



Submission No 1

Inquiry into Australia's Relationship with Malaysia

Organisation: **Australia-Malaysia Business Council**

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The Secretary
Foreign Affairs Sub-Committee
Joint Standing Committee on Foreign Affairs,
Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Dr Carter,

Australia's Relations with Malaysia

The Australia Malaysia Business Council (AMBC) was formed in 1988 to:

- represent the interests of members in commercial and trade matters between Malaysia and Australia;
- provide services for members in relation to Malaysia;
- foster friendship and cultural understanding between the business communities especially and the peoples of Australia and Malaysia;
- promote trade, investment, technical co-operation, economic co-operation and tourism between Australia and Malaysia;
- assist Malaysian trade or commercial activities in Australia;
- establish and foster links with the counterpart MABC in Malaysia.

The Malaysia Australia Business Council (MABC) was established about the same time and has similar objectives.

AMBC Membership numbers 136 organisations, which it is believed undertake a significant portion of the Australian commerce with Malaysia. It is almost exclusively corporate based on a fee structure recognising:

- "Larger Enterprises" – more than 200 employees and/or turnover in excess of \$10m per annum - 15
- "Smaller Enterprises" – less than 200 employees and/or a turnover of \$10m per annum - 103
- "Individuals" - 13
- "National" members - 5 - which pay a premium to have representatives nominated in more than one state.

The AMBC has Chapters in New South Wales, South Australia, Victoria and Western Australia.

Chapters nominate a representative to the "National Executive" where they join the annually elected National President and Deputy National President to provide direction to the organisation. The Chapters are the primary providers of networking and information access to the membership. The "National Body" engages in consultation with Government in Australia and Malaysia to advance the commercial opportunities for Australian business and to influence policy development.

This submission relates to the Terms of Reference concerning "*economic issues, including trade and investment*". The AMBC's South Australian Chapter is also providing a submission which outlines activities typically undertaken in support of the relationship and some locally identified issues.

The Bilateral Commerce

The Department of Foreign Affairs & Trade and Austrade will undoubtedly provide a comprehensive report and analysis of the bilateral commerce and its trend lines. To frame subsequent comment, the Council records the top ten merchandise goods imports and exports by value and the major segments of the trade in 'services'.

Exports – Australia to Malaysia (A\$million)

(Source: Composition of Trade Australia 2005, DFAT, May 2006)

Total Merchandise Exports to Malaysia:		\$2,511.4	\$2,428.1
Rank	Item	2005	2004
1.	Confidential Items	433.1	484.1
2.	Aluminium	251.0	214.8
3.	Copper	247.5	280.8
4.	Milk & Cream	188.8	161.2
5.	Coal	178.4	168.2
6.	Zinc	143.6	55.0
7.	Crude Petroleum	83.4	0.0
8.	Ferrous Waste	59.4	46.1
9.	Chemicals & Related Products	44.6	47.4
10.	Manufactures classed by material	42.5	51.8
	Sub Total:	\$1,672.3	\$1,509.4
	% of Total Exports:	66.6%	62.2%

Imports – From Malaysia to Australia (A\$million)

(Source: Composition of Trade Australia 2005, DFAT, May 2006)

Total Merchandise Imports from Malaysia:		\$6,086.2	\$5,559.2
Rank	Item	2005	2004
1.	Crude Petroleum	1,740.2	1,759.0
2.	Computers	939.5	885.8
3.	Telecom Equipment	346.1	235.4
4.	Integrated Circuits	258.8	298.2
5.	Furniture	190.0	215.2
6.	Confidential Items	189.9	129.9
7.	Computer Parts	147.6	80.6
8.	Refined Petroleum	146.6	66.4
9.	Electrical Machinery & Appliances	141.4	120.0
10.	Radio Receivers	122.7	126.4
	Sub Total:	\$4,222.8	\$3,916.9
	% of Total Imports:	69.4%	70.5%

Australia's Services Trade with Malaysia 2004-05 (A\$million)

Source: *Trade in Services Australia 2004-05, DFAT, March 2006*

	<u>Service Exports</u>	<u>Service Imports</u>
Transportation Services	109	447
Travel Services	764	344
Business	31	64
Personal	732	280
- Education Related	461	11
- Other	271	269
Communication Services	33	7
Construction Services	0	0
Insurance Services	0	0
Financial Services	1	4
Computer & Information	2	1
Royalties & License Fees	15	0
Other Business Services	105	11
Personal, Cultural & Recreational	12	2
Government Services	7	13
	1,048	830

Malaysia is the 5th ranked country of origin for "International Students" to Australia. Their composition by contrast with all international enrolments in Australia is:-

