership and entrepreneurial quality development for the purpose of building up export capacity.

- In 2016, SMEs in BWYEDP participated in several iconic international trade fairs and Export Acceleration Missions (EAM) including Gulfood Dubai 2016, Arab Lab 2016, Foodex China 2016, Arab Health 2016, EAM on oil and gas to Brunei and the EAM in conjunction with Ecobuild 2016 in London.

CAPACITY BUILDING INITIATIVES

BUSINESS ACCELERATOR PROGRAMME (BAP)

BAP supports a wide range of capacity building initiatives to assist SMEs to grow their businesses locally and internationally. The programme provides business advice and financial assistance in the form of matching grant and soft loan schemes.

In 2016, a total of 534 SMEs received BAP financial assistance totalling RM60.28 million, out of which, 427 applications obtained matching grants amounting to a total of RM20.47million. Regarding matching grants, the largest number of approvals was for production capacity improvement with 68 per cent of the applications approved. This is a significant indication that SMEs have become more aware of the need to enhance productivity and reduce dependency on low-skilled workers.

SME Corp. grants soft loans under BAP in collaboration with SME Bank and Bank Rakyat. Funding can be applied for financing working capital and purchase of fixed assets that can contribute to business expansion. In 2016, the total approved amount granted for soft loans was RM39.81million,

MATRADE BUMIPUTERA, WOMEN & YOUTH EXPORTERS DEVELOPMENT PROGRAMME (BWYEDP) 2016

20 Bumiputera SMEs participated in **36** export promotional programmes and EAMs*

21 women-owned SMEs participated in **38** export promotional programmes and EAMs*

7 youth-owned SMEs participated in **11** export promotional activities and EAMs*

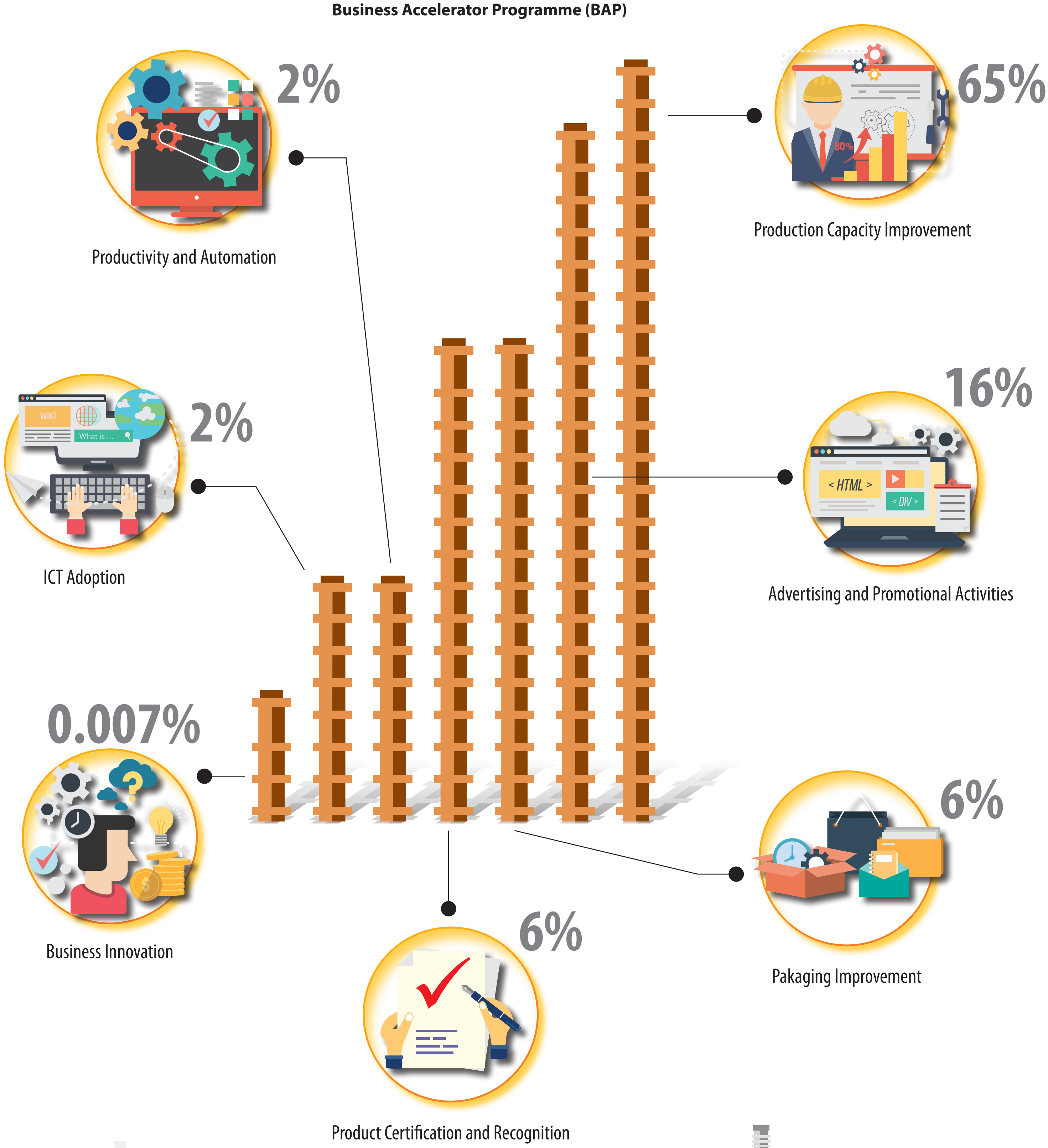
Business sectors of participating SMEs

- Food & Beverages
- Lifestyle
- ICT and Electrical & Electronic
- Oil & Gas
- Chemicals & Chemical Products
- Automotive
- Building Materials
- Business Services/Consultation
- Medical Devices & Healthcare Products
- Maintenance, Repair and Overhaul (MRO)
- Machinery, Appliance & Parts
- Pharmaceutical Products

* Export Acceleration Missions (EAM)

APPROVED PROJECTS FOR MATCHING GRANT UNDER BAP (31 DECEMBER 2016)

Business Accelerator Programme (BAP)



with 78 per cent of it to be used for financing working capital and the balance for purchase of fixed assets. SME Bank provided RM38.65million for 83 applications while Bank Rakyat granted RM1.16million for 24 applications.

SME MENTORING PROGRAMME

Since 2010, a total of 452 participants from 320 SMEs have benefited from this strategic collaboration between SME Corp., Nestlé Malaysia and Halal Industry Development Corporation (HDC). In this programme, Nestlé share their vast experience and best practices with SME entrepreneurs and thus help to increase the knowledge and capability of SMEs in the halal food and beverages industry.

In 2016, the programme was held at five locations, namely Shah Alam (Selangor), Seberang Jaya (Penang), Kuantan (Pahang), Kuching (Sarawak) and Kuala Lumpur, attracting a total of 110 participants from 77 SMEs.

SME EXPERT ADVISORY PANEL (SEAP) PROGRAMME

The SEAP Advisory Panel comprises retired experts from various industries and Government Agencies. They are appointed to provide technical and advisory services to assist SMEs in improving their operations and business best practices. By the end of 2016, SEAP had appointed 68 industry experts from various fields of expertise.

- Since the inception of SEAP in 2005, a total of 123 SMEs have benefited from the technology know-how and industry experience of the SEAP experts, resulting in progress and positive outcomes in their respective business operations.

LEAN CULTURE FOR VENDOR DEVELOPMENT PROGRAMME (VDP)

The VDP implemented by the Malaysia Productivity Corporation (MPC) adopts the Lean movement, which aims to create more value for customers with fewer resources. Participants are required to ensure the continuity and sustainability of Lean initiatives after completing the projects.

The Lean System and Public Sector Special Programme incorporates Lean Hands-on-Workshop and Lean international study mission designed to expose Lean practitioners to best practices implemented by the best organisations. The Creanova Lean is a best practices sharing session for selected organisations and 15 top Lean management projects are shared during this session.

- Lean Culture VDP has been a success with 74 organisations including 20 vendors embarking on Lean Management projects under MPC's Systems Development Programme during 2016. The Lean Management programme in 2016 for 16 vendors resulted in Total Cost Saving of RM4.888million, Total Time Saving of 2560 hours and the Reducing Steps/Processes record stood at 197 steps. A total of 39 vendors participated in VDP between mid-2014 (when the programme commenced) until the end of 2016 while another 14 vendors are expected to take part in 2017.

HALAL BUSINESS TRANSFORMATION (HBT) PROGRAMME

More than 500 companies participated in the Halal Business Transformation (HBT) programme conducted by the Halal Industry Development Corporation (HDC) in 2016.

HDC Halal Certification Facilitation Programme

300 companies have been facilitated.

HDC Halal Business Enhancement

150 companies have participated.

Among the strategic partners are Tesco, Giant, Jusco, Mydin and The Store.

HDC Mentoring

120 companies have participated.

The programme is a collaboration with Nestle Malaysia Berhad and Perfect Food Manufacturing Sdn Bhd, producer of Julie's biscuits, which provide the mentoring.

DEEP
Dealers Entrepreneurship Enhancement Programme (DEEP) aims to enhance the competency and capabilities of current automotive dealers. Programme achievements:

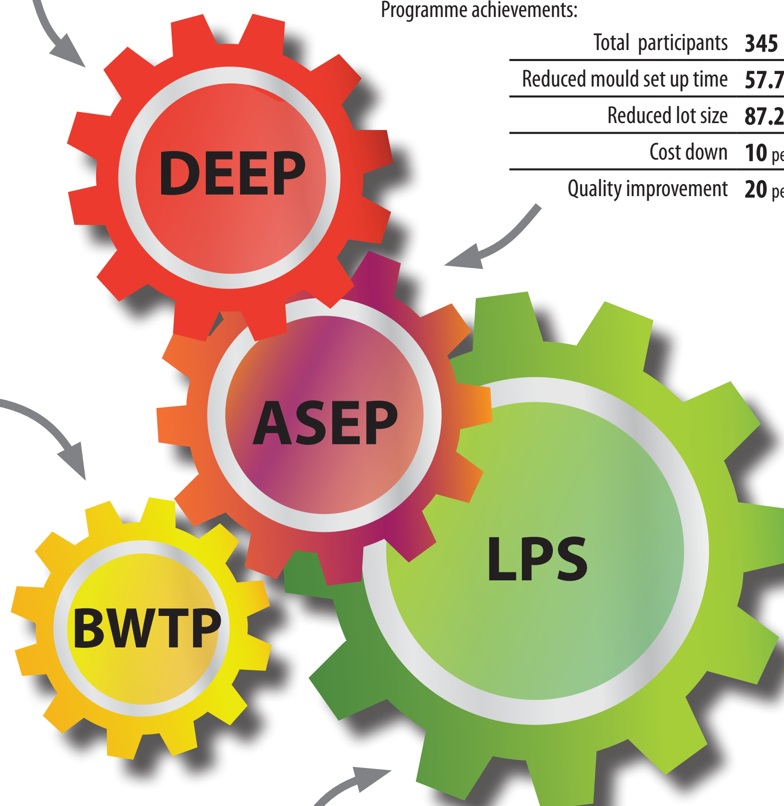
YEAR	NUMBER OF DEALERS
2015	**12**
2016	**20**

ASEP
It elevates local automotive suppliers to a world-class level of competitiveness and sustainability. The exercise compares the performance of participating companies against 11 ASEP competencies and global best practices.
Programme achievements:

Total participants	**345**
Reduced mould set up time	**57.7** per cent
Reduced lot size	**87.2** per cent
Cost down	**10** per cent
Quality improvement	**20** per cent

AUTOMOTIVE

The programmes implemented by Malaysia Automotive Industry (MAI) are structured to assist automotive SMEs to develop a sustainable business and stay competitive in the long term.



BWTP
Bumiputera Workshop Transformation Program (BWTP) aims to enhance the capability and competency of workshop owners and entrepreneurs in their business ventures. This will create a more structured, modern and transformed automotive maintenance and repair services sector and lead to increased Bumiputera participation in the industry.
Programme achievements:

YEAR	NUMBER OF WORKSHOPS
2014	**157**
2015	**252**
2016	**1000**

LPS
Lean Production System (LPS) is conducted in collaboration with Proton and Perodua. It involves MAI's LPS Experts coaching automotive suppliers, focusing on the enhancement of productivity within the vendors' manufacturing operations. Participants go through two main stages of LPS: three months training and six months monitoring. Programme achievements:

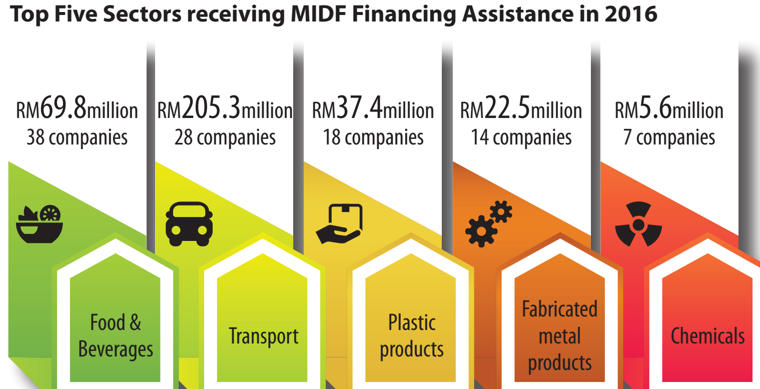
Total participants	**141**
Space optimisation	**53.4** per cent
WIP	**69.8** per cent
Downtime	**70** per cent
Capacity	**77** per cent

SUCCESS OF SME DEVELOPMENT PROGRAMMES

ACCESS TO FINANCING

Two financial institutions, MIDF and SME Bank under the purview of MITI, offer financial assistance to eligible SME applicants.

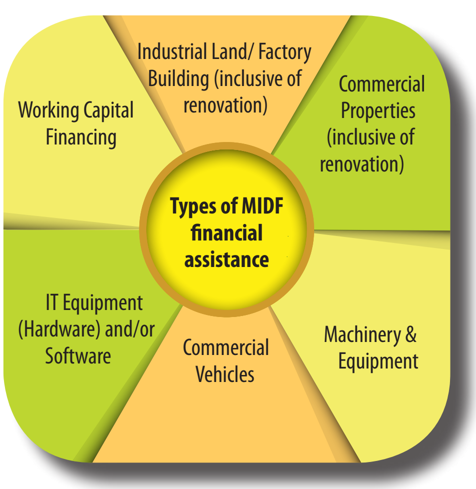
Top Five Sectors receiving MIDF Financing Assistance in 2016



* Status as at 31 December 2016.

Since its establishment in 1960, MIDF has granted a total of RM13.5billion in loans to 10,422 companies. In 2016 alone, MIDF assisted 241 companies with loan approvals amounting to RM550.63million.

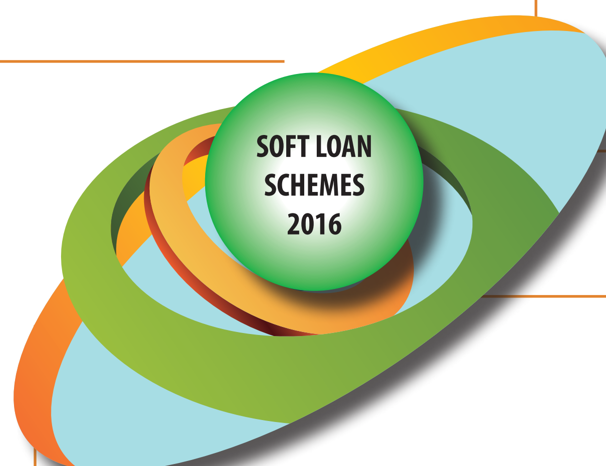
MIDF's financial assistance programmes are for the purpose of establishing or expanding a business that involves acquisition of fixed assets and provision of working capital. The focus is on business expansion, innovation and upgrading to achieve greater automation and modernisation. MIDF's programmes also aim to enhance the competitiveness of local companies on top of achieving Industry 4.0 status.



MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE (MIDF)

Soft Loan Scheme for Automation and Modernisation (SLSAM)
- To assist local manufacturers to automate and modernise production processes
- Fixed profit rates as low as 4 per cent per annum
- Up to 100 per cent financing

Soft Loan Scheme for Small & Medium Enterprise (SLSME)
- To promote the development and business expansion of Malaysian SMEs
- Fixed profit rates as low as 4 per cent per annum
- Up to 100 per cent financing



Soft Loan Scheme for Services Sector (SLSSS)
- To assist companies and enterprises in the services sector to improve productivity and efficiency delivery
- Fixed profit rates as low as 4 per cent per annum
- Up to 100 per cent financing

Soft Loan Scheme for Services Exports (SLSSE)
- To assist Malaysian Services Providers (MSPs) undertaking expansion activities and venturing into international markets
- Fixed profit rates as low as 2 per cent per annum
- Up to 90 per cent financing

Soft Loan Scheme for Bumiputera Automotive Entrepreneurs (SLBAE)
- To facilitate and assist Bumiputera Open Approved Permit (AP) holders to expand into automotive-related business and other businesses.
- Fixed profit rate of 3.5 per cent per annum
- Up to 100 per cent financing

The Government encourages local companies to invest more in high value-added manufacturing activities via MIDF financial assistance programmes. This is to increase innovation and enable local companies to maintain cost efficiency in production and services delivery.

The mission of SME Bank is to nurture and groom SMEs to drive the economic growth of the country, according to the mandate by the Government. SMEs, in return, are expected to contribute 41 per cent to the country's GDP by 2020.

SME Bank's financing programmes in 2016 were designed to enhance and strengthen SMEs to move up the value chain. During the year, SME Bank approved a total loan amount of RM2.9billion benefiting 1,376 SME customers.

During the period from 2013 when the bank's intervention programme was introduced until the end of 2016, more than 1,080 bank customers had migrated upwards. Customer upward migration also showed appreciable improvement, from 111 per cent in 2015 to 165 per cent in 2016 versus the targets for both years. This is a significant achievement as SMEs that can sustain their business help to ensure a quality portfolio for the bank. Upwards migration is measured using two indicators, namely market expansion from local to export and improvement in SME Competitive Rating for Enhancement (SCORE) or Risk Rating.

TERAS Financing Scheme
- 1,014 companies have registered with TERAS and 175 of them have obtained financing from SME Bank amounting to RM843.07million.

EquiBumi Financing Facility
An amount of RM300million has been allocated by the Government under National Budget 2014 to assist credible Bumiputera companies (Acquirer) to take over listed companies or companies with the potential to be listed on Bursa Malaysia Securities Berhad (Target Company).
- Seven companies have received approval with total financing of RM248million.*

Malay Reserve Development Financing Programme (MRDF)
Initiated by the Government under National Budget 2014 for the development of Malay Reserve Land in strategic areas in Kuala Lumpur, MRDF has an allocation of RM200million.
- SME Bank has approved total financing of RM57.3million for 3 SME applicants.*

Online Business Financing (OBF)
First introduced in July 2015 to provide young graduates with financial assistance to start their own business, OBF is a unique initiative to help entrepreneurs establish a viable online business presence.
- SME Bank has approved RM5million financing benefiting 39 Bumiputera entrepreneurs.

Entrepreneur Premise Programme
Participating SMEs can obtain financial assistance, advisory services and factory space for rental at a competitive rate.
- SME Bank has 454 factory lots located in 26 Complexes for Enterprise Premise nationwide with 90 per cent occupancy rate.

TRENDS AND CHALLENGES FOR SMEs

BORDERLESS WORLD (eCOMMERCE AND ONLINE RETAILING)

eCommerce is transforming the global business landscape at an unprecedented speed. In order to be successful, eCommerce entrepreneurs would need to embrace change and master new business techniques as well as international trade requirements if they are conducting cross-border business.

The uptake of eCommerce has mainly been confined to large enterprises in the developed world even though eCommerce offers a range of benefits such as enhanced participation in global value chains (GVCs), increased market access as well as improved internal and market efficiency at lower transaction costs. This is also true for adoption of ePayment and Cash on Delivery. Barriers to eCommerce are economic in nature, such as inadequate ICT infrastructure and use, unreliable and costly power supply, limited use of credit cards, lack of purchasing power and underdeveloped financial systems.

eCommerce in Malaysia is projected to grow at 11 per cent of CAGR. However, eCommerce is now at an inflection point where focused interventions can double its growth and drive its GDP contribution to cross the RM170billion mark by 2020.

The National eCommerce Council (NeCC) has been placed in charge of the National eCommerce Strategic Roadmap comprising six thrust areas to 'future-proof' existing businesses and boost eCommerce:

- Accelerate seller (SMEs) adoption of eCommerce;
- Increase adoption of eProcurement by businesses;
- Lift non-tariff barriers (i.e. domestic eFulfillment, cross-border eCommerce, ePayment and consumer protection);
- Realign existing economic incentives;
- Make strategic investments in selected eCommerce players; and
- Promote national brand to boost cross-border eCommerce.

SME Corp. has been tasked to lead Thrust 1 of the Roadmap by implementing the following programmes:

- Register users via One Stop Business Portal (*www.eCommerceAcademy.my*)
- Train SMEs via One Stop Business Portal (*www.eCommerceAcademy.my*)
- Train SMEs by conducting workshops and outreach programmes with Agencies, eCommerce Partners and Associations
- Conduct workshops and programmes on eCommerce adoption with Agencies, eCommerce Partners and Associations.

TRADE AGREEMENTS (FTAs), REGIONAL PACTS (AEC, RCEP) AND LIBERALISATION (SERVICES)

It is critical for Malaysia, as a trading nation with a small domestic market, to continue to adopt an open trade and investment regime to promote economic growth, provide opportunities for high-skilled employment as well as promote technological development and innovation. Moreover, increased internationalisation through trade and participation in global value chains (GVCs) are opportunities for SMEs to achieve economies of scale, expand market share and increase productivity.

Free Trade Agreements (FTAs) offer better market access for Malaysian goods and services and SMEs are therefore encouraged to leverage on these FTAs to capitalise on the opportunities to penetrate export markets. However, it is recognised that SMEs would first need broad-based access to comprehensive information. Alongside FTAs, the use of eCommerce platforms would facilitate faster and wider market access.

CHALLENGES TO FTA UTILISATION BY SMES

Barriers to information

According to the ASEAN Strategic Action Plan for SME Development 2016-2025 (SAP-SMED 2025), ASEAN enterprises have limited information about accessing markets and are not well aware of the issues related to international standards and requirements. Lack of technical knowledge prevents these enterprises from participating in the GVCs causing SME contribution to exports to remain small.

Technical barriers to trade

For SMEs, a major obstacle to market integration is technical trade barriers. Time and cost of trading across borders can affect the capability of SMEs to venture into international markets. Malaysia ranks third after Singapore and Thailand, requiring 58 hours for border and documentation compliance and cost to export at USD366 per container.

Effects of size

It has been found that the size of a business significantly affects its participation in GVCs and FTA use. Cost is a critical factor when considering GVC participation or FTA use as resources are required to learn and understand FTA provisions, tailor business plans to complex tariff schedule and obtain Certificates of Origin. There is also an initial fixed cost of entry to the value chain and maintaining a foothold. Large enterprises with economies of scale and substantial resources obviously have the advantage over SMEs to obtain the benefits of FTAs and GVCs.

Investment in technology to enhance productivity

SMEs that invest in technology and have high labour productivity are more likely to be part of the GVC. In addition to size, the technological capability of enterprises, as captured by ownership of a foreign technology license as well as research and development (R&D) share of sales, was found to be positively and significantly associated with SME participation in GVC trade. The productivity of SME employees, as measured by total sales per unit of labour, was also found to be positively related to participation in value chains. This suggests that the extent to which an enterprise actively engages in improving its technology, production, and processes positively influences its participation in GVCs.

Source: www.asiapathways-adbi.org/2015/01/sme-internationalization-through-global-value-chains-and-free-trade-agreements-malaysian-evidence/

LEVERAGING ON ECONOMIC AND TECHNICAL COOPERATION IN FTAS

The importance of the chapters on Economic and Technical Cooperation (ECOTECH) in FTAs is often overlooked or underutilised as, customarily, the focus of FTAs is more on the liberalisation of rules, tariffs and investments. Essentially, the ECOTECH chapters are regarded as the balancing act, aimed at narrowing development gaps and allowing all parties to maximise mutual benefits derived from the FTAs. The least developed and developing countries could leverage on the provisions provided in these chapters to obtain technical know-how from the more advanced parties to the FTA especially in fulfilling obligations arising from these trade agreements, such as the following programmes implemented under the ASEAN-Korea Working Group on Economic Cooperation:

- ASEAN Workshop on FTA Utilisation for SMEs;
- Public-Private Partnership (PPP) Fora on Agriculture and Fishery Sectors among ASEAN and Republic of Korea;
- Capacity Building in Radiation Technology; and
- Training on Molecular Techniques for Rice Quality Assurance.