	<u>Malaysian</u>	<u>Global</u>
Higher Education	15,375	163,930
Vocational Education	2,122	66,086
School Education	799	25,542
ELICOS	281	64,966
Other	765	24,291
	19,342	344,815

Although the GDP of Malaysia (US\$290.2 b) is 45 percent of Australia's (US\$640.1 b), its economy has been strongly geared to produce / assemble high value goods for export. Consequently, in the league of trading nations based WTO figures (http://www.wto.org/english/res_e/res_e.htm) on the combined 'goods' and 'services' for 2003, Malaysia ranked 23rd only one place behind Australia's 22nd position. (*Substantial price hikes for resources and huge volume increases would have lifted Australia's position by the end of 2005.*) For most of the past decade Malaysia has been higher on that table than Australia but the significant price hikes and the enormous demand growth for Australia's 'resources' of the past two years has altered that position.

The two 'blue-print' documents of Malaysian economic planning; namely, the 9th Malaysia Plan (2006-2010) released at the end of March 2006 and the Third Industrial Master Plan (2006-2020) to be released on the 18th August 2006, whilst encouraging growth from within the domestic economy, acknowledge growth will continue to be driven by competitively manufactured exports to the global economy – primarily to the United States, Japan and intra-ASEAN. Regardless of whether it be 2020 or 2030,

Malaysia is on track to be, after Singapore, the second 'developed' economy amongst the ASEAN countries.

The substantial differential of Australia's investments in Malaysia - \$485 million of which \$263 million was direct investment in December 2003 - and Malaysia's investments in Australia - \$6.2 billion of which \$3.2 billion was direct investment - is often commented upon. Apart from its \$3 billion investments in Australian equities and bonds, etc Malaysia has substantial direct investment in Australian real estate, energy and pipeline infrastructure, hospitality and manufacturing sectors.

Whilst in the past not many Australians may not have been disposed towards investing in Malaysia, a positive attitude among the political leadership towards Australia emphasised by Prime Minister Abdullah's trip to Australia last year, continuing relaxation of the investment rules and the agreement to pursue a Malaysia Australia Free Trade Agreement (MAFTA) will undoubtedly lead to a greater level of Australian investment.

The Future

Although unlikely, even if it is assumed that all of the 'confidential' items amongst the exports to Malaysia were elaborately transformed manufactures, when added to 'chemicals & related products' and 'manufactures classed by material' these value added segments constitute only 20.7 percent of total exports to Malaysia. Unless Malaysia was to abandon its protection of its automotive sector, a move which is probably too late to make it globally competitive, and lifted general constraints to foreign investment, it is unlikely that the composition of Australia top ten merchandise exports will vary from being dominated by raw materials for Malaysia's manufacturing sector.

In 2001 and 2002, responding to a Malaysian Government assessment that it could become a significant supplier of processed foods to the global Islamic market, the Australian Government signed a MOU of halal cooperation with the Malaysian Government. Anticipating this could offer a new area of bilateral business, the MABC, with AMBC input, prepared a *'Framework on Malaysia-Australia Halal Cooperation in Food Production and Marketing - A Business Perspective'*. Whilst various matters have slowed the realisation of business aspirations, for Australia the benefit could go beyond being merely the supplier of 'clean/green' raw materials, but importantly, be an investor in downstream processing and marketing as well as a supplier of food processing systems and technologies and vocational and certification training.

The Australian economy is one in which 80 percent of its employment comes from the services sector. Services constitute over 50 percent of Malaysia's employment. Apart from the higher technology needs of an increasingly affluent and sophisticated economy, it can be assumed that the future growth of the bilateral commerce will substantially take place in the services sector.

The current 'services' composition will therefore change; for example, as more students remain in Malaysia for their tertiary and vocational educational and as the two economies increase their engagement in the global 'knowledge economy', then information and communications, financial and personal services will grow.

An increased integration of the Australian and the Malaysian economies can be expected to increase trade and investment flows as a consequence of the MAFTA now under negotiation. Australian business has called for a comprehensive agreement that encompasses:-

- removing tariff and non-tariff barriers to the merchandise trade;
- opening the services sector, particularly to Australia's professional and business services;
- investment liberalisation;
- movement of personnel;
- competition policy;
- IP protection; etc

In Conclusion

Australia's substantial trading partnership with Malaysia is expected to develop beyond its current complementary merchandise goods experience of supplier of raw materials and importer of elaborately transformed manufactures to one increasingly focussed on the exchange of services.

The Malaysia-Australia Free Trade Agreement currently under negotiation, if comprehensive, will substantially increase the integration of the two economies that will make both more globally competitive.

On behalf of the
Australia Malaysia Business Council

Wee Keat Chan
National President