It is significant that issues on SME integration into GVCs are gaining momentum in FTAs. Over the years, specific provisions on SMEs have been included in ECOTECH chapters under ASEAN-led FTAs with several trade partners including the following:

- ASEAN-Korea FTA (Chapter 3: Economic Cooperation);
- ASEAN-Japan Comprehensive Economic Partnership (Article 53: Fields of Economic Cooperation); and
- ASEAN-China FTA (Chapter 4: Amendment of Provisions Relating to Economic and Technical Cooperation).

This is due to the fact that parties to FTAs acknowledge that SMEs form the majority of businesses in most countries. Thus, enhancing SME internationalisation and integration into GVCs could bring in multiplier impacts. In fact, RCEP recognises the importance of being inclusive especially to enable SMEs to leverage on the agreement and cope with challenges arising from globalisation and trade liberalisation. SMEs (including Micro Enterprises) make up more than 90 per cent of business establishments across RCEP participating countries and are important to every country's endogenous growth of the economy.

OPPORTUNITIES FOR SMES ARISING FROM GREATER INTEGRATION VIA RCEP

It is unquestionable that RCEP has the potential to deliver significant opportunities for businesses in the East Asia region given the fact that the 16 RCEP participating countries account for almost half of the world's population and contribute 30 per cent of global GDP as well as over a quarter of world exports. For both procurement and export structure, the RCEP region is found to be the dominant source/destination for companies operating in RCEP participating countries. This trend is likely to continue in the next three to five years. RCEP will provide a framework aimed at lowering trade barriers and securing improved market access for goods and services for businesses in the region.

MEGATRENDS (INDUSTRY 4.0, BIG DATA ANALYTICS)

Megatrends such as Industry 4.0 and Big Data Analytics are global forces of development that will have different impacts on different economies, industries, businesses and societies. With Industry 4.0, the rise of new digital industrial technologies represents a paradigm shift in revolutionising manufacturing and production.

Manufacturers who embrace Industry 4.0 can reap the benefits such as increased productivity and being able to optimise manufacturing to produce higher quality products at lower costs through using more efficient and flexible processes, automated and integrated production lines as well as logistics processes with their corresponding IT systems.

To maintain their competitive edge and to move ahead, SMEs would need to adapt their production processes to technological advancements besides enhancing workforce competency.

NEW DISRUPTIVE TECHNOLOGIES

While SMEs continue to focus on conventional innovation to create new products or new methods of doing things, they should explore disruptive technology. This offers them new or non-traditional methods to create new products, new markets and new ways of doing business that will lead to increased innovation, competitiveness and productivity. Malaysians are already utilising disruptive technology products and services such as 3D printing and robotics. It is therefore imperative that SMEs continually innovate, be creative in venturing into new business models and be alert to new opportunities while leveraging on available resources to stay relevant in the competitive and fast-changing business landscape.

BUMIPUTERA ENTREPRENEURSHIP DEVELOPMENT

On 14 September 2013, the Prime Minister of Malaysia Dato' Sri Mohd Najib bin Tun Abdul Razak announced the establishment of the Bumiputera Economic Empowerment Agenda (BEEA), an initiative to ensure that wealth is distributed and enjoyed equally by all races. BEEA, which also aims to reduce the income gap between the major races in this country, focuses on five key strategies:

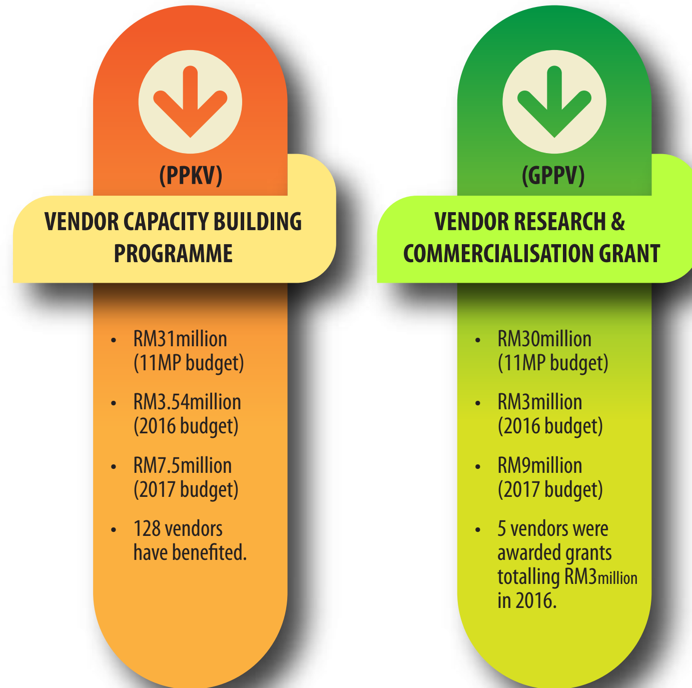
- Enable Bumiputera Human Capital;
- Strengthening Bumiputera Equity Qwnership in the Corporate Sector;
- Strengthening Bumiputera Non-Financial Assets;
- Intensifying Bumiputera Entrepreneurship and Business; and
- Strengthening Services Delivery Ecosystem.

The Prime Minister chairs the Bumiputera Economic Council (MEB), which was established in September 2013 to replace the Bumiputera Agenda Action Council (BAAC), and closely monitors the implementation of BEEA initiatives by various Ministries and Government-linked investment companies (GLICs) and Government-linked companies (GLCs).

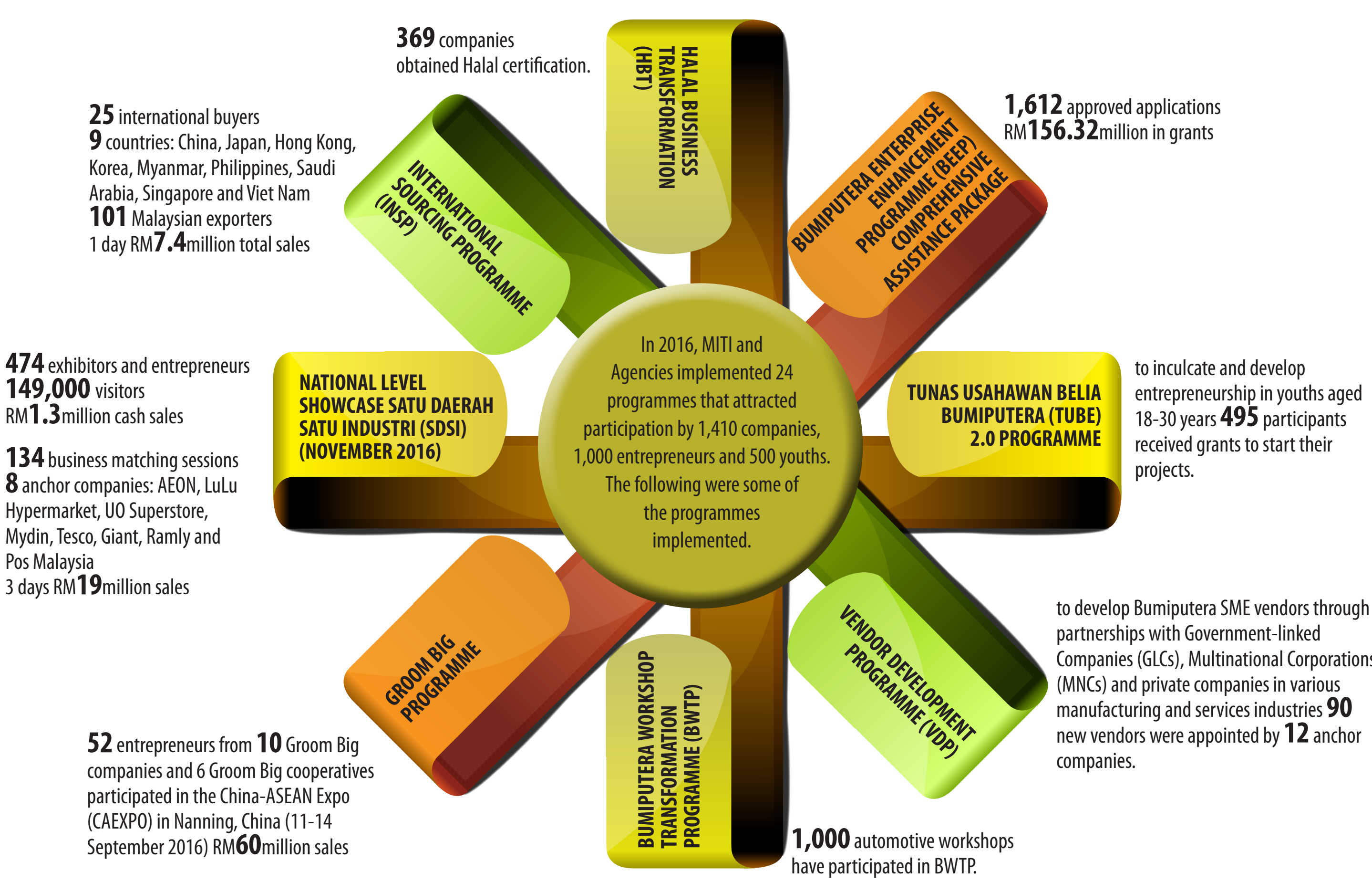
KEY PROGRAMMES FOR BUMIPUTERA

MITI Vendor Development Program (VDP)
MITI's VDP aims to grow Malaysian SMEs into manufacturers and suppliers of components and services required by large Malaysian companies, MNCs and GLCs in the domestic and global market. As at December 2016, VDP involved 19 anchor companies and 1,440 vendors including 90 new vendor companies. Going forward, to increase the pool of Anchor companies which will enable more Bumiputera SMEs to be developed under VDP, MITI will continue to establish strategic collaborations with more large Malaysian companies and MNCs.

In GLC ExplorAce 2016, a collaboration between MITI, Sime Darby and MIDF, a total of 588 SMEs and 13 large companies participated in business matching. More than 2,000 visitors attended.



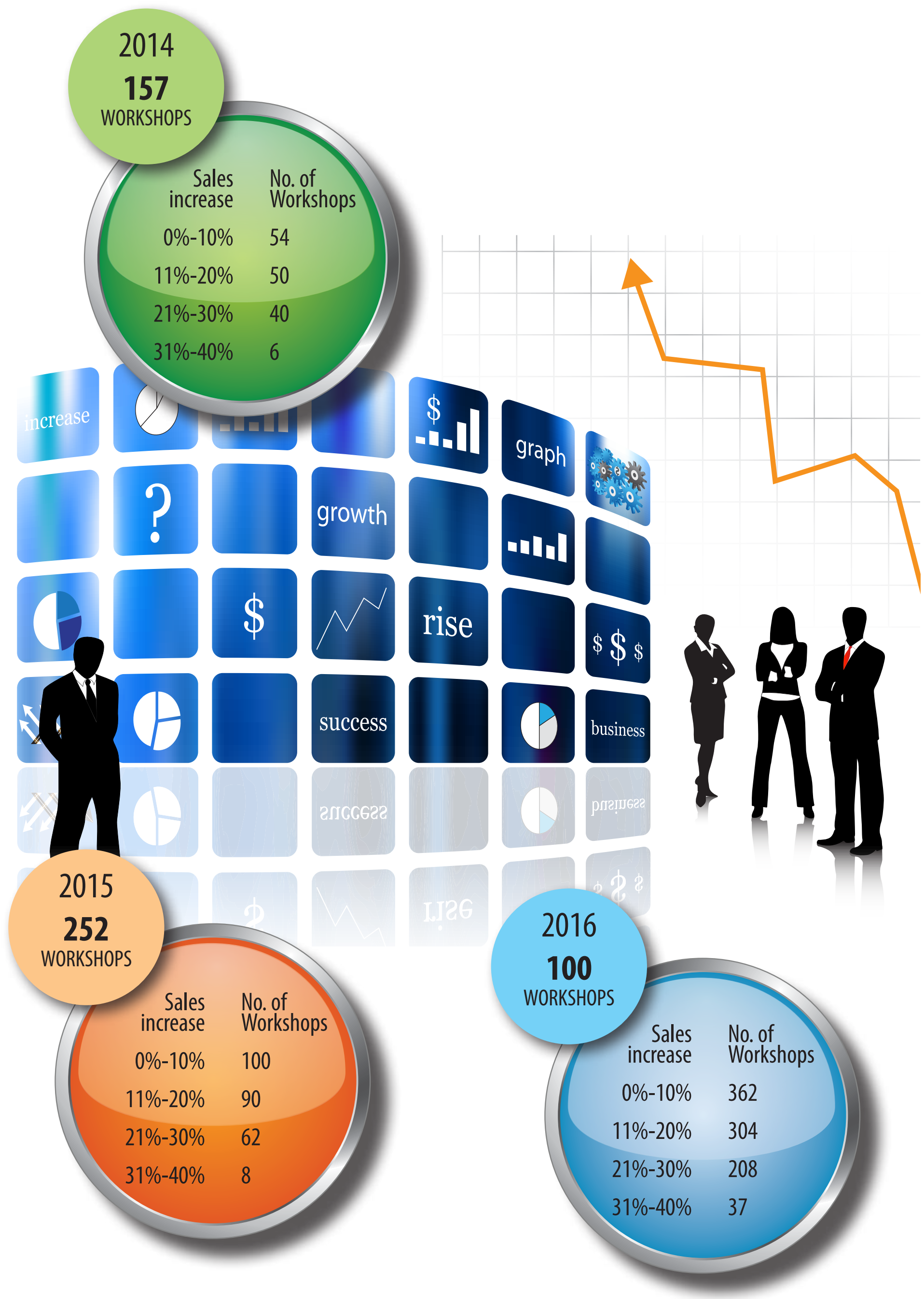
PERFORMANCE OF BUMIPUTERA ECONOMIC EMPOWERMENT AGENDA (BEEA)



MITI - Satu Daerah Satu Industri (SDSI)
An economic development programme coordinated by the Implementation Coordination Unit (ICU), Prime Minister's Department, SDSI or One District One Industry aims to empower entrepreneurs producing goods at the district level and provide them with the competitive edge to compete in the export market. SDSI focuses on entrepreneurial development in four main clusters: food and beverages (F&B), beauty and wellness, crafts and homestay. MITI is the lead for the Working Committee on Promotion, Marketing and Entrepreneur Development for SDSI Showcase.

MITI - Groom Big Programme
MITI aims to groom SMEs so that they can contribute to making Malaysia a developed nation by 2020. Introduced in 2006, Groom Big Programme seeks to improve the capabilities of SMEs and enhance the internationalisation of their products and services. By the end of 2016, a total of 1,249 entrepreneurs and nine State-based cooperatives had been successfully established under the programme.

The target group are SMEs in F&B manufacturing that have proper production facilities and are capable of partially financing the cost of the intervention modules. Customised to help SMEs meet the challenges of globalisation and market liberalisation, the modules available include brand development, packaging design, certification, quality improvement and production process optimisation.



Bumiputera Workshop Transformation Programme (BWTP)
BWTP is implemented by Malaysia Automotive Industry (MAI) to enhance the capability and competency of Bumiputera workshop entrepreneurs leading to increased Bumiputera participation in the automotive maintenance and repair services industry.

Over a nine-month period, BWTP participants are trained in the fundamentals of entrepreneurship and exposed to techniques in stabilising their business through five key aspects, which are delivered through a '1-to-1 Intensive Coaching Session' conducted once a month. Participants are selected according to programme requirements and their determination to improve their competitiveness in the automotive industry.

Tunas Usahawan Belia Bumiputera (TUBE) Programme
A Government initiative launched in 2014 to encourage Bumiputera youths to venture into business, TUBE is implemented by SME Corp. and has three objectives:
- Nurture and cultivate the spirit of entrepreneurship among youths;
- Change the paradigm of youths from workers to owners or operators of businesses; and
- Establish resilience and self-esteem among youths in managing their own businesses.

TUBE requires both mental and physical endurance as participants are exposed to the landscape and challenges of the business world through three phases:
Phase 1: Test the Perseverance of Mind and Physical (Boot Camp)
Phase 2: Increase Knowledge of Effective Business Operations (Business Workshop)
Phase 3: Guidance on Effective Business Operations ('Buddy System')

A total of 1,436 youths participated in TUBE between 2014 and 2016, and 1,424 of them (99 per cent) have registered their businesses. In 2017, SME Corp. will introduce Mega TUBE 2017 in line with National Transformation 2050 (TN50) Roadmap which encourages more youths to take part in entrepreneurship.

Bumiputera Enterprise Enhancement Programme (BEEP)
BEEP aims to improve the competitiveness of Bumiputera SMEs through integrated assistance which includes certification, packaging, premises for youth entrepreneurs to rent, advisory services, technical assistance, training and financial support. The programme is implemented by SME Corp. in collaboration with State Governments and various Agencies providing technical assistance and support.

A total of 1,612 applications with matching grants amounting to RM156.32million were approved from commencement of BEEP until 31 December 2016. In 2016 alone, RM39.7million was approved for 254 Bumiputera SMEs.

Selangor recorded the most approvals with 31 Bumiputera SMEs granted a total of RM5.13million followed by Negeri Sembilan with 33 Bumiputera SMEs granted a total of RM4.81million. The majority of the approvals was for Product and Process Improvements, Product Packaging, and Certification and Quality Management System.

IPO Seminar 2016: Stairway to Listing
With the objective of supporting the Government agenda to help local SMEs raise capital and market profiles, the IPO Seminar and Dialogue Session in 2016 were jointly organised by SME Corp., Bursa Malaysia, MIDF and TERAJU. Participants were able to get an insight into the public listing process from the seminar and through a unique opportunity of engaging with relevant listing experts.

A total of 479 entrepreneurs have participated in Stairway to Listing since the inaugural seminar in 2011, including 79 participants from 52 companies in 2016. Additionally, a total of 21 qualified SMEs have been selected to attend Listing Clinics conducted by Bursa Malaysia. By the end of 2016, three SMEs had successfully completed their initial public offerings (IPOs) with a total market capitalisation of close to RM657million.

Local to Global Corporations (LGC) ASCEND 800 Programme
Initiated by SME Corp. and Majlis Perundingan Melayu (MPM) to strengthen Bumiputera SME participation in business, LGC ASCEND 800 was introduced in 2014 under the Bumiputera Economic Empowerment Agenda (BEEA).

A total of 17 Bumiputera SMEs were identified and actively involved in business coaching between 2014 and 2016. Three Bumiputera SMEs, namely Ideal Healthcare Sdn. Bhd., Scale Design Sdn. Bhd. and Bina Integrated Industries Sdn. Bhd. that have been successfully matched with GLCs, receive investment and equity injection amounting to RM22million from Tabung Haji (TH) and Permodalan Nasional Berhad (PNB).

Success Story

SME BANK GRADUATE ENTREPRENEUR FUND (TABUNG USAHAWAN SISWAZAH) (TUS)

Launched in 1998 by SME Bank to encourage graduates to venture into business as their career, TUS has contributed appreciably to the development of local SMEs. The untiring efforts of SME Bank and the success of TUS received international recognition when the bank won the Human Capital Development Award presented by the Association of Development Financial Institution in Asia Pacific (ADFIAP) in 2016.

Unlike traditional financing, TUS offers entrepreneurial training for the recipients on top of the financial assistance granted. Between 1998 and 2016, SME Bank approved financing totalling RM219.63 million for 1,662 projects including small enterprises in various business segments such as boutiques, beauty salons, beauty products, auto repair and professional firms.

The impact study conducted in 2014 established that TUS had achieved its objectives besides revealing the success of TUS recipients (at the time of the study) as follows:

- 77 per cent have successfully increased their sales and profit after entering the programme;
- 98 per cent are focusing on the local market;
- 2 per cent have successfully penetrated the export market; and
- 16 per cent have expanded their businesses by opening new branches and diversifying their products.

SME CORP. MALAYSIA TUNAS USAHAWAN BELIA BUMIPUTERA (TUBE) 1.0 PROGRAMME

Euro Assyst Auto Care in Sungai Petani, Kedah specialises in the repair of European and Japanese cars such as Mercedes Benz, BMW and Honda. The company employs eight staff and recorded total cumulative sales of over RM1 million in 2016. Founder and owner Encik Mohd Ridzwan bin Mohamad Halim was a participant in Tunas Usahawan Belia Bumiputera (TUBE) 1.0 Programme in 2014. He started his business on 1 March 2014 and expanded it with a start-up grant of RM15,000 under the TUBE 1.0 Programme.

Encik Mohd Ridzwan has gained invaluable knowledge of the car repair business and exposure to the industry through TUBE 1.0, which taught him the value and importance of punctuality, self-discipline, team work, strategic thinking as well as mental and physical resilience in running an enterprise. He has also learned about cash flow management, business management, marketing and branding.

MITI VENDOR DEVELOPMENT PROGRAMME

Established in 1984 as a trading company in Kampung Sungai Penchala, Kuala Lumpur, Indkom Engineering Sdn. Bhd. was appointed a distributor for Felten & Guoilleume Energietechnik GmbH, a German company, to market the GA24 brand of 11kV switchgears to Tenaga Nasional Berhad (TNB) in the 1990s. In 1991, the company started to supply Ring Main Unit (RMU) to TNB.

Indkom then became a TNB vendor through the MITI Vendor Development Programme (VDP) for Switchgears and in 2015, participated in the Enterprise Innovation Intervention Programme under VDP-MITI conducted in collaboration with Malaysia Productivity Corporation (MPC). In 2016, Indkom received the Research & Commercialisation Grant under VDP to produce a Compact Substation Unit for TNB. Today, the company has grown to become one of TNB's strategic partners.

MATRADE EXPORT DEVELOPMENT PROGRAMME

Ideal Healthcare Sdn Bhd (IHSB), a Bumiputera-owned company established in 1999 and formerly known as Mutiara Medical, is one of Malaysia's leading providers of quality disposable medical and healthcare products. It has been awarded the prestigious CE, ISO 9001:2000 (QMS), ISO 14001:2004 (EMS) and ISO 13485:2003 (Medical Devices-Quality Management Systems).

Through its participation in MATRADE's export development programmes and promotional activities such as Bumiputera Exporters Development Programme (BEDP), Go-Ex, International Trade Fairs and Export Acceleration Missions, IHSB has been able to secure

Success Story

export sales contributing to some 25 per cent of the company's total sales in 2016. IHSB exports urology catheters, anesthesia products, intravenous catheters, IV infusion/ transfusion therapy and procedural sets to markets such as Singapore, Indonesia, Brunei, Australia, Bangladesh, Viet Nam, Thailand, Philippines, Pakistan, New Zealand, Mauritius, Saudi Arabia, Fiji, Tonga and Papua New Guinea.

MATRADE YOUTH EXPORTERS DEVELOPMENT PROGRAMME (YEDP)

Hadid Engineering (M) Sdn Bhd offers quality engineering services for the Oil & Gas Upstream and Downstream industry and has been awarded certifications such as ISO 9001:2008 and OHSAS 18001:2007. Established in 2004, the company participated in Go-Ex Market Immersion Mission to Kazakhstan in August 2016 and successfully promoted their valve servicing.

Recruited into YEDP in 2015, Hadid Engineering is registered and licensed under PETRONAS to provide a wide range of services including Engineering Design & Project Management, Engineering Operations & Maintenances, Construction & Fabrications and Electrical & Instrumentations. The company's overseas office in Kazakhstan provides onshore drilling services.

MATRADE WOMEN EXPORTERS DEVELOPMENT PROGRAMME (WEDP)

CALMS Technologies Sdn Bhd (CALMS Technologies), a provider of leading edge solutions for multiple application smartcards and Radio Frequency Identification (RFID) solution, was established in 2002 and has been in WEDP since 2014.

The company has been awarded the ISO 9001:2008 for total end-to-end solutions for any smartcard platforms and has various off-the-shelf solutions suitable for government, retail, education, enterprises and the finance sector.

CALMS Technologies participated in a business meeting with RICOH Thailand Ltd at MATRADE Bangkok office during the Specialised Marketing Mission (SSM) on ICT to Thailand in 2015 and successfully signed an MoU with the company on 2 March 2016. Cooperation between Calms Technologies Sdn Bhd and RICOH Thailand is worth RM1.1 million.

Through the Go-Ex Market Immersion Mission to Jakarta Indonesia in May 2016, the company supplied services covering Card Issuance and Management System (CALMS-e), Visitor Management System (ViMS), Meal Redemption System (ePurS/eMeRS) and Time Attendance System (TAMS). At the Go-Ex programme to Myanmar in October 2016, the company established negotiations with Mastech Co. Ltd to provide ViMS.

AFI BRAKE MANUFACTURING SDN BHD WINNER OF GOLDEN BULL AWARD 2011 & 2008, ENTERPRISE 50 SME AWARD 2008 AND OTHER AWARDS

With sales revenue of around RM2.5million per month and backed by product R&D, innovative ideas, coordinated marketing and excellent after sales service, AFI Brake ranks among the top three manufacturers of automotive brake pads, shoes and lining in Malaysia. The company sells over a million sets featuring 950 types annually to the international market (Japan, Republic of Korea, The People's Republic of China, India, Indonesia, Thailand, Brunei, Singapore, the Middle East, Africa, Europe and the United States) and the domestic market. AFI Brake's manufacturing operation and products are in compliance with SIRIM's MS1164 standard and the European E11 standard.

Established in Kepong, Selangor in 1995, AFI Brake relocated to Kuala Terengganu to its own factory premises in 1998 with an initial loan of RM864,000 from MIDF. To date, MIDF has loaned RM13.585 million to AFI Brake and their related companies for expansion, upgrading and automation programmes in the light of Malaysia's desire to become an automotive components global hub.

MITI's overseas and domestic regional offices, in cooperation with MITI Agencies, assist companies/industries, investors and individuals on matters relating to trade and industry.

OUTREACH 2016

Apart from formulating policies on trade and industry, the Ministry of International Trade and Industry (MITI) is also committed to disseminating information about them and updating both industry and the general public on all new and existing policies.

MITI OUTREACH PROGRAMMES

FTA POCKET TALK

A total of 564 participants from various industries attended a series of 14 FTA Pocket Talk sessions held at MITI Headquarters and Regional MITI Offices to learn more about the benefits of the various FTAs with Malaysia. A separate session was conducted at PETRONAS (KLCC) for their employees upon their request.

MITI DAY 2016 (17 October)

The inaugural MITI Day, held at the newly-erected Menara MITI in Jalan Sultan Haji Ahmad Shah, Kuala Lumpur attracted a large crowd comprising customers, stakeholders and the general public. It was an excellent opportunity to publicise the many roles and functions of MITI and its Agencies as well as to consolidate the relationship with various groups. The eCommerce Coordinating Office, National Aerospace Industry Coordinating Office (NAICO), Securities Commission (SC) and Securities Industry Dispute Resolution Centre (SIDREC) also assumed important roles during MITI Day.

At the MITI and Agencies Showcase, visitors were able to obtain the latest information about the various services offered by the Ministry and its Agencies. Five thousand job opportunities were advertised by 60 manufacturing/services companies and GLCs at the MITI Day Job Fair organised by MIDA. The event succeeded in matching employers from all industry sectors with jobseekers who were mostly undergraduates in their final year.

CSR@MITI Showcase promoted the Corporate Social Responsibility (CSR) activities of MITI and its Agencies, highlighting their efforts to preserve the environment. At the 'Sharing is Caring' section, MITI's differently-abled officers (OKU) showed their skill in using the disabled-friendly software 'Jaws' and the Braille machine, impressing visitors who later received custom-made Braille bookmarks as a souvenir. Equally interesting was the Henna Art booth, where members of the National Society for the Deaf Malaysia revealed their creativity in the traditional art.

The MITI Motor Show staged by the Malaysia Automotive Institute (MAI) was an instant hit with visitors, who streamed in to feast their eyes on the car display put up by five major automotive manufacturers, namely Proton, Perodua, Honda, Mazda and Kia/Hyundai. Also on show was the latest EEV (energy efficient vehicles) technology and the MAI team had the opportunity to share with visitors Malaysia's vision to become the regional hub for energy efficient vehicles (EEV). Visitors flocked to the Car Care booth, which offered free car consultation and car maintenance.

Information about opportunities for food truckers, the services of the Global Halal Support Centre to elevate SME business visibility and trade remedy measures was disseminated through Pocket Talk sessions.

At InvestSmart@MITI, investors and entrepreneurs learned about equity crowd funding (ECF), an alternative fund-raising framework developed by the SC that is suited to SMEs and innovative businesses.

MITI Tea Talk, organised by MATRADE and MIDF, focused on two topics, namely 'Enhancing Malaysian Entrepreneur Businesses in ASEAN' and 'eCommerce Potential for Exports in ASEAN'. The talk highlighted the expanding business opportunities in the ASEAN region and promoted the use of eCommerce for exports. In addition, there was an update on some of the assistance offered by MITI and its Agencies for entrepreneurs to enter the ASEAN and global markets.

Side attractions included a Lucky Draw with attractive prizes such as a PERODUA Bezza and motorcycles from MODENAS, Food Trucks, guest appearances by celebrities and exhibitions featuring SME products, the aerospace industry and eCommerce.

MITI DIALOGUE

MITI with other relevant Ministries and Agencies have been following up on the issues raised in the following Dialogues:

- Dialogue with Automotive Industries (23 August) with 75 attendees from automotive associations, Original Equipment Manufacturers (OEMs), assemblers and major vendors;
- Dialogue with eCommerce stakeholders (30 August); and
- Dialogue with Federation of Malaysian Manufacturers (22 September).

OUTREACH PROGRAMMES ON APEC

LAUNCH OF MyAPEC YOUTHCONNECT BY MITI MINISTER (18 October)

Representatives from 52 leading MNCs, Government-Linked Companies (GLCs) and Malaysian corporations including Air Asia, Astro, Axiata, Bosch, Celcom, CIMB, DIGI, IBM, Iflix, Intel, KPMG, Maybank, Maxis, Motorola Solutions, PWC and Sime Darby that are participating in MyAPEC YouthConnect work placement programme were present at the launch. The objective of this programme is to nurture Malaysia's talent to adapt to an increasingly globalised workplace and to capitalise on opportunities in APEC economies. MyAPEC YouthConnect consists of a work placement lasting from four to twelve months in Malaysia or one of the APEC economies and is open to youths aged 21-30, with good academic qualifications and relevant soft skills. By the end of 2016, a total of 247 youths from 11 APEC economies (Malaysia, Brunei, Chile, Indonesia, Mexico, South Korea, Philippines, Thailand, Canada, The People's Republic of China and Viet Nam) had applied for a work placement.

OUTREACH PROGRAMMES ON INVESTMENT POLICY AND TRADE FACILITATION

TRADE FACILITATION WORKSHOP: OVERCOMING REGULATORY CHALLENGES AND ENHANCING EXPORT GROWTH OF THE PROCESSED FOOD INDUSTRY TO ASEAN COUNTRIES (10 October)

Ninety attendees comprising regulators from various Ministries and Agencies including the Ministry of Health, Ministry of Agriculture, Royal Malaysian Customs and JAKIM as well as representatives from the Federation of Malaysian Manufacturers (FMM), Freight Forwarders Associations, Chambers of Commerce and processed food manufacturers met to discuss regulatory challenges facing the processed food industry. The participants proposed strategies and action plans to overcome issues they faced such as cargo clearance, standards, certification and regulatory compliance with trading partners, market regulations, halal certification and technical barriers to trade.

OUTREACH PROGRAMMES ON SECTORAL POLICY

ELECTRICAL & ELECTRONICS
APEC TEL MRA FOR TELECOMMUNICATIONS EQUIPMENT: BENEFITS TO MALAYSIA (30 November)

Participants from Motorola, Keysight Technologies, SIRIM QAS, IoTG, EG R&D, UniMAP, CISSPR, Tauhop, Hume Resources, IQ Group, Flextronics System and Sweng Maju were updated on the implementation of Phase 1 of the APEC TEL MRA (the Mutual Recognition Arrangement for Conformity Assessment of Telecommunications Equipment) and the MRA's benefits regarding exports of locally made radio frequency equipment to the United States (US).

Pursuant to a new ruling introduced by the United States Federal Communications Commission (USFCC), laboratories and telecommunications-certified bodies outside the US must be accredited and designated by the USFCC under the terms of an MRA. The ruling came into force in 2015, with an original one-year grace period until 13 July 2016. On 21 June 2016, the US decided to extend the grace period by another year to 13 July 2017 to give industries more time to adjust and to avoid causing disruption to the distribution and sale of radio frequency equipment.

The conclusion of these negotiations is vital to ensure uninterrupted export of Malaysia's telecommunications equipment to the US market. With the MRA, Malaysia has the potential to be a testing hub in the ASEAN region for RF equipment, apart from Singapore and Viet Nam.

IRON AND STEEL
BRIEFING ON THE IMPORTATION OF IRON AND STEEL USING DUTY DRAWBACK FACILITY (16 February)

Participants from the Ministry of Finance (MOF), Royal Malaysian Customs Department (RMCD), MIDA, MITI Regional Offices, Malaysian Iron & Steel Industry Federation (MISIF), Malaysia Steel and Metal Distributors' Association (MSMDA) as well as iron and steel manufacturers/importers were briefed on the process and procedures involved in the duty drawback facility (implemented on 15 April 2016) for importation of raw materials to produce finished goods for export.

AEROSPACE

MITI made familiarisation visits to 17 aerospace companies and organisations.

- Senior Aerospace UPECA (7 April)
- Science & Technology Research Institute for Defence (STRIDE) (26 April)
- Astronautic Technology (M) Sdn Bhd (28 April)
- National Space Agency of Malaysia (ANGKASA) (26 May)
- Pusat Perkhidmatan Kejuruteraan Aerospace TUDM (PUSPEKA) (27 May)
- Asia AeroTechnics Sdn Bhd (1 September)
- Smooth Route Sdn Bhd (1 September)
- SR Technics Malaysia Sdn Bhd (1 September)
- UMW Aerospace Sdn Bhd (19 October)
- WZS Technologies Sdn Bhd (20 October)
- Sam Engineering & Equipment (M) Bhd, Aviatron (M) Sdn Bhd, Meerkat Precision Sdn Bhd and SAM Precision (M) Sdn Bhd (24 October)
- Aerospace Composites Malaysia (ACM) (24 October)
- Kulim High Technology Park (KTPC) (24 October)
- RUAG Aviation Malaysia (RUAG) (17 November)
- Honeywell Aerospace Avionics Malaysia Sdn Bhd (21 November)
- Celestica Malaysia Sdn Bhd (21 November)
- Coraza Sytems Sdn Bhd (22 November)

OUTREACH PROGRAMMES ON ASEAN

CONSULTATIONS WITH STAKEHOLDERS AND AEC AWARENESS PROGRAMMES

The ASEAN Economic Community (AEC) that was formally established on 31 December 2015 aims to create a single integrated market and production base among the 10 ASEAN Member States in South East Asia. The main objective of the AEC is to reduce barriers to trade and investments in the region to allow for seamless movement of goods, services and capital. The AEC also aims to enable freer mobility of skilled workforce within the region.

The main focus of the AEC is the Micro, Small and Medium Enterprises (MSMEs), which act as the backbone of ASEAN's economy, and constitute more than 95 per cent of total business establishments in the region. Many MSMEs are already taking advantage of the formation of the AEC to grow their businesses by adopting a regional strategy.

The role of MITI as the leading Ministry for the economic agenda under the ASEAN Community is to raise awareness of the opportunities presented by a single market and production base in the ASEAN region. In this context, MITI in collaboration with various business councils, Chambers of Commerce, industry associations, universities and civil societies conducted 32 outreach activities to promote the AEC in 2016. The overriding objective was to encourage the business community to take advantage of the AEC to expand their businesses and investments in the region.

MITI Minister is very committed to this initiative and actively participated in several outreach sessions including the following:

- **AEC Open Day 2016** with the business community, youths and entrepreneurs at MITI Headquarters, Kuala Lumpur (11 April)
- ***Hari Bersama Industri*** with the business community in Kuching, Sarawak (24 April)
- **AEC 2025 Dialogue** with ASEAN Business Club and CIMB ASEAN Research Institute at MITI Headquarters, Kuala Lumpur (24 May)
- **ASEAN Economic Integration Forum (AEIF) 2016**, organised by National University of Malaysia (UKM), World Trade Institute and University of Bern, Switzerland, at the Kuala Lumpur Regional Centre for Arbitration and attended by researchers, academicians, the private sector as well as civil servants (15 September)

The aim of AEC Open Day 2016 was to create greater awareness of the opportunities available to Micro, Small and Medium Enterprises (MSMEs) under the AEC. To this end, successful entrepreneurs were invited to share their experiences and success stories in doing business in ASEAN with the participating MSMEs. Two other events, AEC 2025 Dialogue and AEIF 2016, provided a platform for researchers to share their views on how the AEC would develop over the next 10 years.

To intensify AEC awareness, MITI's ASEAN Economic Integration Division in collaboration with MITI Penang, the Penang Institute and Penang Development Corporation conducted three AEC Workshops on Investment and Industry in May, July and September 2016. Representatives of the Penang State Government and participants from the business community, human resource sector, recruitment agencies and other private sector organisations in the northern region attended the AEC Workshops.

Officials from MITI's ASEAN Economic Integration Division were invited to be guest speakers at various forums and seminars such as the ASEAN Young Entrepreneurs Carnival in July 2016 at MATRADE and the MCA Economic Conference 'Conquering the New Economic Frontiers: Empowering Youths' in August 2016. They were also interviewed on the Biz Malaysia programme on Radio Televisyen Malaysia (RTM 1).

Such outreach initiatives undertaken by MITI helped to ensure Malaysian companies especially MSMEs were updated on the latest developments in ASEAN. The ASEAN economic integration is a work in progress that assumes a key role in bringing about sustainable regional convergence. It is no longer about the size of the market but getting the region to be efficiently integrated and borderless where ASEAN becomes one via increased connectivity and the removal of barriers. ASEAN is now moving toward a more business-friendly environment to ensure the bloc remains a globally competitive economic entity.

OUTREACH PROGRAMMES ON BUMIPUTERA ENTREPRENEURSHIP AND SMEs

EKSPO KEUSAHAWANAN MITI DAN AGENSI 2016

The Ekspo provided an opportunity for SMEs in the locality to promote their products and services. MITI and Agencies were able to publicise their functions besides networking with entrepreneurs at the Ekspo.

MITI Minister officiated at *Ekspo Keusahawanan MITI dan Agensi 2016 peringkat Daerah Jeli, Kelantan* (26-28 May) that was held in Jeli. More than 10,000 visitors came to the Ekspo which featured an exhibition and sale of local SME products, entrepreneur advisory services, Pocket Talk, Innorace@Jeli 2016, Jeli fun ride and a *dikir barat* show.

Ekspo Keusahawanan MITI dan Agensi 2016 peringkat *Daerah Pontian, Johor* (26-28 February) held in Benut, Pontian was officiated by MITI Deputy Minister (Industry). The Ekspo featured the exhibition and sale of local SME products, entrepreneur advisory services, Innorace@ Pontian 2016, a basic entrepreneurship course and a halal awareness seminar. Visitors came from the Pontian district and beyond.

PROGRAM TAKLIMAT INSENTIF, GERAN, PINJAMAN DAN SAHAM DISEDIAKAN OLEH MITI DAN AGENSI DI BAWAH MITI KEPADA USAHAWAN PKS SELANGOR 2016 (16 June)

MITI Deputy Minister (Industry) launched the outreach programme at Sg. Besar, Selangor to promote the programmes and products offered by MITI and Agencies. The participants were briefed on financing products provided by MITI and Agencies and there was a Pocket Talk on incentives for entrepreneurs.

GERAK USAHAWAN JOHOR 2016 (30 September-1 October)

Organised by Perbadanan Usahawan Johor (EDC) at Universiti Tun Hussein Onn Malaysia (UTHM), this event presented an opportunity for MITI to brief entrepreneurs about MITI programmes such as Special Bumiputera Shares, Vendor Programme, SDSI and GroomBig. MITI also conducted a forum on marketing and branding strategy to help entrepreneurs with their branding.

INDIAN ENTREPRENEURS NETWORKING AND BUSINESS ADVISORY SEMINAR 2016 (6 December)

A joint effort between MITI and Malaysian Indian Economic Cooperative (MIEC), the event introduced initiatives and entrepreneurship programmes by MITI and Agencies as well as other relevant programmes such as Equity Crowdfunding and Listing by Bursa Malaysia. More than 100 Indian traders and entrepreneurs attended the seminar. MITI Secretary General officiated at the closing of the seminar.

TURUN PADANG SESSIONS BY MITI DEPUTY MINISTER (INDUSTRY)

- **Factory Visits**
  - D&Y Textile (M) Sdn. Bhd. in Johor, which produces pure cotton yarn and received its manufacturing licence from MITI in 2013 (16 August)
  - Nashmir Capsule Sdn. Bhd., a pharmaceutical factory and Syarikat Kopi Hang Tuah Sdn. Bhd. in Penang (23 August)
  - Friz & Fry Food Industries and Ryverra Chocolate & Confectionery Sdn. Bhd. in Selangor (25 August)
  - Tan Lan Holdings (M) Sdn. Bhd., a manufacturer of bicycles, motorcycles and bicycle components in Perak (26 August)

- **Working Visit to and Dialogue Session with Persatuan Pedagang dan Pengusaha Melayu Malaysia (PERDASAMA) (19 September)**

  The objective was to establish good relations between officials of MITI and Agencies and the Bumiputera association as well as to identify assistance that could be provided to PERDASAMA in support of the Bumiputera Agenda.

- **Working Visit to Matrix Power Network Sdn. Bhd. and Daya OCI Sdn. Bhd. in Bangi, Selangor (5 October)**

  Matrix Power Network handles electrical and power engineering projects while Daya OCI provides Air

Handling Units (AHU) and Water Treatment Units (ATU) for Marine Application and Commercial Buildings. The two companies are vendors supplying Boustead Naval Shipyard Sdn. Bhd. through MITI's Vendor Development Programme (VDP).

- **PRM Foods Marketing Sdn. Bhd. (14 December)**
  MITI Deputy Minister (Industry) visited the company in conjunction with his visit to the Secretariat of the Terengganu Entrepreneur Development Council (MSPUT). The company has obtained halal certification with guidance from the Halal Industry Development Corporation (HDC).

OUTREACH PROGRAMMES ON SERVICES SECTOR DEVELOPMENT

ASEAN ECONOMIC COMMUNITY SEMINAR – SERVICES LIBERALISATION (29 May)

Associations and companies were briefed on services liberalisation provided for under the ASEAN Economic Community and the benefits of economic integration in ASEAN.

VISIT TO SCOPE INTERNATIONAL MALAYSIA BY MITI MINISTER (27 June)

MITI Minister officiated at the company's 15th anniversary celebration and emphasised that Malaysia is committed to moving from a labour-intensive, low-wage and low-skilled economy to a high-income, knowledge-based economy, which includes global business services (GBS), the shared services and outsourcing cluster.

Mr Matthew Norris, CEO of Scope International Malaysia, informed that Standard Chartered Bank (StanChart) would invest an estimated US$30mil (RM123.3mil) over the following three years to support its global technology and operation hub. Scope International Malaysia is the Standard Chartered Group's Global Technology & Operations hub and the first Global Shared Services Centre (GSSC) of an international bank in Malaysia.

OUTREACH AND INFORMATION DISSEMINATION ON FTAs

A total of 150 FTA outreach sessions on the Trans Pacific Partnership Agreement (TPPA) were organised for various stakeholders such as business groups, Government Agencies (that would eventually be implementing the TPPA commitments), academia, students and NGOs to enable MITI to address their doubts or concerns about the agreement.

OUTREACH PROGRAMMES ON STRATEGIC TRADE

INTERNATIONAL CAPACITY-BUILDING AND OUTREACH PROGRAMMES

- **Engagement in Export Control**
  Since 2010, Malaysia has been actively participating in various capacity-building programmes including the joint collaboration for programmes held in Malaysia and overseas with donor countries such as the US, the European Union (EU), Japan and Australia. In 2016, Malaysia participated in 31 international programmes and 26 domestic outreach programmes.

  Continuous engagement in international programmes has helped Malaysians get a better grasp of export control and international practices. This has facilitated policy and decision-making at the national level for the implementation and enforcement of the Strategic Trade Act 2010.

- **Seminar on Intangible Technology Transfer (ITT) (26 January)**
  A total of 76 participants from MITI, Government Agencies and public/private universities participated in the seminar, which was co-organised by MITI and Strategic Trade Secretariat (STS), the Export Control and Related Border Security Program (EXBS), the US Department of Energy and the US Department of Commerce. The seminar dealt with compliance with ITT and implementation of best practices within the framework Malaysia's Strategic Trade Act (STA) 2010.

- **Workshop on Handling of Exhibits and Evidence (18-19 May)**
  This workshop served as a pre-requisite internal course for 50 participants from various Government Agencies involved with implementation of the Strategic Trade Act (STA) 2010. It helped to enhance the participants' expertise in investigation procedure and management of exhibits in STA violation cases.

- **EU Export Control Programme for Dual Use Goods in Exports held in Brunei (5-8 September) and the Philippines (19-23 September)**
  As part of the EU Commission's efforts to promote an effective export control system in the ASEAN region, Malaysia was invited to be the EU regional expert to provide support to the EU programme. This gesture marks international recognition of the Strategic Trade Act 2010. Speakers from Malaysia shared the country's best practices in setting up export control legislation as well as implementation and enforcement of the Act, particularly in the matter of transit and transshipment. Continuous engagement as the EU Expert is important in assisting other ASEAN members in developing, implementing and enforcing Strategic Trade Management.

- **International Visitors Programme with Export Control Officials from Viet Nam (12-13 January) and Cambodia (18-19 October)**
  Organised by the US Export Control and Related Border Security Program (EXBS) in Kuala Lumpur, both programmes promoted a dialogue on international nonproliferation export control and the sharing of best practices implementation by Malaysia. STS provided information about the role of technical experts in export controls, licensing procedure, enforcement power under STA 2010 as well as inter-agency cooperation and outreach to industry. The programme enabled the visiting Vietnamese and Cambodian officials to get an insight into the implementation of Strategic Trade Management in other countries which would assist them in developing and implementing a similar export control system in their respective countries.

DOMESTIC OUTREACH PROGRAMMES

- **STA 2010 : Internal Compliance Programme (ICP) Workshop**
  Held in Penang, Johor and Kuala Lumpur and attended by a total of 200 participants from 90 STA-registered companies, the workshop provided information and training on STA 2010 requirements and compliance. Participants also had the opportunity to discuss some of the issues and challenges they faced.

- **STA Awareness/Outreach Programme**
  A total of 26 awareness/outreach programmes were organised for various industries and agencies in 2016. Client's Day Programme was implemented again after a lapse of one year, with sessions scheduled once every two months to provide assistance to the public and organisations. More than 100 particpants from 20 organisations attended the six sessions in 2016. At both the AEC Open Day and MITI Day, STS took the opportunity to disseminate information about STA 2010.

The upgrade in 2017 GDP growth forecast is primarily driven by the surge in trade activity in recent months as well as the expectation of a spillover to other sectors in the economy, an impact that will take place during the second half of the year.

ECONOMIC OUTLOOK 2017

BY MIDF RESEARCH (MIDFR), AN AGENCY UNDER MITI

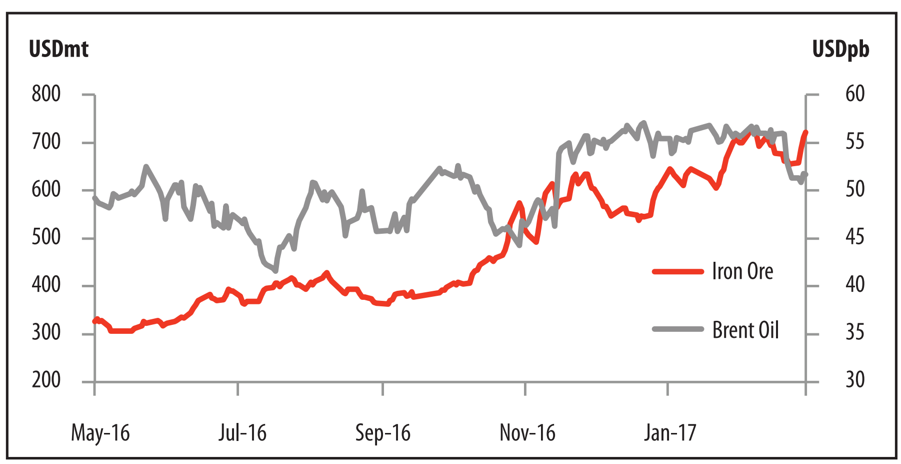
GLOBAL

GROWTH UPTICK IN EMERGING MARKETS DUE TO FIRMER COMMODITY PRICES

With commodity prices firmly on the upside, there is an uptick in global economic growth especially from emerging markets and commodity producers. Despite a short-term dip between mid-April and early May 2017, Brent oil price has averaged above the USD50pb level and iron ore at USD550mt+-, signalling a better demand globally driven mainly by the People's Republic of China.

However, oil price could be impacted by future developments such as increasing oil production by the United States (US) as shale production gets more cost-effective, support from the Trump administration for energy independence and, under pressure to maintain its global market share, OPEC may be unable to extend its production cut throughout 2017.

Chart 1: Iron Ore and Brent Oil Prices (RHS) on elevated level

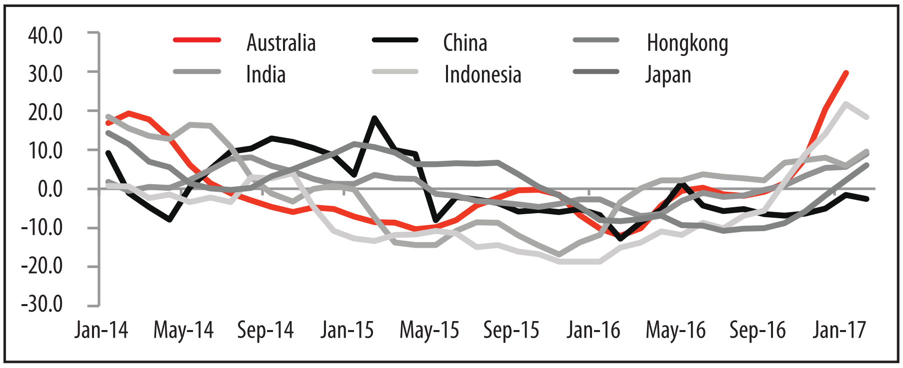


Source: Bloomberg, MIDFR

On the geopolitical front, pro-European Union (EU) centrist Emmanuel Macron won the French presidential election on 7 May 2017. The United Kingdom (UK) Prime Minister Theresa May called a general election for June 8, saying that divisions at Westminster risked hampering the Brexit negotiations. In Germany, Chancellor Angela Merkel is seeking a fourth term in the national elections on September 2017.

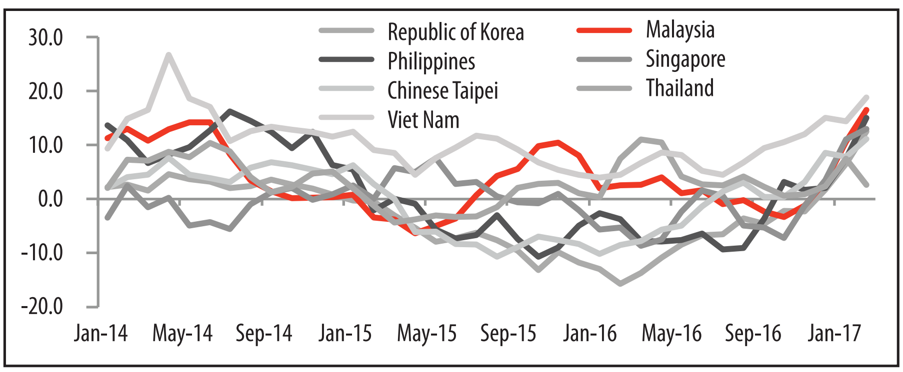
Sterling has risen about 0.5 per cent since the March 2017 rate increase by the Federal Reserve. In the longer term, sterling still has room to depreciate due to possible negative economic ramification should it lose its single market access to the EU.

Chart 2: Regional rebound in trade activity (YoY per cent)



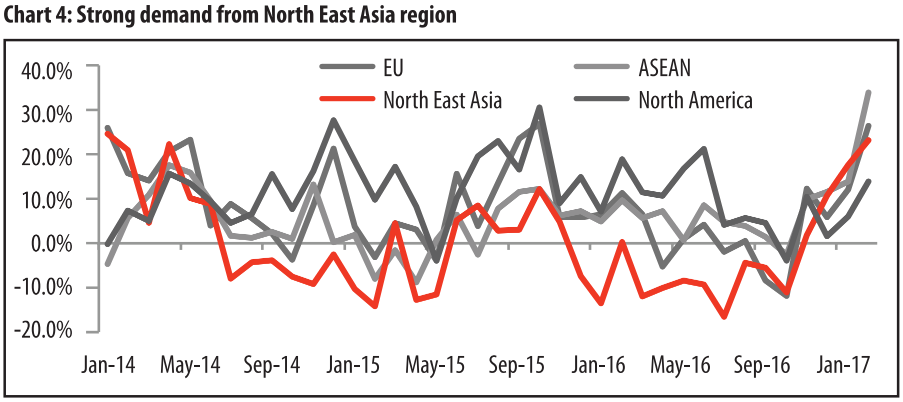
Source: CEIC; MIDFR

Chart 3: Growth in Malaysia's exports in line with peers (YoY per cent)



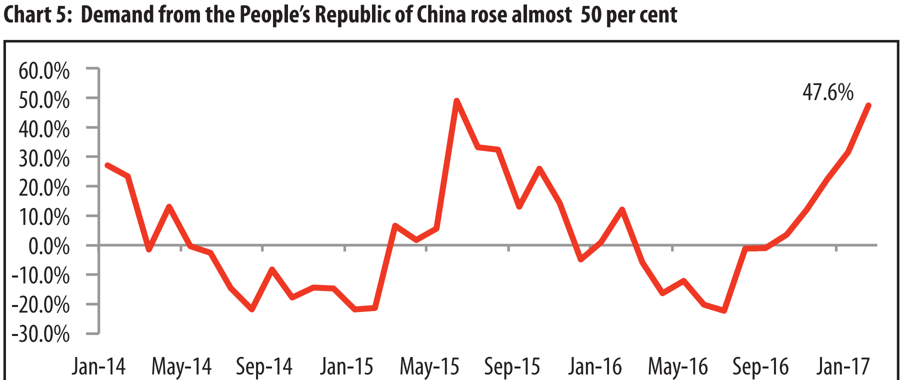
Source: CEIC; MIDFR

Chart 4: Strong demand from North East Asia region



Source: DOSM; MIDF Research

Chart 5: Demand from the People's Republic of China rose almost 50 per cent



Source: DOSM; MIDFR

MALAYSIA

GROWTH TO PICK UP, DRIVEN BY RECOVERY IN EXTERNAL DEMAND AND POSITIVE SPILLOVER TO DOMESTIC ECONOMY

The upgrade in 2017 GDP growth forecast is primarily driven by the surge in trade activity in recent months as well as the expectation of a spillover to other sectors in the economy, an impact that will take place during the second half of the year. Exports and imports were up by 21.4 per cent and 27.7 per cent respectively in the first quarter of 2017, the strongest reading for both in seven years. Malaysia's performance is in line with the regional trend where many Asian countries are performing well with trade figures showing double-digit growth except for PRC and Thailand.

Strong trade performance was observed in all sectors with electrical and electronics (E&E) as the major contributor followed by palm oil, chemical products as well as refined and crude petroleum. LNG demand saw a rebound.

2017 GDP AND EXPORTS FORECAST UPGRADED TO 4.9 PER CENT AND 8.5 PER CENT RESPECTIVELY

The March 2017 trade data provide reasons to believe that the uptrend in global trade activity could be sustained for the year. Exports have experienced a stretch of positive growth for five consecutive months. The windfall from surging trade is a boon especially to export-oriented industries, i.e. electrical and electronics (E&E), chemicals, petroleum products and rubber.

There is also a high possibility of a positive trickle-down effect to local production.

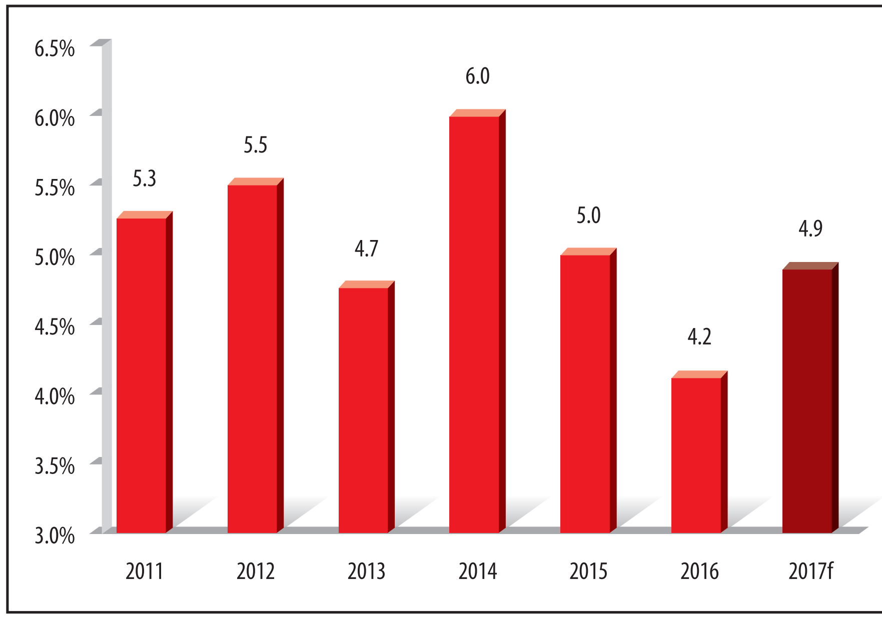
From the supply side, output of crude palm oil has increased substantially, recording three consecutive months of increase since December 2016 and this trend is likely to continue. In 2016, the agriculture sector contracted 5.1 per cent and shed 0.5 per cent point growth from the overall GDP. Even with a marginal rebound of 1.0 per cent, this sector will help to contribute around 0.4 - 0.5 per cent point to GDP. With all these factors considered, MIDFR has revised the 2017 GDP growth projection to 4.9 per cent, up 0.6 percentage point from the previous forecast of 4.3 per cent while the exports forecast is upgraded to 8.5 per cent from 3.0 per cent previously.

Hiring remains muted but is improving. Job vacancies have increased since October 2016 and many of the new vacancies come from various sectors, indicating a broad-based recovery. Export-oriented sectors added the most jobs, corresponding well with the improvement in the external sector. Unemployment rate is expected to remain range bound at 3.3 per cent - 3.5 per cent for the rest of the year as jobs created will be offset by the sizeable inflow of youths into the labour force as well as the currently unemployed including retrenched workers. Combined with a decent wage growth, private consumption is projected to pick up slightly in 2017 to reach 6.3 per cent from 6.1 per cent annual growth in 2016.

Inflation marched above 4 per cent in February and March 2017 amid strong inflationary pressure due to higher fuel price. Should crude oil price average at USD50pb for 2017, it would be rational to expect RON95 to hover between RM2.10 - RM2.30 per litre throughout the year. At that price point for RON95, inflation is expected to average at 4.5 per cent for 2017.

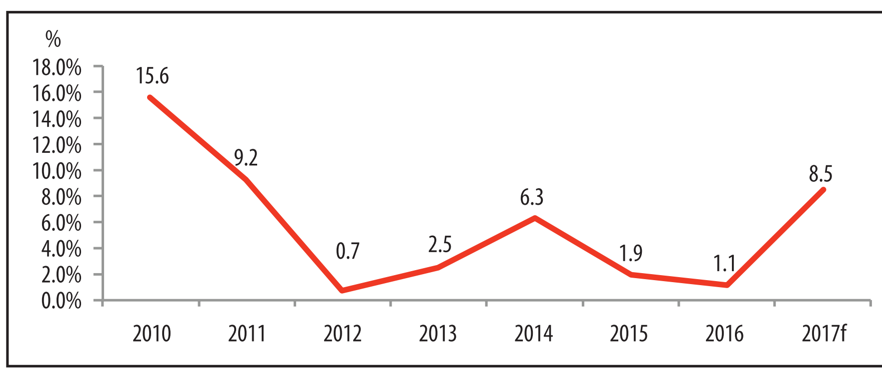
With better GDP growth on the horizon combined with the potential of a more aggressive rate hike plan by the Federal Reserve and the expected elevated inflationary environment, the odds for an instant Overnight Policy Rate (OPR) by Bank Negara Malaysia (BNM), the central bank, has also increased. MIDFR forecasts headline inflation to average at 4.5 per cent in 2017, mainly reflecting a cost-driven situation due to pump price differential between 2017 and 2016. BNM commented in March 2017 that high inflation was not a surprise to them but gave no direct hints about future interest rate direction. The only cue (if any) was that it noted economic growth had picked up pace but was operating close to its potential output estimate of 4.7 per cent this year.

Chart 6: Malaysia - 2017 GDP growth forecast revised to 4.9 per cent from 4.3 per cent



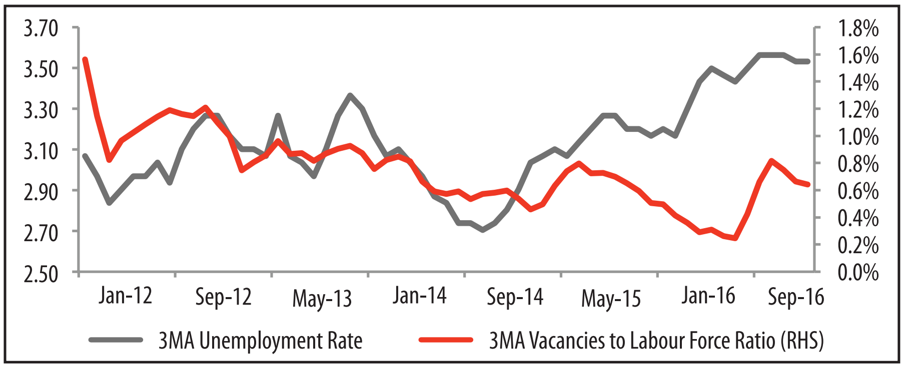
Source: CEIC; MIDFR

Chart 7: Malaysia - 2017 export growth forecast upgraded to 8.5 per cent from 3.0 per cent previously



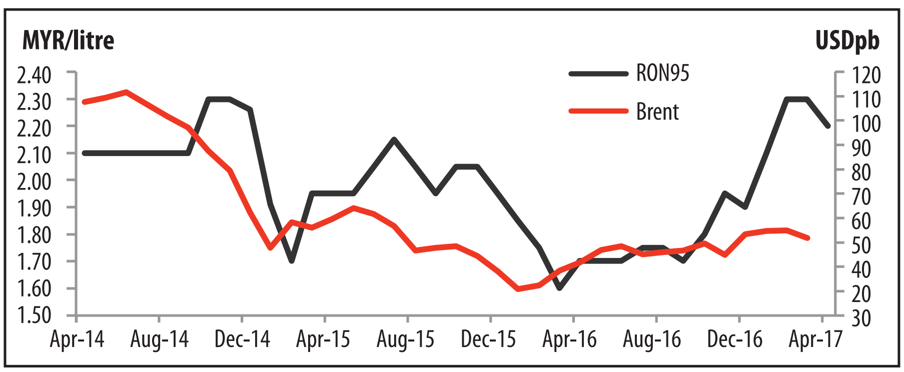
Source: CEIC; MIDFR

Chart 8: Malaysia - More jobs are available but unemployment rate is expected to stabilise at current rate



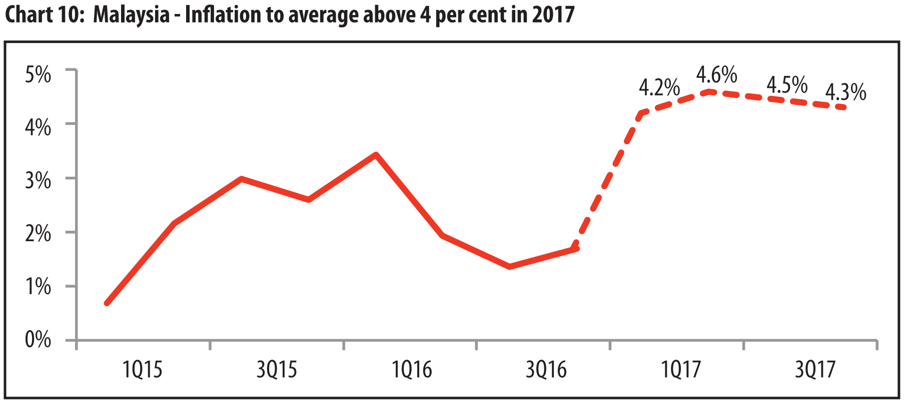
Source: DOSM, MIDFR

Chart 9: RON95, Brent crude oil



Source: Bloomberg; MIDFR

Chart 10: Malaysia - Inflation to average above 4 per cent in 2017



Source: MIDFR

The current account could rebound slightly this year, bucking the downtrend established since 2011. In 2016, the current account to GNI ratio was 2.1 per cent. This could lend some support to Ringgit to strengthen from the current level of USD/MYR4.4300. Higher commodity prices have so far translated into better terms of trade which in turn drive a bigger trade surplus. For the first two months of 2017, the trade balance was up 5.5 per cent compared to the same period in 2016.

Moreover, under the new BNM mandate, a minimum of 75 per cent of export proceeds need to be converted into Ringgit. Combined with the expectation of a higher current account, this should translate into higher demand for local currency. However, liquidity flows have more bearing on Ringgit than fundamental factors due to the speculative nature of the currencies market. There was a huge decline in portfolio investments in the fourth quarter of 2016 but it should turn positive in the first quarter of 2017 as net foreign fund inflow into the equity market has reached close to RM6billion this year. Nevertheless, the outflow from the bonds market by foreign investors may have offset some gains in Ringgit but MIDFR believes that much portfolio rebalancing has already been done and therefore maintains Ringgit forecast of USD/MYR4.30 by year end.

THE PEOPLE'S REPUBLIC OF CHINA (PRC)

STRONG ECONOMIC GROWTH IN THE FIRST QUARTER AND LEADING REGIONAL GROWTH MOMENTUM

The PRC economy grew 6.9 per cent in the first quarter. While the officials are headlining a lower growth target, PRC could in fact carry the positive momentum from the last two quarters of 2016 throughout 2017. According to official data, PRC grew 6.7 per cent in 2016 and there was a slight uptick in the fourth quarter of 2016 at 6.8 per cent. MIDFR is of the opinion that PRC could have notched higher growth, if not for what is considered as a smoothing out effect. Nonetheless, having understated last year's figure, this technically means PRC sits on a lower base. On that ground, it will be easier for the world's second-largest economy to achieve the targeted growth rate in 2017. MIDF forecasts the PRC economy to achieve 6.8 per cent in 2017.

The rejuvenation of PRC's economy is a massive boost to regional economies. There has been a huge uptick in commodity prices attributable to superior demand from PRC. It is noted that the JP Morgan Global Manufacturing PMI™ has made a huge uptrend since the third quarter of 2016 in line with the turnaround in the manufacturing sector of the PRC economy.

The PRC manufacturing PMI almost went vertical in February 2017, reaching 55.1 points from 51.0 points in January. Malaysia saw a similar uptick where PMI rose for three consecutive months to reach 49.4 points, the highest since December 2014.

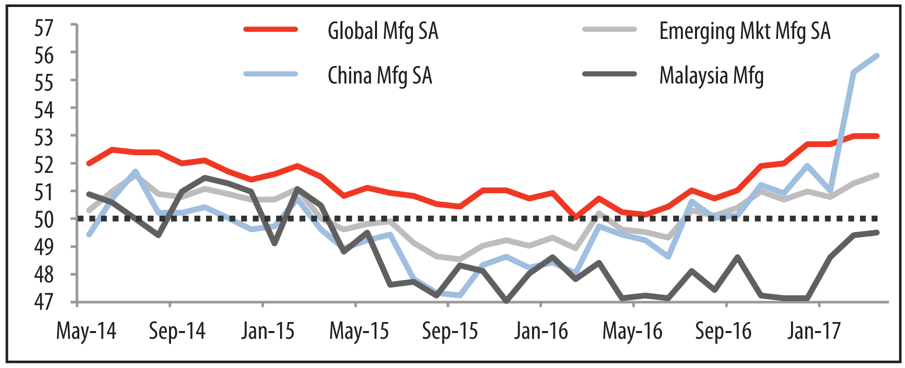
THE UNITED STATES (US)

GDP IS EXPECTED TO EXPAND 2.2 PER CENT IN 2017 (2016: 1.6 PER CENT).

The world's largest economy is expected to show pick up this year reflecting an uptick in consumer spending driven by further strengthening of the labour market, higher investment and a boost in business confidence especially after the US presidential election in November 2016. The financial markets have rallied amid President Trump's pro-growth promises via deregulation, tax cut and infrastructure spending boost. Trade deficits are expected to decrease due to acceleration in export growth upon steady economic conditions of its major trading partners such as the European Union (EU), Canada and PRC.

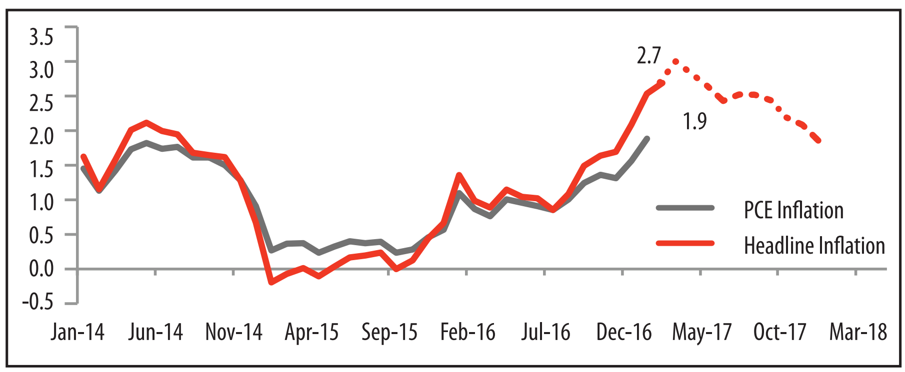
The Federal Funds Rate (FFR) target moved another notch in March 2017 following the December 2016 rate hike, up by 25 basis points to 0.75 per cent - 1.00 per cent. The move was widely expected by economists and traders due to recent positive momentum in the US economy. In February 2017, a total of 235,000 jobs were created. Unemployment rate was at 4.7 per cent, down 0.1 per cent from the previous month while labour participation rate was up marginally by the same quantum, reaching 63.0 per cent from 62.9 per cent previously.

Chart 11: Uptick in PRC since mid-2016 led to a resounding recovery in global manufacturing



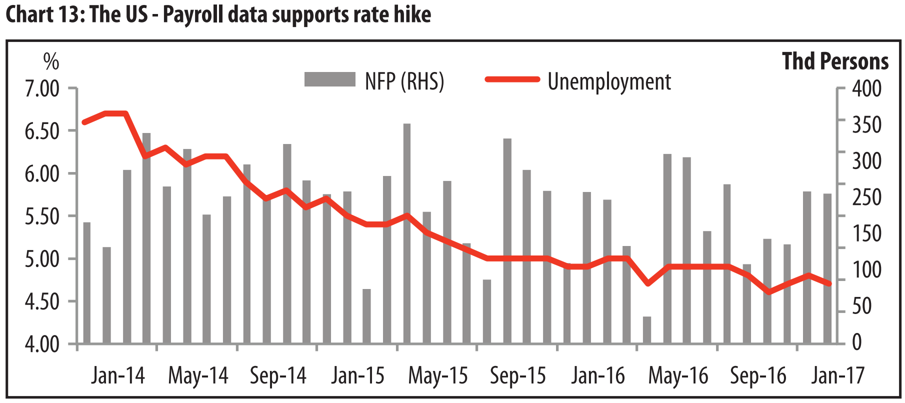
Source: Bloomberg, MIDFR

Chart 12: The US - PCE inflation to hit above 2 per cent target



Source: CEIC; MIDFR

Chart 13: The US - Payroll data supports rate hike



Source: CEIC; MIDFR

MITI's strives to make Malaysia the preferred investment destination and among the most globally competitive trading nations by 2020.

MANAGEMENT TEAM

AS AT 31 DECEMBER 2016

YB Dato' Sri Mustapa Mohamed
Minister

YB Dato' Seri Ong Ka Chuan
Minister II

YB Datuk Haji Ahmad Haji Maslan
Deputy Minister (Industry)

YB Dato' Lee Chee Leong
Deputy Minister (Trade)
(until June 2016)

YB Datuk Chua Tee Yong
Deputy Minister (Trade)
(from June 2016)

Tan Sri Rebecca Sta Maria
Secretary General
(until July 2016)

Datuk Seri Jayasiri Jayasena
Secretary General
(from July 2016)

Dato' Nik Rahmat Nik Taib
Deputy Secretary General
(Industry)

Datuk Hiswani Harun
Deputy Secretary General (Trade)
(until February 2016)

Datuk Isham Ishak
Deputy Secretary General (Trade)
(from March 2016)

Wan Suraya Wan Mohd. Radzi
Deputy Secretary General
(Strategy & Monitoring)
(from July 2016)









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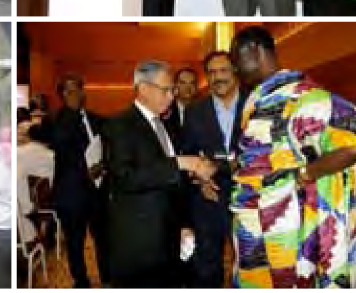

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